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Crown Entity

Financial Statements
for the year ended 30 June 2015



INDEPENDENT AUDITOR'S REPORT

Crown Entity

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of the Crown Entity, which comprise the statement of financial position as at 30 June 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

Opinion

In my opinion the financial statements:

- give a true and fair view of the financial position of the Department as at 30 June 2015, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 45E of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

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

Secretary's Responsibility for the Financial Statements

The Secretary is responsible for preparing financial statements that give a true and fair view in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Secretary determines is necessary to enable the preparation of financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

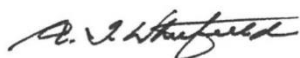
My opinion does *not* provide assurance:

- about the future viability of the Crown Entity
- that it carried out its activities effectively, efficiently and economically
- about the effectiveness of the internal control
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about other information that may have been hyperlinked to/from the financial statements.

Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies, but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by the possibility of losing clients or income.



A T Whitfield PSM
Acting Auditor-General

26 October 2015
SYDNEY

Crown Entity
Financial Statements
for the year ended 30 June 2015

STATEMENT BY DEPARTMENT HEAD

Pursuant to Section 45F (1B) of the *Public Finance and Audit Act 1983*, I declare that in my opinion:

- (a) The accompanying financial statements exhibit a true and fair view of the financial position of the Crown Entity as at 30 June 2015 and the financial performance for the year then ended; and
- (b) The financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983* and the *Public Finance and Audit Regulation 2015*.

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



Rob Whitfield
Secretary

23 October 2015

Crown Entity

Statement of Comprehensive Income for the year ended 30 June 2015

	Notes	Actual 2015 \$'000	Actual 2014 \$'000
Revenue			
Retained taxes, fees and fines	3(a)	26,690,411	24,467,943
Commonwealth contributions	3(b)	22,894,681	22,562,360
Financial distributions	3(c)	2,662,158	2,239,299
Investment income	3(d)	398,990	269,635
Share of profit of an associate	5	107,949	255,676
Royalty on minerals		1,253,893	1,338,520
Other income	3(e)	1,032,105	1,690,753
Total revenue		55,040,187	52,824,186
Expenses			
Superannuation - defined benefit plans	13	2,299,943	2,353,240
Employee related expenses		1,344,174	1,168,039
Depreciation and amortisation		8	46
Grants and subsidies	4(a)	864,192	1,462,525
Finance costs	4(b)	1,643,305	1,582,241
Recurrent appropriations	23	44,957,156	42,823,662
Capital appropriations	23	4,442,477	4,124,184
Other expenses	4(c)	818,157	880,156
Total expenses		56,369,412	54,394,093
Gain from disposal of government businesses		-	7,024
Gain/(loss) on disposal		(35)	-
Gain from financial instruments		1,244	8,503
Deficit for the year		(1,328,016)	(1,554,380)
Other comprehensive income			
<i>Items that will not be reclassified to surplus or deficit</i>			
Actuarial loss on defined benefit plans	13	(3,072,058)	(154,676)
Share of earnings from an associate from revaluations		904,888	(389,559)
Share of associates other comprehensive income		(11,368)	464
Total other comprehensive loss for the year		(2,178,538)	(543,771)
Total comprehensive result for the year		(3,506,554)	(2,098,151)

The accompanying notes form part of these financial statements.

Crown Entity

Statement of Financial Position as at 30 June 2015

	Notes	Actual 2015 \$'000	Actual 2014 \$'000
Assets			
Current assets			
Cash and cash equivalents	19	13,724,143	8,117,722
Other financial assets	6	2,450,083	4,000,090
Derivative financial instruments	7	23,100	21,849
Investment in a joint venture		-	336
Advances repayable to the Crown	8	156,387	296,622
Receivables	9	3,541,064	3,171,114
Total current assets		19,894,777	15,607,733
Non-current assets			
Plant and equipment		-	43
Investment in an associate	5	3,949,092	3,037,523
Other financial assets	6	79	3,163
Advances repayable to the Crown	8	1,092,567	1,057,950
Receivables	9	8,571	19,151
Total non-current assets		5,050,309	4,117,830
Total assets		24,945,086	19,725,563
Liabilities			
Current liabilities			
Payables	10	472,096	429,585
Bank overdraft	19	10,343,012	6,331,689
Borrowings	11	1,257,574	758,907
Unfunded superannuation	13	1,422,286	1,354,835
Employee benefits and other provisions	14	6,648,098	6,223,310
Provisions	15	65,345	97,317
Other	22	327,814	311,914
Total current liabilities		20,536,225	15,507,557
Non-current liabilities			
Payables	10	-	25,804
Borrowings	11	26,272,477	25,748,748
Unfunded superannuation	13	48,592,997	44,509,595
Employee benefits and other provisions	14	570,528	322,762
Provisions	15	1,373,235	1,016,029
Other	22	613,848	499,118
Total non-current liabilities		77,423,085	72,122,056
Total liabilities		97,959,310	87,629,613
Net liabilities		(73,014,224)	(67,904,050)
Equity			
Revaluation surplus reserve		2,839,700	1,934,812
Accumulated deficit		(75,853,924)	(69,838,862)
Total equity		(73,014,224)	(67,904,050)

The accompanying notes form part of these financial statements.

Crown Entity

Statement of Changes in Equity for the year ended 30 June 2015

	Notes	Accumulated deficit \$'000	Revaluation surplus \$'000	Total equity \$'000
Balance at 1 July 2014		(69,838,862)	1,934,812	(67,904,050)
Deficit for the year		(1,328,016)	-	(1,328,016)
Other comprehensive income				
Actuarial loss on defined benefit plans	13	(3,072,058)	-	(3,072,058)
Investment in an associate		(11,368)	904,888	893,520
Total other comprehensive income		(3,083,426)	904,888	(2,178,538)
Total comprehensive result for the year		(4,411,442)	904,888	(3,506,554)
Transactions with owners in their capacity as owners				
Increase in net assets from equity transfers	25	(1,603,620)	-	(1,603,620)
Total transactions with owners in their capacity as owners		(1,603,620)	-	(1,603,620)
Balance at 30 June 2015		(75,853,924)	2,839,700	(73,014,224)
Balance at 1 July 2013		(64,360,622)	2,324,371	(62,036,251)
Changes in Accounting Policy		(6,126,778)	-	(6,126,778)
Restated Total Equity at 1 July 2013		(70,487,400)	2,324,371	(68,163,029)
Deficit for the year		(1,554,380)	-	(1,554,380)
Other comprehensive income				
Actuarial gain on defined benefit plans	13	(154,676)	-	(154,676)
Investment in an associate		464	(389,559)	(389,095)
Total other comprehensive income		(154,212)	(389,559)	(543,771)
Total comprehensive result for the year		(1,708,592)	(389,559)	(2,098,151)
Transactions with owners in their capacity as owners				
Increase in net assets from equity transfers	25	2,357,130	-	2,357,130
Total transactions with owners in their capacity as owners		2,357,130	-	2,357,130
Balance at 30 June 2014		(69,838,862)	1,934,812	(67,904,050)

The accompanying notes form part of these financial statements.

Crown Entity

Statement of Cash Flows for the year ended 30 June 2015

	Notes	Actual 2015 \$'000	Actual 2014 \$'000
Cash flows from operating activities			
Payments			
Employee related		(2,034,764)	(1,940,618)
Grants and subsidies		(838,026)	(1,523,442)
Finance costs		(1,435,922)	(1,396,604)
Recurrent appropriation	23	(44,957,156)	(42,823,662)
Capital appropriation	23	(4,442,477)	(4,124,184)
Other		(480,959)	(1,840,288)
Total payments		(54,189,304)	(53,648,798)
Receipts			
Retained taxes, fees and fines		26,555,445	24,499,238
Sale of goods and services		3,181	280
Commonwealth grants	23	22,831,159	22,506,101
Investment income		359,690	211,302
Financial distribution from other entities		2,372,404	2,844,474
Other		2,417,266	3,251,319
Total receipts		54,539,145	53,312,714
Net cash flows used in operating activities	19	349,841	(336,084)
Cash flows from investing activities			
Purchase of investments		-	(4,000,000)
Advances made		(60,218)	(63,809)
Proceeds from sales of investment		1,550,019	665,594
Advance repayments received		200,240	141,477
Dividend received from investment		89,900	145,000
Net cash flows provided by/(used in) investing activities		1,779,941	(3,111,738)
Cash flows from financing activities			
Proceeds from borrowings and advances		480,284	1,834,317
Repayment of borrowings and advances		(704,645)	(55,143)
Net cash flows from financing activities		(224,361)	1,779,174
Net decrease in cash		1,905,421	(1,668,648)
Opening cash and cash equivalents		1,786,033	1,695,301
Other cash transfer in as a result of restructuring		(310,323)	1,759,380
Closing cash and cash equivalents	19	3,381,131	1,786,033

The accompanying notes form part of these financial statements.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

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Crown Entity

Notes to the financial statements for the year ended 30 June 2015

1. CROWN ENTITY INFORMATION

Reporting entity

The Crown Entity is a government department for financial reporting purposes under section 45A (1A) of the *Public Finance and Audit Act 1983*. It is a not-for-profit entity.

The Crown Entity reports on the following transactions:

Crown Finance Entity

The Crown Finance Entity manages the Crown's financial assets and financial liabilities. These include:

- the Crown debt portfolio
- the Crown superannuation liability for certain general government agencies
- long service leave liability for certain general government agencies

It is also responsible for miscellaneous finance activities, such as providing grants and subsidies to New South Wales (NSW) public sector agencies. It acts as the residual entity for NSW whole-of-government transactions that are not the responsibility of any other state public sector agency.

Consolidated Fund

The Consolidated Fund collects state taxation, Commonwealth contributions and financial distributions from certain NSW agencies. Payments comprise recurrent and capital appropriation payments to general government agencies. Note 23 details the Fund's receipts and payments.

The principal office of the Crown Entity is 52 Martin Place, Sydney NSW 2000.

The financial statements were authorised for issue by the Secretary of NSW Treasury on the date the accompanying Statement by the Secretary was signed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The Crown Entity financial statements have been prepared on a going concern basis. It is reasonably expected that the entity will have adequate resources to continue operations for the foreseeable future.

The Crown Entity receives the majority of NSW State Government revenue in the form of State taxes, Commonwealth contributions and financial distributions from State Owned Corporations. While the entity holds many of the major liabilities of the State government it also benefits from the government's AAA credit rating allowing it to fund its activities. It is considered that the application of the going concern concept is appropriate.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

These general purpose financial statements have been prepared in accordance with the requirements of:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- *Public Finance and Audit Act 1983*
- *Public Finance and Audit Regulation 2015*
- NSW Treasury Policy and Guidelines Papers

The Crown Entity is exempt from the NSW Treasury Financial Reporting Code. The exemption was granted due to the Crown Entity's unique structure. Unlike other government agencies, the Crown Entity includes the Consolidated Fund. It is not involved in service delivery, nor does it have any employees. The format prescribed by the Financial Reporting Code would be inappropriate for the presentation of the Crown Entity financial statements. The exemption is granted subject to its financial statements being in accordance with applicable accounting standards.

The financial statements have been prepared on the following basis:

- financial assets and derivative financial instruments are measured at fair value
- superannuation, long service leave, and insurance gross liabilities are valued at net present value of the expected payments required to settle the liability
- loans and advances are measured at amortised cost
- all other financial statement items are prepared in accordance with the historical cost convention

The financial statements are presented in Australian dollars and all amounts are rounded to the nearest thousand dollars (\$'000).

Use of judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of judgements, estimates and assumptions (continued)

Classification and valuation of investments managed by New South Wales Treasury Corporation (TCorp)

The Crown Entity classifies fair value measurements using the fair value hierarchy that reflects the significance of the inputs used in making the measurements. The following hierarchy is used for disclosing the fair value of financial instruments by valuation technique:

- Level 1 – derived from quoted prices in active markets for identical assets/liabilities
- Level 2 – derived from inputs other than quoted prices that are observable directly or indirectly
- Level 3 – derived from valuation techniques that include inputs for the asset/liability not based on observable market data (unobservable inputs)

Considerable judgement is required to determine what is significant to fair value and therefore which category the financial instrument is placed in can be subjective.

The Crown Entity classifies the investments managed by TCorp as fair value through profit or loss. The fair value has been determined by reference to the quoted market price for similar instruments and the underlying value provided by TCorp. TCorp values financial assets and liabilities using valuation techniques, which discount cash flows to present value based on observable market yields for the same or equivalent securities. Changes in fair value are mainly attributable to fluctuations in market yields and prices arising from changes in market conditions. This information is specifically relevant to Notes 6 and 12 to the financial statements. There is significant use of estimates and judgements for assessing fair value for level 3 category investments.

Valuation of derivative financial instruments

The fair values of derivatives are determined by reference to the market value for similar instruments, or determined using the valuation techniques. This information is specifically relevant to Notes 7 and 12 to the financial statements.

Investment in Associate

The property plant and equipment of Snowy Hydro Limited (SHL) are measured at fair value under AASB 116 *Property, Plant and Equipment*. There are a number of significant estimates and judgements used in determining the fair value of these assets. These include the effect on income of prevailing economic conditions, changes in the productivity of the business and the actions of other participants in the National Energy Market to reduce exposure to electricity wholesale price risk. Management obtains expert assistance in making these estimates and judgements.

The 2014-15 valuation was conducted by Opteon Property Group Pty Ltd, an independent qualified valuer, on 30 June 2015. The valuation is based on the discounted cash flow model and uses historical data from 2007 through to the current forecasted 2015 financial years and projections out to June 2020. Estimate future cash flows are discounted by an appropriate weighted average cost of capital calculated specifically for SHL.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unfunded superannuation liability

The significant estimates and judgements used in determining the unfunded superannuation liability are included in Note 13 to the financial statements.

Long service leave liability

The significant estimates and judgements used in determining the long service liability are included in Note 14 to the financial statements.

Statement of compliance

The financial statements and notes comply with applicable Australian Accounting Standards including Australian Accounting Interpretations.

New standards and interpretations not yet effective

Certain new standards and interpretations have recently been issued or amended but are not yet effective for the annual reporting period ended 30 June 2015. It is considered impracticable to presently determine the impact of adopting those new standards and interpretations.

The Crown Entity has not early adopted any new accounting standards, amendments and interpretations in compliance with NSW Treasury mandates per Treasury Circular NSW TC 15/03.

New, revised or amending standards and interpretations

The Crown Entity has adopted all of the new, revised or amending Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant and effective for the current reporting year.

Any significant impacts on the accounting policies of the entity from the adoption of these accounting standards and interpretations are disclosed in the relevant accounting policy.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE

Revenue is recognised when it is probable that economic benefits will flow to the Crown Entity and it can be reliably measured. Revenue is measured at the fair value of consideration received or receivable. The Crown Entity uses the following criteria to recognise and measure revenue:

Taxation, fines and regulation fees

The Crown Entity:

- recognises government-assessed income when assessments are issued, mainly for land tax and gaming
- recognises taxpayer-assessed income when the tax collecting agency receives the funds, such as for payroll tax and stamp duty. Additional income identified after reviewing taxpayers returns is recognised upon amended assessment
- recognises fees when the cash is received
- recognises penalty notice revenue when payments are received or when they become overdue and further enforcement activity commences
- recognises fines when issued, such as court fines and additional income from overdue fines when they are referred for further enforcement action
- recognises license fees on an accrual basis

Generally, where the flow of economic benefits cannot be reliably measured, income is recognised when cash is received.

Royalties, licences and permissive occupancies

Revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

Commonwealth contributions

Commonwealth contributions help NSW meet expenditure responsibilities. These consist of Specific Purpose and National Partnership payments, GST revenues and other General Revenue Assistance Payments. They are used for both recurrent and capital purposes. Contributions are recognised as income when cash is received.

Note 3(f) provides details of contributions received relating to the current reporting year.

Financial distributions

These are dividends and income tax equivalents that public trading enterprises and public financial enterprises pay. They are recognised in the period when they are earned on an accrual basis.

Investment income

Investment income includes interest income and net gains or losses from changes in the fair value of investments held at fair value through profit or loss. Interest income is recognised as interest accrued by using the effective interest method. The Crown Entity calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate method discounts estimated future cash receipts through the expected life of the financial asset.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

EXPENSES

Employee arrangements

The Crown Entity has no employees. Its work is performed by staff from NSW Treasury. The Crown Entity reimburses the NSW Treasury for these staffing costs and pays for its share of accommodation and other administrative costs. These costs are recorded in 'Other Expenses'.

Other NSW Government agencies contribute varying levels of service to the Crown Entity free of charge. Due to the irregular and varied nature of those services, no expense for these services is recognised.

Whilst the Crown Entity employs no staff, it recognises employee benefit expenses and liabilities as it assumes these from various NSW public sector agencies.

Superannuation – defined benefit plans

The Crown Entity assumes defined benefit lump sum and pension plans funding responsibility of certain general government sector agencies. The assets of the plans are held in separate funds administered independently by trustees.

The Crown Entity recognises an unfunded superannuation liability for the defined benefit schemes. It is the difference at the reporting date between the present value of forecast employees' accrued benefits (gross liabilities) and the estimated net market value of the superannuation schemes' assets. Gross liabilities are calculated under AASB 119 *Employee Benefits*.

The unfunded liabilities are actuarially assessed at reporting date using data the Pillar Administration maintains for the SAS Trustee Corporation (STC) and the most recent Report on Actuarial Investigation of State Superannuation Schemes (Triennial Review) actuarial economic assumptions. The Triennial Review is published on the STC website.

The present value of accrued benefits is based on expected future fund membership payments to the reporting date of the contributory service of current and past State Government employees.

In calculating the liability, forecasts are made for:

- expected future wage and salary levels
- expected future investment earning rates
- Consumer Price Index (CPI) growth rate
- experience of employee departures
- periods of service

It is calculated based on the latest Triennial Review actuarial economic assumptions, except for the discount rate, which is based on the long term Commonwealth Government bond rate. AASB 119 *Employee Benefits* requires the discount rate to be revised each year and tied to the actual Commonwealth Government long term bond rate as at 30 June.

The pension accounting costs are accrued using the projected unit credit method. The cost of pensions is charged to operations to spread the cost over the service lives of current and past employees. The trustee scheme independent actuary undertakes a comprehensive valuation every three years.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Superannuation – defined benefit plans (continued)

Actuarial gains and losses and expected return on fund assets are recognised as other comprehensive income.

Long service leave

The Crown Entity recognises long service leave (LSL) liability for selected entities in the Other Employee Benefits provision. The liability is measured at the present value of future payments anticipated for the employee services that the government has taken as at the reporting date, using the projected unit credit method. An independent actuary calculates this using:

- expected future wage and salary levels
- experience of employee departures
- periods of service

At the reporting date, estimated future cash outflows are discounted using market yields for government bonds that have a maturity date that matches the expected payment pattern of benefits.

LSL liability is classified as current when it satisfies any of the following criteria:

- it is due to be settled within twelve months after the reporting date, or
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date

All other liabilities are classified as non-current.

Consequential on-costs

Consequential costs to employment are recognised as liabilities and expenses where the employee benefits to which they relate have been recognised.

The Crown Entity holds the related defined benefit superannuation and LSL on-costs accruing whilst on annual leave for the selected entities which it has assumed superannuation and LSL liabilities.

Grants and subsidies

Apart from redundancies and reimbursement of natural disasters, grants and subsidies are recognised as expenses when the payments are made. Grants for redundancies and natural disaster are recognised on an accrual basis when approved.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Finance costs

Finance costs mainly refer to borrowing costs. Loans are not held for trading and are recognised at amortised cost using the effective interest method. The discount or premium is treated as a finance cost and amortised over the life of the debt. Borrowing costs are expensed in the period in which they are incurred, in accordance with Treasury's mandate to not-for-profit general government sector entities.

Finance costs also include any gain or loss on restructuring of borrowings and the unwinding of discounts (the increase in the provision resulting from the passage of time) for the provision of outstanding claims and restoration costs.

Goods and Services Tax

Income, expenses and assets are recognised net of goods and services tax (GST), except:

- where the GST as either part of the cost of acquiring an asset or part of an item expense is not recoverable from the Australian Taxation Office
- for receivables and payables which are recognised as including GST

The net GST recoverable or payable is included as part of receivables or payables.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST recoverable or payable on cash flows arising from investing and financing activities are classified as operating cash flows.

Contingencies and commitments are recognised inclusive of GST.

Recurrent and capital appropriations

Parliamentary appropriations are income where an agency obtains control over appropriated assets after receiving the funds. The Consolidated Fund recognises these appropriations as expenses as soon as the funds are transferred.

Appropriations for a specific financial year are legally only available to an agency until 30 June. Unspent appropriations become liabilities by the agency to the Consolidated Fund. The Consolidated Fund accounts for the appropriations unspent by agencies as receivables.

ASSETS

Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise:

- cash at bank
- restricted cash in the balances of Special Deposit Accounts and Trust Funds
- other short term deposits with an original maturity of 3 months or less

The Statement of Cash Flows shows these cash and cash equivalents net of outstanding bank overdrafts.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Financial assets are classified as:

- fair value through profit or loss
- loans and receivables

The Crown Entity does not have any held-to-maturity or available-for-sale investments.

The assets are measured at fair value when initially recognised. Investments not at fair value are measured at cost and include directly attributed transaction costs. The Crown Entity classifies the assets after initial recognition and when allowed and appropriate, it re-evaluates this at each reporting date.

Financial asset purchases or sales under contracts where assets must be delivered in a time that is regulated or is set by a market are recognised on the trade date, when the Crown Entity commits to buy or sell the asset.

Financial assets at fair value through profit or loss

Financial assets held for trading are included as financial assets at fair value through profit or loss. Assets are held for trading if they are acquired to sell in the near term. Financial assets are also designated at fair value through profit or loss when they are managed and their performance is evaluated on a fair value basis. Derivatives are also classified as financial assets at fair value through profit or loss. Gains or losses on investments held for trading and financial assets through profit or loss are recognised in surplus or deficit.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value, usually based on transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method less an allowance for any impairment of receivables. When they are de-recognised or impaired, gains and losses are recognised in surplus or deficit, and through the amortisation process.

Short-term receivables with no stated interest rate are measured at the original invoice amounts where the effect of discounting is immaterial.

De-recognition of financial assets

The Crown Entity de-recognises a financial asset including a part of an asset, or a part of a group of similar assets, when:

- the rights to receive cash flows from the asset have expired
- it retains the rights to receive cash flows but agree to pay all cash flows without material delay to a third party in a pass-through arrangement
- it transfers the rights to receive cash flows by either substantially transferring all risks and rewards or its control of the asset

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets

The Crown Entity assesses if a financial asset or group of financial assets, except those measured at fair value through profit and loss, is impaired at each reporting date.

Financial assets carried at amortised cost

On objective evidence of an impairment loss on financial assets carried at amortised cost, the Crown Entity measures the allowance as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. This does not include future credit losses that have not been incurred. It reduces the asset's carrying amount either directly or through an allowance account, and recognises the loss in surplus or deficit.

If the Crown Entity finds objective evidence that impairment has lessened after it has recognised the loss, it reverses the loss. It then recognises this in surplus or deficit, to the extent that the asset's carrying value is not more than its amortised cost had the impairment not been recognised at the reversal date.

Derivative financial instruments

The Crown Entity uses derivatives such as interest rate swaps to reduce the risks of interest rate fluctuations. The Crown Entity has also entered into forward contracts which contain underlying derivatives. These instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Fair value for derivatives are shown after net-off of transactions with the same counter-party.

As the Crown Entity does not apply hedge accounting, any gains or losses arising from changes in the fair value of derivatives is recognised in surplus or deficit.

Fair values of interest rate contracts are calculated by reference to the market values for similar contracts, and fair values of forward contracts are determined by reference to the underlying value of the equity, applying a discounted cash flow method, and the forward price.

Receivables

Taxes, fees and fines are recognised and carried at the original levied amount less an allowance for any uncollectible amounts. Receivables from reinsurance and other recoveries are actuarially assessed. Dividends and income tax equivalents are recognised on an accrual basis.

The Crown Entity makes a provision for impairment on sound evidence that it cannot collect a debt. Bad debts are written off as incurred.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in a joint venture

Interests in assets in which the Crown Entity has joint control are included in the financial statements by recognising the Crown's share of jointly controlled assets, liabilities, commitments, expenses or income incurred by or in respect of the joint venture (classified according to their nature).

An exception is the Snowy Scheme Reform payments to the Joint Government Enterprise Limited – Water for Rivers (JGE) established by the Commonwealth, NSW and Victorian governments to increase the Murray and Snowy river flows. The Victorian Government is the fund manager. This payment is treated as grant expense only when it is spent by the JGE.

The constitution of the JGE states that the members will share in any contribution not utilised for operations at the date of winding up plus any accrued interest. JGE was wound up during 2015.

Investment in an associate

The Crown Entity's investment in an associate consists of the NSW Government's 58 per cent investment in Snowy Hydro Limited (SHL). The associate is an entity over which the Crown Entity has significant influence but is neither a subsidiary nor a joint venture. Despite owning 58 per cent of SHL shares, NSW does not have control over SHL as it does not have the ability to use its power over SHL to affect the amount of dividends returns.

SHL is mainly involved in generating and marketing renewable electricity, as well as the storage and diversion of bulk water to the Murray and Murrumbidgee Rivers. There is no published quotation price for the fair value of this investment.

Under AASB 128 *Investments in Associates* the investment is measured consistently with the policies applied in the Crown Entity financial statements. The Crown Entity recognises its investment based upon 58 per cent of the SHL's net assets reported in SHL's financial statements adjusted for consistent accounting policies.

Changes in the Crown Entity's share of the associate's operating results, adjusted to ensure consistency with Crown Entity accounting policy, are reflected in surplus or deficit. Where a change is recognised directly in the associate's equity, the Crown Entity recognises its share in other comprehensive income.

For the current reporting period, the associate has the reporting date of 27 June (2014: 28 June).

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LIABILITIES

Borrowings

The Crown Entity initially recognises all loans and borrowings at the fair value of the consideration received, less directly attributable transaction costs. The Crown Entity estimates the fair value of Commonwealth specific purpose low interest loans by discounting the expected cash flows by the relevant Commonwealth bond rate. It then uses the effective interest method to measure interest-bearing loans and borrowings at amortised cost.

Gains and losses are recognised in surplus or deficit when the liabilities are derecognised.

Payables

Payables represent liabilities for goods and services provided but not paid for at each reporting date. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method.

Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

Provisions

Provisions are recognised for a current obligation due to a past event where it is probable that the Crown Entity must commit economic resources and can reliably estimate the cost. This obligation can be legal or constructive.

Superannuation and long service leave

The Crown Entity discounts superannuation and long service leave provisions using the Commonwealth ten year bond rates as the benchmark. With discounting, the increase in the provision due to the recognition of the time value of money is expensed as a finance cost.

Land remediation

The provision for land remediation is recognised at the net present value of the estimated future costs required to settle the remediation obligations.

Periodic changes in the provision are accounted for in accordance with the requirements of AASB Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

The discount applied to recognise the time value of money is unwound over the life of the provision. Any incremental increase resulting from the unwinding of the discount is recognised as finance costs within the net result in the reporting period in which it occurs. All increases or decreases in the provision resulting from periodic changes to the estimated timing or amount of future remediation costs or changes in the discount rate used are recognised in the net result.

Deferred revenue

Deferred revenue represents revenues collected but not earned as at 30 June. This is primarily composed of revenue for various licence fees which span over multiple years.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial guarantee contracts

Financial guarantee contracts are initially recognised as a liability at fair value plus directly attributable transaction costs. After initial recognition the guarantee is measured at the higher of:

- a) initial valuation less cumulative amortisation, or
- b) a revaluation of the liability if the specified debtor is considered likely to default.

Where the guarantee is issued for nil consideration, the guarantee is recognised at fair value as an expense and liability, with the liability subsequently amortised over the term of the agreement. Financial guarantee contracts are reported at fair value less cumulative amortisation.

De-recognition of financial liabilities

The Crown Entity derecognises a financial liability when its obligation is discharged, cancelled or expires.

When a lender replaces an existing financial liability with one on significantly different or modified terms, the Crown Entity derecognises the original liability and recognises the new liability. It then recognises the difference in their carrying amounts in surplus or deficit.

Equity transfers

The transfer of net assets between agencies as a result of an administrative restructure, transfers of programs / functions and parts thereof between NSW public sector agencies and 'equity appropriations' are designated or required by Accounting Standards to be treated as contributions by owners and recognised as an adjustment to "Accumulated Funds". This treatment is consistent with AASB 1004 *Contributions* and Australian Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*.

Transfers arising from an administrative restructure involving not-for-profit entities and for-profit government departments are recognised at the amount at which the assets and liabilities were recognised by the transferor immediately prior to the restructure. In most instances this will approximate fair value.

All other equity transfers are recognised at fair value, except for intangibles. Where an intangible has been recognised at (amortised) cost by the transferor because there is no active market, the agency recognises the asset at the transferor's carrying amount. Where the transferor is prohibited from recognising internally generated intangibles, the agency does not recognise that asset.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

3. REVENUE

	2015 \$'000	2014 \$'000
(a) Retained taxes, fees and fines		
Payroll tax	8,427,175	8,052,440
Stamp duties	9,231,148	7,863,028
Gambling and betting taxes	2,069,084	1,897,000
Land tax	2,524,971	2,388,226
Motor vehicle taxes and fees	2,368,099	2,294,992
Fees and fines	611,069	585,007
Government guarantee fees	452,716	470,907
Waste disposal levy	563,954	500,122
Other	442,195	416,221
	26,690,411	24,467,943
(b) Commonwealth contributions		
Revenue replacement	49,433	54,495
Specific purpose - recurrent	2,928,106	2,702,700
Commonwealth National Partnership payments - recurrent	947,363	1,754,451
Commonwealth National Partnership payments - capital	1,950,264	2,206,837
GST revenue	17,019,515	15,843,877
	22,894,681	22,562,360
(c) Financial distributions		
Dividends	1,833,369	1,381,496
Income tax equivalents	828,789	857,803
	2,662,158	2,239,299
(d) Investment income		
Interest		
Advances	96,968	100,441
Short term money market deposit - TCorp	6,496	-
Private sector deposits	295,437	168,693
TCorp investments	89	501
	398,990	269,635
(e) Other income		
Contribution from other Government agencies	97,917	245,829
Revenue from Crown land assets	65,298	62,619
Crown share of Government agency asset sales	65,224	57,103
Repayment of contribution from SICorp	380,000	920,000
Repayments of previous years appropriation	80,817	144,512
Payment from Policyholders Protection Fund Corporation	-	44,276
Long service leave contributions	35,620	48,123
Unclaimed monies	59,699	30,271
HHH insurance recoveries	82,172	24,977
Defined benefit superannuation contributions	40,595	31,506
Other	124,763	81,537
	1,032,105	1,690,753

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

3. REVENUE (continued)

(f) Contributions

Contributions are received under the National Partnership Agreements with the Commonwealth. Under each agreement, an implementation plan and reporting conditions are agreed. Payments are spent on agreed items and to a timetable agreed with the Commonwealth. Contributions are deemed to be non-reciprocal transfers.

The Crown Entity included the following contributions as revenue where:

(i) Conditional contributions recognised in the current year and not fully spent

Description (Department)	Balance (\$'000)	
	2014-15	2013-14
Education and Communities	255,780	360,944
Health	92,969	59,302
Police and Emergency Services	-	3,393
Trade, Investment and Regional infrastructure	34,913	37,759
Total	383,662	461,398

(ii) Conditional contributions for the provision of goods or services over a future period (not included in (i) above)

Description (Department)	Balance (\$'000)				
	Total	Periods to which the amounts relate			
		2014-15	2015-16	2016-17	2017-18
Transport – Roads	484,623	484,623	-	-	-
Transport – Rail	2,086	2,086	-	-	-
Total	486,709	486,709	-	-	-

2013-14 comparative

Description (Department)	Balance (\$'000)				
	Total	Periods to which the amounts relate			
		2013-14	2014-15	2015-16	2016-17
Transport – Roads	1,300,650	978,667	221,002	100,981	-
Transport – Rail	53,716	53,716	-	-	-
Total	1,354,366	1,032,383	221,002	100,981	-

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

3. REVENUE (continued)

(f) Contributions (continued)

(iii) Amount of contributions passed on to agencies in the current financial year from the previous 30 June balance.

Description (Department)	Balance (\$'000)	
	2014-15	2013-14
Transport – Roads & Maritime Services/WestConnex	1,010,470	529,387
Education and Community Services	257,525	421,480
Family and Community Services	11,942	23,339
Health	53,828	50,462
Police and Emergency Services	627	-
Trade, Investment and Regional Infrastructure	28,780	4,866
Total	1,363,172	1,029,534

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

4. EXPENSES

	2015 \$'000	2014 \$'000
(a) Grants and subsidies		
Natural disaster relief	61,598	188,229
Snowy river water rights	61	1,330
Grant to NSW Self Insurance Corporation	25,000	15,000
Grant to Transport NSW	-	80,662
Grants to agencies for redundancy payments	181,596	324,722
Grants to other Government agencies	11,745	155,425
Infrastructure grants made by Restart	330,132	429,102
First home owners grant	207,082	215,060
Grant to Liability Management Ministerial Corporation	17,713	16,709
Other	29,265	36,286
	864,192	1,462,525
(b) Finance costs		
Finance charges from:		
TCorp	1,405,104	1,373,796
Commonwealth Government	74,657	75,267
Other NSW Government agencies	103,734	94,419
Other	9,270	9,171
Unwinding of discounts	50,540	29,588
	1,643,305	1,582,241
(c) Other expenses		
Remissions and refunds	91,241	54,976
Bad and doubtful debts	23,009	(11,899)
Audit fees		
Financial statements	782	505
Other engagement fees	1,238	1,365
Auditor General's reports to Parliament and performance audits	7,270	7,035
Consultants	44,473	42,018
Other contractors	1,858	1,854
HIH claims	(4,114)	22,734
Builders warranty claims	(7,103)	(19,155)
Police superannuation scheme - medical claims cost	14,889	16,428
GST administration costs	217,666	227,030
Land Remediation Provision	27,079	4,993
Refunds to the Commonwealth	63	11,254
Land tax discounts	23,115	21,727
Other	376,691	499,291
	818,157	880,156

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

5. INVESTMENT IN AN ASSOCIATE

	2015 \$000	2014 \$000
Non-current investment in an associate	3,949,092	3,037,523
	3,949,092	3,037,523

The NSW Government has a 58 per cent share in Snowy Hydro Limited (SHL), the Commonwealth has a 13 per cent share and Victoria has a 29 per cent share. Despite owning 58 per cent of SHL shares, NSW does not have control over SHL as it does not have the ability to use its power over SHL to affect the amount of dividends returns.

SHL is mainly involved in generating and marketing renewable electricity, as well as the storage and diversion of bulk water to the Murray and Murrumbidgee Rivers. There is no published quotation price for the fair value of this investment.

The Crown Entity uses the equity method of accounting for the investment in SHL.

There are no impairment indicators and no impairment losses as at 30 June 2015 (2014: Nil).

For the current reporting period, SHL has a reporting date of 27 June 2015 (2014: 28 June).

Crown's share of associate's assets and liabilities

Current assets	579,884	431,578
Non-current assets	4,320,176	2,942,925
	4,900,060	3,374,503
Current liability	172,028	116,754
Non-current liability	778,940	220,226
	950,968	336,980
Net assets	3,949,092	3,037,523

Crown's share of associate's profit

Revenue	1,017,900	749,128
Profit before income tax	149,192	364,580
Income tax expense	(41,243)	(108,904)
Profit after income tax	107,949	255,676

Other comprehensive income	(11,368)	464
Total comprehensive income	96,581	256,140

Crown's share of associate's commitments for expenditure

Capital expenditure	11,252	6,090
Other expenditure	88,392	5,684
Operating leases	171,970	39,904
	271,614	51,678

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

6. OTHER FINANCIAL ASSETS

	2015 \$000	2014 \$000
Current		
Financial assets at fair value	83	90
Other loans and deposits ¹	2,450,000	4,000,000
	<u>2,450,083</u>	<u>4,000,090</u>
Non-current		
Financial assets at fair value	79	3,163
	<u>79</u>	<u>3,163</u>
Total financial assets at fair value	<u>2,450,162</u>	<u>4,003,253</u>

¹ Other loans and deposits are term deposits held at financial institutions with maturities ranging between three and twelve months.

7. DERIVATIVE FINANCIAL INSTRUMENTS

In February 2012, Reliance Rail entered into a series of restructure agreements with the State, financial guarantors and other parties to restructure the Reliance Rail financing. These restructure plans included a conditional commitment by the State to invest \$175 million in Reliance Rail in 2018 in return for 100 per cent of the equity in Reliance Rail. The capital commitment is subject to Reliance Rail achieving certain conditions precedent by the funding date which includes the successful delivery of the trains and its ability to refinance its existing debt at that time.

Fair value of the Crown Entity's derivative financial instruments

Current assets		
Forward contracts	23,100	21,849
Net amount receivable	<u>23,100</u>	<u>21,849</u>

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

8. ADVANCES REPAYABLE TO THE CROWN

	2015 \$'000	2014 \$'000
Current	156,387	296,622
Non-current	1,092,567	1,057,950
Total advances	1,248,954	1,354,572
Represented by:		
NSW Land and Housing Corporation	432,142	459,284
Department of Premier and Cabinet	244,997	271,740
Trustee of the Home Purchase Assistance Fund	127,836	134,790
NSW Rural Assistance Authority	132,226	131,851
Department of Education and Communities	140,500	140,500
Local Government Infrastructure	86,952	99,060
Co-operative advances	19,598	27,998
Sydney Water Corporation	962	6,960
Ministry of Health	6,481	6,965
Department of Trade and Investment, Regional Infrastructure and Services	3,610	5,295
Roads and Maritime Services	2,033	4,206
NSW Police Force	530	669
Asbestos Injuries Compensation Fund Limited	35,812	51,515
Other	14,325	13,739
Department of Justice	950	-
	1,248,954	1,354,572

The above advances repayable to the Crown have a face value of \$1,642 million as at 30 June 2015 (2014: \$1,783 million) and stated interest rates of 0.0 - 10.2 per cent and mature in 1 - 27 years.

The fair value of advances that are the on-lending of Commonwealth loans is estimated by discounting the expected future cash flows by the relevant Commonwealth bond rate. The fair value of other advances is estimated by discounting the expected future cash flows by the relevant TCorp bond rate.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

9. RECEIVABLES

	2015 \$'000	2014 \$'000
Current:		
Retained taxes, fees and fines	1,623,234	1,513,937
Less: allowance for impairment	<u>(206,897)</u>	<u>(184,128)</u>
Net - retained taxes, fees and fines	1,416,337	1,329,809
Dividends	1,674,567	1,368,449
Tax equivalents	146,208	162,572
Unspent appropriations	72,529	105,635
GST Receivable	2,666	1,615
Other	<u>228,757</u>	<u>203,034</u>
	<u>3,541,064</u>	<u>3,171,114</u>
Non-current:		
Other	<u>8,571</u>	<u>19,151</u>
	<u>8,571</u>	<u>19,151</u>
Total receivables	<u>3,549,635</u>	<u>3,190,265</u>
Movements in the allowance for impairment		
Balance at 1 July	184,128	196,523
Add: new provisions	80,592	38,313
Less: amounts used	<u>(57,823)</u>	<u>(50,708)</u>
Balance at 30 June	<u>206,897</u>	<u>184,128</u>

The average credit period on receivables, unless otherwise specified, is 30 days. No interest is being charged on payments which are delayed except for current receivables that are under objection or appeal. An allowance for impairment of receivables is made for specific receivables which are not likely to be received. Movement of this allowance is recognised in surplus or deficit.

The current receivables included assessments totalling \$51.1 million (2014: \$28.5 million) that were under objection or appeal.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

10. PAYABLES

	2015 \$'000	2014 \$'000
Current:		
Creditors	18,105	25,291
Financial charges	406,648	392,037
Liability to Nominal Defendant Fund	15,333	2,668
Other	32,010	9,589
	472,096	429,585
Non-current:		
Liability to Nominal Defendant Fund	-	25,804
	-	25,804
Total payables	472,096	455,389

If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or statement is received. Financial charges mainly represent accrued interest payable to TCorp and Commonwealth Government. Other payables are non-interest bearing and are generally on 30 day terms.

11. BORROWINGS

Current	1,257,574	758,907
Non-current	26,272,477	25,748,748
Total borrowings	27,530,051	26,507,655
Analysed as:		
TCorp	26,808,688	25,756,222
Commonwealth financial agreements	7,924	7,925
Commonwealth specific purpose advances	668,955	700,817
Commonwealth other	44,234	42,291
Other	250	400
Total borrowings at amortised cost	27,530,051	26,507,655

Borrowings from TCorp are interest bearing. The average interest cost, including the amortisation of bond premium or discount, of the TCorp debt portfolio was 5.43 per cent (2014: 5.5 per cent). The modified duration of the nominal debt portfolio is 5.06 (2014: 5.34) and for the indexed debt portfolio is 9.65 (2014: 10.32). The Crown Entity measures its exposure to interest rate risk in terms of cash flows or notional cash flows generated by financial instruments as discussed in Note 12.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

12. FINANCIAL INSTRUMENTS

The Crown Entity's principal financial instruments are detailed in the following table. These financial instruments arise directly from the Crown Entity's operations or are required to finance those operations. The Crown Entity does not enter into financial instruments, including derivative financial instruments, for speculative purposes.

The Crown Entity's main risks arising from financial instruments are market, credit and liquidity risks. The Crown Entity's objectives, policies and processes for measuring and managing risk, and quantitative and qualitative disclosures are included throughout these financial statements.

Management has overall responsibility for the establishment and oversight of risk management, reviews and sets policies for managing each of these risks. Risk management policies are in place to establish frameworks and processes that identify and analyse the risks faced by the Crown Entity, set risk limits and controls, and monitor risks.

Note 2 details the key accounting policies and methods which set out the recognition criteria, the basis of measurement, and the income and expenses recognition for each class of financial instrument.

Financial instrument categories

	Note	Category	Carrying Amount	
			2015 \$'000	2014 \$'000
Financial assets				
Cash and cash equivalents	19	N/A	13,724,143	8,117,722
Other financial assets	6	At fair value through profit or loss (designated as such upon initial recognition)	162	3,253
Other financial assets	6	Loans and Receivables (at amortised cost)	2,450,000	4,000,000
Derivative financial instruments	7	At fair value through profit or loss (classified as held for trading)	23,100	21,849
Advances repayable to the Crown	8	Loans and Receivables (at amortised cost)	1,248,954	1,354,572
Receivables ¹	9	Loans and Receivables (at amortised cost)	1,911,895	1,590,634
Financial liabilities				
Payables ²	10	Financial liabilities (at amortised cost)	472,096	455,389
Bank overdrafts	19	N/A	10,343,012	6,331,689
Borrowings	11	Financial liabilities measured at amortised cost	27,530,051	26,507,655
Financial guarantees	22(b)	Financial liabilities measured at fair value less accumulated amortisation	8,000	9,800

¹ Excludes statutory receivables and prepayments and therefore differs from the amounts shown in the Statement of Financial Position.

² Excludes statutory payables and deferred income/unearned revenue and therefore differs from the amounts shown in Statement of Financial Position.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

12. FINANCIAL INSTRUMENTS (continued)

Risk management

The activities of the Crown Entity expose it to a variety of financial risks. These are:

- market risk
 - i. interest rate risk
 - ii. currency risk
 - iii. other price risk
- credit risk
- liquidity risk

The Crown Entity contracts the NSW Treasury Corporation (TCorp) to manage these risks in line with Memoranda of Understanding (MoU) between the parties. TCorp actively manages and reports on the risks associated with the holding of financial instruments. The MoU is updated annually 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 MoU is authorised and approved by the Deputy Secretary or Executive Director of NSW Treasury.

Proposed changes to the MoU must go through a consultative process between TCorp and the Treasury Management team at NSW Treasury. Regular meetings take place between TCorp and the Treasury Management team to monitor the performance and management of the Crown Entity's investment and debt portfolios. The NSW Treasury's representatives managing the Crown Entity's treasury portfolio with TCorp comprise staff with experience in financial risk management, treasury management and economics.

The NSW Treasury sets the debt and investment strategy for the Crown Entity and TCorp manages and monitors associated financial risks within the boundaries of its established Board policies, legislative requirements, management guidelines and the MoU. TCorp's operational risks are mitigated through:

- comprehensive and detailed risk management policies
- detailed controls over the security, integrity and accuracy of all key systems
- clear and appropriate reporting lines
- qualified and experienced personnel
- a Risk Management & Compliance function
- regular internal audits

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Crown Entity's exposures to market risk are primarily through interest rate risk on its borrowings and fixed interest investments, and other price risks associated with the movement in the unit price of the Hour-Glass Investment facilities.

The effects on the Crown Entity's profit and equity due to reasonably possible changes in risk variables are outlined in the information below, for interest rate risk and other price risk. A reasonably possible change in each risk variable has been determined after taking into account the economic environment in which the Crown Entity operates and the time frame for the assessment (i.e. until the end of the next annual reporting period). The sensitivity analysis is based on risk exposures in existence at the reporting date. The analysis is performed on the same basis as for 2014. The analysis assumes that all other variables remain constant.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

12. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Exposure to interest rate risk arises primarily through the Crown Entity's interest bearing liabilities. This risk is measured, limited and managed in terms of duration of borrowings. The Crown Entity does not account for any fixed rate financial instruments at fair value through profit or loss or as available-for-sale. Therefore, for these financial instruments, a change in interest rates would not affect the Crown Entity's operating result or equity.

The following table provides the sensitivity analysis of interest rate risk affecting financial assets and liabilities on the operating result of the Crown Entity. There is no direct effect on equity. A reasonably possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

	Carrying Amount \$'000	-1%		+1%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
2015					
Financial assets					
Cash and cash equivalents ¹	13,721,049	(137,210)	-	137,210	-
Financial liabilities					
Bank overdrafts	10,343,012	103,430	-	(103,430)	-
Borrowings managed by TCorp	26,808,688	1,663,893	-	(1,663,893)	-
2014					
Financial assets					
Cash and cash equivalents ¹	7,953,561	(79,536)	-	79,536	-
Financial liabilities					
Bank overdrafts	6,331,689	63,317	-	(63,317)	-
Borrowings managed by TCorp	25,756,222	1,682,011	-	(1,682,011)	-

¹ Excludes the cash and cash equivalents which are in the Hour-Glass investment facility. The cash and cash equivalents in the Hour-Glass are subject to the overall price risks of the Hour-Glass facilities. Refer to the section on Other Price Risk.

Currency risk

The Crown Entity has no foreign currency risk exposure from its investments in TCorp Hour-Glass facilities. The Hour-Glass investment facilities, which are unit trusts, are subject to the overall price risk only.

The Crown Entity has minimal foreign currency risk exposure from its holding of Canadian dollars in cross border lease arrangements totalling \$162,000 (2014: \$242,000).

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

12. FINANCIAL INSTRUMENTS (continued)

Other price risk

Exposure to 'other price risk' primarily arises through the investment in the TCorp Hour Glass Investment facilities which are held for strategic rather than trading purposes and the derivative forward contracts. The Crown Entity has no direct equity investments.

The Crown Entity holds units in the following Hour-Glass investment facility:

Facility	Investment Sectors	Investment Horizon	2015 \$'000	2014 \$'000
Cash Facility	Cash, money market instruments	Up to 1.5 years	3,094	167,172

The unit price of each facility is equal to the total fair value of the net assets held by the facility divided by the total number of units on issue for the facility. Unit prices are calculated and published daily. TCorp act as manager for the Cash Facility.

The TCorp Hour-Glass investment facilities are designated at fair value through profit or loss and therefore any change in unit price impacts directly on surplus or deficit. TCorp provides sensitivity analysis information for each of the facilities using historically based volatility information collected over a ten year period, quoted at two standard deviations (i.e. 95% probability). A reasonably possible change is based on the percentage change in unit price multiplied by the redemption price as at each reporting date for each facility.

Hour-Glass Investment Facility	Change in Unit Price		Impact on Surplus/(Deficit)	
	2015 %	2014 %	2015 \$'000	2014 \$'000
Cash Facility	+/- 1.0	+/- 1.0	+/- 31	+/- 1,672

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

12. FINANCIAL INSTRUMENTS (continued)

Credit risk

Credit risk arises from the financial assets of the Crown Entity, which comprise of cash and cash equivalents, receivables, advances, financial assets, derivatives and financial guarantees. The Crown Entity's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments net of any allowance for impairment at each reporting date.

There have been no changes in the fair value of financial assets and financial guarantees due to change in credit risks.

Cash and cash equivalents

Cash comprises cash investment in the Hour-Glass facility, short-term deposits and bank balances within and outside the NSW Treasury Banking System (TBS). Interest is earned on daily bank balances adjusted for a management fee to NSW Treasury.

The Crown Entity utilises the bank balances of TBS agencies' accounts to offset the Consolidated Fund Account nominal debit balance. This arrangement minimises the overall borrowing requirements of the State. The bank regards all of the individual accounts within the TBS as forming one account. The Crown Entity is paid interest on the overall credit balance of this 'one account'. Thus, the Consolidated Fund can borrow almost the total of other accounts in the TBS at the interest rate agencies would be paid for having cash on deposit, a significant saving on normal borrowing rates.

Receivables and advances repayable to the Crown

Receivables include dividends from certain NSW government agencies. Statutory receivables such as taxes, fees and fines and income tax equivalents are excluded from here.

Advances are given to entities on terms set by parties within the NSW Government and which follow the Treasurer's directions. The Crown Entity assesses outstanding balances for the advances each year, and reduces the carrying value when it no longer expects repayment. The maximum credit risk on advances is the carrying value reported in the Statement of Financial Position.

The Crown Entity has a significant concentration of credit risk with NSW public sector entities. The risk mainly relates to advances to general government sector agencies that are funded from the Consolidated Fund.

The Crown Entity does not receive any collateral for advances and receivables.

The following table shows financial assets that were past due but not impaired at the reporting date:

	Total \$'000	Past due but not impaired \$'000			Considered impaired \$'000
		< 3 months overdue	3 - 6 months overdue	> 6 months overdue	
2015					
Receivables	2,170	2,170	-	-	-
2014					
Receivables	6,294	2,860	-	3,434	-

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

12. FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

Financial assets

Financial assets at fair value include investments in TCorp's Hour-Glass facilities and derivative forward contracts. The investments within the Hour-Glass facilities are unit holdings and the derivative forward contracts are related to the unlisted equity securities. As such, they do not give rise to credit risk.

Credit risk exists for financial assets at amortised cost. These financial assets are term deposits with original maturities greater than 90 days.

Concentration of credit risk

By credit rating	AAA	AA+	AA	AA-	A+	A	Other ratings ¹	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2015								
Cash and cash equivalents	-	-	-	8,509,937	-	-	5,214,206	13,724,143
Financial assets at amortised cost	-	-	-	2,450,000	-	-	-	2,450,000
Advances	-	-	-	-	-	-	1,248,954	1,248,954
Receivables	-	-	-	22,982	-	294,607	1,594,306	1,911,895
2014								
Cash and cash equivalents	-	-	-	7,928,081	-	-	189,641	8,117,722
Financial assets at amortised cost	-	-	-	4,000,000	-	-	-	4,000,000
Advances	-	-	-	-	-	-	1,354,572	1,354,572
Receivables	56,259	-	-	21,927	-	206,400	1,306,048	1,590,634

By classification of counterparty	Governments	Banks	Other	Total
	\$'000	\$'000	\$'000	\$'000
2015				
Cash and cash equivalents	5,213,277	8,509,937	929	13,724,143
Financial assets at amortised cost	-	2,450,000	-	2,450,000
Advances	1,228,462	-	20,492	1,248,954
Receivables	1,888,913	21,684	1,298	1,911,895
2014				
Cash and cash equivalents	188,810	7,928,082	830	8,117,722
Financial assets at amortised cost	-	4,000,000	-	4,000,000
Advances	1,325,488	-	29,084	1,354,572
Receivables	1,512,448	20,010	58,176	1,590,634

¹ The counterparty has no rating or the rating is lower than A. The majority of receivables are from government agencies with no individual credit rating. The NSW Government, of which they form a part, has a AAA credit rating.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

12. FINANCIAL INSTRUMENTS (continued)

Financial guarantees

The Crown Entity has a number of financial guarantees to which it is a party on behalf of other entities, agencies, departments and the Crown itself. The guarantees outstanding at 30 June 2015 have an estimated amortised total value of \$8.0 million (2014: \$9.8 million). The estimated value was calculated by independent valuers based on the probabilities of these guarantees being exercised. These guarantees are grouped into four categories.

1. **Structured Finance Activities:** The Crown has guaranteed certain payment and performance obligations under cross border leases. The Crown Entity's exposure for cross border leases is \$4 million (2014: \$5 million). As a part of this exposure, the Crown has a third-party risk in terms of monies being placed on deposit with the US Treasury as the counterparty. TCorp regularly monitors this risk on behalf of the Crown.
2. **NSW Treasury Corporation – Australian Energy Market Operator (AEMO) Guarantees:** The Crown provides a guarantee over electricity related settlement payments made by State electricity agencies to the AEMO and power generators, and other TCorp undertakings for other government authorities for their performance under contracts with third parties. Settlement payments are normally four weeks in arrears. The stability and financial integrity of the Operator is underpinned by the regulatory framework and supported by established risk management procedures administered by AEMO including strategies for the management of credit risk. The credit risk for these activities is \$146 million (2014: \$165 million).
3. **GIO Guarantees:** The Crown provided a guarantee over GIO obligations for insurance policies entered into before its sale in 1992. The Crown's guarantee can only be called upon if the existing owners are unable to make payment. The likelihood of invoking the guarantee is measured by the level of the existing owners' equity to their guaranteed liabilities. It is regarded as extremely unlikely given this ratio has grown over time. The credit risk for these guarantees is \$301 million (2014: \$281 million).
4. **Public Private Partnership Guarantees:** The Crown has guaranteed that five State agencies involved in public private partnerships will meet their obligations to pay for finance leases and services provided. These are long term agreements involving significant sums. It is very unlikely that the agencies would cease to pay the finance lease contracts on assets or meet payments for services they require for their operations. The credit risk for these activities is \$5,788 million (2014: \$6,012 million).

Accordingly, the Crown's exposure to financial guarantees is considered to be low.

Liquidity risk

Liquidity risk is the risk that the Crown Entity will be unable to meet its payment obligations when they fall due. The Crown Entity continuously manages risk through monitoring future cash flows and maturities, and through planning to ensure access to borrowing facilities if required.

The Crown Entity aims to maintain a balance between funding continuity and flexibility by using:

- The nominal debit balance limit of Treasury Banking 'One Account' of \$14 billion (2014: \$12 billion)
- TCorp's Come and Go Facility with a limit of \$3.5 billion (2014: \$3.5 billion)
- borrowings

The Crown Entity outsources the daily management of its borrowings to TCorp, which manages them in accordance with established modified duration targets and in discussions at strategy meeting with the NSW Treasury.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

12. FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)

During the current year there were no defaults of loans payable. No assets have been pledged as collateral. The Crown Entity's exposure to liquidity risk is deemed insignificant based on prior years' data and current assessment of risk.

Liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with Treasury Circular NSWTC 11-12. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received. Interest is awarded for late payments. There was no interest awarded for late payment during the year.

The table below summarises the maturity profile of the Crown Entity's financial liabilities.

	Weighted average effective interest rate %	Nominal amount ¹ \$'000	Interest rate exposure			Maturity dates		
			Fixed interest rate \$'000	Variable interest rate \$'000	Non-interest bearing \$'000	< 1 Year \$'000	1 - 5 Years \$'000	> 5 Years \$'000
2015								
Payables ²	-	472,096	-	-	472,096	472,096	-	-
Bank overdrafts	3.18	10,343,012	-	10,343,012	-	10,343,012	-	-
TCorp borrowings	4.78	35,108,063	35,108,063	-	-	2,324,128	12,269,060	20,514,875
Cwlth general purpose borrowings	3.00	7,920	7,920	-	-	7,920	-	-
Cwlth specific purpose borrowings	4.40	1,066,863	1,066,863	-	-	53,117	213,545	800,201
Own name borrowings	7.40	250	250	-	-	250	-	-
Financial guarantees ³	-	6,239,510	-	-	6,239,510	434,050	1,015,820	4,789,640
Total financial liabilities⁴		53,237,714	36,183,096	10,343,012	6,711,606	13,634,573	13,498,425	26,104,716
2014								
Payables ²	-	455,389	-	-	455,389	429,585	25,804	-
Bank overdrafts	3.37	6,331,689	-	6,331,689	-	6,331,689	-	-
TCorp borrowings	4.90	35,590,877	35,590,877	-	-	1,927,435	11,336,529	22,326,913
Cwlth general purpose borrowings	3.00	7,921	7,921	-	-	7,921	-	-
Cwlth specific purpose borrowings	4.43	1,164,058	1,164,058	-	-	54,904	212,570	896,584
Own name borrowings	7.03	400	400	-	-	150	250	-
Financial guarantees ³	-	6,462,750	-	-	6,462,750	449,440	1,005,370	5,007,940
Total financial liabilities⁴		50,013,084	36,763,256	6,331,689	6,918,139	9,201,124	12,580,523	28,231,437

¹ The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities.

Therefore the amounts disclosed above will not reconcile to the amounts shown in the Statement of Financial Position.

² Excludes statutory payables and deferred income/unearned revenue and therefore differ from the amounts shown in the Statement of Financial Position.

³ The amounts disclosed is the worst case scenario being the maximum amount of the guarantees being allocated to the earliest period in which the guarantees could be called. It is unlikely that the actual liabilities will arise. These guarantees are recognised in the Statement of Financial Position at \$8.0 million (2014: \$9.8 million).

⁴ Total differs from the Statement of Financial Position mainly due to guarantees being measured on a worst case scenario.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

12. FINANCIAL INSTRUMENTS (continued)

Fair value

Financial instruments are generally recognised at cost, with the exception of the TCorp Hour-Glass facilities and the derivative forward contracts, which are measured at fair value. The value of the Hour-Glass Investments is based on the Crown Entity's share of the value of the underlying assets of the facility, based on the market value. All of the Hour Glass facilities are valued using 'redemption' pricing. The fair value of the derivative contracts is calculated by reference to the underlying value of the equity, determined by the discounted cash flow method.

Except where specified below, the amortised cost of financial instruments recognised in the Statement of Financial Position approximates the fair value, because of the short-term nature of many of the financial instruments. Financial instruments carried at fair value, or in the case of financial guarantees where fair value cannot be reliably measured, are not shown in the table below.

The following table details the financial instruments where the fair value differs from the carrying amount:

a) Fair value compared to carrying amount

	Carrying amount \$'000	2015 Fair value \$'000	Fair value level	2014 Carrying amount \$'000	Fair value \$'000
Financial assets					
Co-operative advances	19,598	20,621	Level 2	27,998	29,311
Unrecognised profit	1,023	-		1,313	-
Total	20,621	20,621		29,311	29,311
Financial liabilities					
TCorp borrowings	26,808,688	30,151,761	Level 2	25,756,222	28,448,403
Commonwealth general purpose borrowings	7,924	7,924	Level 2	7,925	7,925
Unrecognised loss	3,343,073	-		2,692,181	-
Total	30,159,685	30,159,685		28,456,328	28,456,328

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

12. FINANCIAL INSTRUMENTS (continued)

b) Fair value recognised in the statement of financial position

The Crown Entity uses the following hierarchy for disclosing the fair value of financial instruments by valuation technique:

- Level 1 – derived from quoted prices in active markets for identical assets/liabilities
- Level 2 – derived from inputs other than quoted prices that are observable directly or indirectly
- Level 3 – derived from valuation techniques that include inputs for the asset/liability not based on observable market data (unobservable inputs)

The following table presents the Crown Entity assets measured and recognised at fair value as at 30 June:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2014-15				
Financial assets at fair value				
Other	-	162	-	162
Derivative financial instruments	-	-	23,100	23,100
	-	162	23,100	23,262
2013-14				
Tcorp Hour-Glass investment facilities	-	3,011	-	3,011
Other	-	241	-	241
Derivative financial instruments	-	-	21,849	21,849
	-	3,252	21,849	25,101

The Crown Entity values its investments in accordance with the accounting policies set out in Note 2 to the financial statements. The fair values of level 3 derivatives that are not traded in an active market are determined using valuation techniques. These techniques include referencing current fair values of substantially similar instruments, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Crown holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors that may arise.

The main level 3 inputs used by the Crown are derived and evaluated as follows:

- Discount rate used for the valuation is a market based leveraged cost of equity. An increase/(decrease) of (+/-50 basis points (bps)) would increase/(decrease) the fair value of the derivative by \$5.5 million.
- Credit Margin assumptions are based on an equally weighted average of historically observed and currently observed BBB corporate bond margins. The inputs range from 180 bps to 230 bps.

Changes in level 2 and 3 fair values are analysed at each reporting date.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

12. FINANCIAL INSTRUMENTS (continued)

Reconciliation of level 3 fair value measurements

	Derivative forward contracts \$'000
Opening balance at 1 July 2014	21,849
Total gains or losses	
- net result for the year (in gain from financial instrument)	<u>1,251</u>
Closing balance at 30 June 2015	<u>23,100</u>
Opening balance at 1 July 2013	13,087
Total gains or losses	
- net result for the year (in gain from financial instrument)	<u>8,762</u>
Closing balance at 30 June 2014	<u>21,849</u>

There were no transfers between the levels during the year ended 30 June 2015 (2014: Nil).

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

13. UNFUNDED SUPERANNUATION LIABILITY

The Crown Entity's total unfunded superannuation liability is made up of the financial assets and liabilities of the following schemes:

Scheme	Coverage	Scheme Type	Benefit Type
State Superannuation Scheme (SSS)	Closed to new entrants in 1985	The entire benefit is defined by final salary and service and is not separated into employer and employee financed components	Indexed pension or lump sum
Police Superannuation Scheme (PSS)	Closed to new entrants in 1988	As for SSS	Indexed pension, or lump sums available from 1 April 1988.
Parliamentary Contributory Superannuation Scheme (PCSS)	Closed to new entrants from March 2007 onwards.	As for SSS	Indexed pension or partial indexed pension plus partial lump sum
State Authorities Superannuation Scheme (SASS)	Closed to new entrants on 18 December 1992	Hybrid scheme – employer financed benefit is defined as a proportion of final or final average salary – employee financed benefit is an accumulation of employees' contributions plus earnings	Lump sum; some indexed pensions available to members of schemes amalgamated to form SASS
Judges Pension Scheme (JPS)	Compulsory for members of the judiciary	Benefit is defined in terms of final salary and is employer financed.	Indexed pension
State Authorities Non-contributory Superannuation Scheme (Basic Benefit) (SANCS)	Closed to new entrants on 18 December 1992	Totally employer financed: three percent of final or final average salary for each year of service as from 1 April 1988	Lump sum

SAS Trustee Corporation (STC) engaged an independent actuary, Mercer, to calculate the unfunded liabilities of State public sector superannuation schemes.

The Pooled Fund consists of SSS, PSS, SASS and SANCS.

Actuaries calculated unfunded superannuation liabilities at 30 June 2015 using:

- latest available scheme membership data
- demographic assumptions of the 2012 Triennial Valuation of the State Super Fund Superannuation Schemes
- an additional allowance for staff reductions
- Australian Accounting Standard AASB 119 applying to employee benefits as at 30 June 2015.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

Regulatory framework

The schemes in the Pooled Fund are established and governed by the following NSW legislation: *Superannuation Act 1916, State Authorities Superannuation Act 1987, Police Regulation (Superannuation) Act 1906, State Authorities Non-Contributory Superannuation Scheme Act 1987*, and their associated regulations.

These schemes are exempt public sector superannuation schemes under the *Commonwealth Superannuation Industry (Supervision) Act 1993 (SIS)*. The SIS Legislation treats exempt public sector superannuation funds as complying funds for concessional taxation and superannuation guarantee purposes.

Under a Heads of Government Agreement, the NSW Government undertakes to ensure that the Pooled Fund will conform with the principles of the Commonwealth's retirement incomes policy relating to preservation, vesting and reporting to members and that members' benefits are adequately protected.

The NSW Government prudentially monitors and audits the Pooled Fund and the Trustee Board activities in a manner consistent with the prudential controls of the SIS legislation. These provisions are in addition to other legislative obligations on the Trustee Board and internal processes that monitor the Trustee Board's adherence to the principles of the Commonwealth's retirement incomes policy.

An actuarial investigation of the Pooled Fund is performed every three years. The last actuarial investigation was performed as at 30 June 2012. The next actuarial investigation is due as at 30 June 2015 and the report is expected to be released by the end of 2015.

PCSS is established and governed by the Parliamentary Contributory Superannuation Act 1971, and its associated regulations. PCSS is an exempt public sector superannuation scheme under the Commonwealth Superannuation Industry (Supervision) Act 1993 (SIS). The SIS Legislation treats exempt public sector superannuation funds as complying funds for concessional taxation and superannuation guarantee purposes.

Under a Heads of Government agreement, the New South Wales Government undertakes to ensure that the PCSS will conform with the principles of the Commonwealth's retirement incomes policy relating to preservation, vesting and reporting to members and that members' benefits are adequately protected.

The New South Wales Government prudentially monitors and audits the PCSS activities in a manner consistent with the prudential controls of the SIS legislation.

The Judges Pension Scheme (JPS) is established and governed by Judges' Pensions Act 1953 No 41 (as amended to 19 May 2010).

Actuarial investigations of the PCSS and JPS are performed every three years. The last actuarial investigations were performed as at 30 June 2014 for PCSS and 30 June 2014 for JPS.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

Governance

The Fund's Trustee is responsible for the governance of the Fund. The Trustee has a legal obligation to act solely in the best interests of fund beneficiaries. The Trustee has the following roles:

- Administration of the Fund and payment to the beneficiaries from Fund assets when required in accordance with the Fund rules;
- Management and investment of the Fund assets; and
- Compliance with other applicable regulations.

The Trust monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cash-flows to manage liquidity requirements.

Risks

There are a number of risks to which the Fund exposes the Employer. The more significant risks relating to the defined benefits are:

- Investment risk: the risk that investment returns will be lower than assumed and the Employer will need to increase contributions to offset this shortfall.
- Longevity risk: the risk that pensioners live longer than assumed, increasing future pensions.
- Pension indexation risk: the risk that pensions will increase at a rate greater than assumed, increasing future pensions.
- Salary growth risk: the risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- Legislative risk: the risk is that legislative changes could be made which increase the cost of providing the defined benefits.

The defined benefit Fund assets are invested with independent Fund managers and have a diversified asset mix. The Fund has no significant concentration of investment risk or liquidity risk.

There were no Fund amendments, curtailments or settlements during the year.

There are no assets in JPS.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

The following figures are 2015 actual

Member numbers

	SASS	SANCS	SSS	PSS	JPS	PCSS
Contributors	21,282	28,241	5,703	1,255	124	29
Deferred benefits	10,393	11,973	1,175	72	-	2
Pensioners	2,883	-	41,445	6,572	233	289
Pensions fully commuted	-	-	12,992	-	-	-

Superannuation position for AASB 119 *Employee Benefits*

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2014-15 \$'000
Accrued liability ¹	13,208,742	2,444,299	50,338,911	15,834,563	1,024,247	757,300	83,608,062
Estimated reserve account balance	(9,394,117)	(1,615,771)	(17,672,891)	(4,626,700)	-	(283,300)	(33,592,779)
Surplus/(deficit)	3,814,625	828,528	32,666,020	11,207,863	1,024,247	474,000	50,015,283
Future service liability ²	1,464,626	644,917	479,900	75,689	-	-	2,665,132
Net liability to be disclosed in the Statement of Financial Position	3,814,625	828,528	32,666,020	11,207,863	1,024,247	474,000	50,015,283
Current							1,422,286
Non-current							48,592,997
Total							50,015,283

¹ The accrued liability includes a contribution tax provision. This is calculated based on grossing up the deficit/(surplus) less the allowance for past service expenses and insurable death and disability liabilities at a contribution tax rate of 15 per cent. The accrued liability projection for the Pooled Fund and PCSS is projected from 2015 data, whereas the accrued liability projection for JPS is projected from 2014 data.

² The Future Service Liability (FSL) does not have to be recognised by an employer. It is only used to determine if an asset ceiling limit should be imposed (AASB 119 para 64). Under AASB 119, any prepaid superannuation asset recognised cannot exceed the present value of any economic benefits that may be available in the form of refunds from the plan or reductions in future contributions to the plan. Where the "surplus in excess of recovery" is zero, no asset ceiling limit is imposed. (Note: this also includes a contribution tax provision).

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

Reconciliation of the net defined benefit obligation

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2014-15 \$'000
<i>Present value at 1/7/14</i>	3,737,864	892,676	29,663,968	10,152,826	981,897	435,200	45,864,431
Transfers in/(out) due to business combinations and disposals	15,619	2,182	158,323	-	-	-	176,124
Current service cost	332,573	117,752	135,982	65,433	34,508	1,600	687,848
Net interest	126,565	29,813	1,047,232	358,874	34,310	15,300	1,612,094
Actual return on fund assets less interest income	(754,931)	(136,465)	(1,341,519)	(342,845)	-	(25,500)	(2,601,260)
Actuarial losses arising from changes in demographic assumptions	(5,253)	(576)	3,300	-	29,558	1,600	28,629
Actuarial (gains)/losses arising from changes in financial assumptions	334,788	73,971	3,902,382	1,455,047	(24,534)	59,800	5,801,454
Actuarial (gains)/losses arising from liability experience	412,671	(35,686)	(267,292)	(280,807)	13,051	1,300	(156,763)
Adjustment for effect of asset ceiling	-	-	-	-	-	-	-
Employer contribution	(385,270)	(115,139)	(636,356)	(200,665)	(44,543)	(15,300)	(1,397,273)
<i>Present value at 30/6/15</i>	3,814,625	828,528	32,666,020	11,207,863	1,024,247	474,000	50,015,283

Reconciliation of the fair value of fund assets

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2014-15 \$'000
<i>Fair value at 1/7/14</i>	8,816,223	1,569,504	16,511,445	4,338,014	-	257,700	31,492,886
Transfers in/(out) due to business combinations and disposals	6,982	587	216,211	-	-	-	223,780
Interest income	305,609	54,767	569,828	150,122	-	9,000	1,089,326
Actual return on Fund assets less interest income	754,931	136,465	1,341,519	342,845	-	25,500	2,601,260
Employer contributions	385,270	115,139	636,356	200,665	44,543	15,300	1,397,273
Contributions by participants	137,171	-	90,810	9,207	-	900	238,088
Benefits paid	(956,067)	(272,395)	(1,804,732)	(461,980)	(44,543)	(24,800)	(3,564,517)
Taxes, premiums & expenses	(56,002)	11,704	111,454	47,827	-	(300)	114,683
<i>Fair value at 30/6/15</i>	9,394,117	1,615,771	17,672,891	4,626,700	-	283,300	33,592,779

Reconciliation of the defined benefit obligation

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2014-15 \$'000
<i>Present value at 1/7/14</i>	12,554,086	2,462,180	46,175,413	14,490,840	981,897	692,900	77,357,316
Transfers in/(out) due to business combinations and disposals	22,601	2,769	374,534	-	-	-	399,904
Current service cost	332,573	117,752	135,982	65,433	34,508	1,600	687,848
Interest cost	432,174	84,580	1,617,060	508,996	34,310	24,300	2,701,420
Contributions by participants	137,171	-	90,810	9,207	-	900	238,088
Actuarial losses arising from changes in demographic assumptions	(5,253)	(576)	3,300	-	29,558	1,600	28,629
Actuarial (gains)/losses arising from changes in financial assumptions	334,788	73,971	3,902,382	1,455,047	(24,534)	59,800	5,801,454
Actuarial (gains)/losses arising from liability experience	412,671	(35,686)	(267,292)	(280,807)	13,051	1,300	(156,763)
Benefits paid	(956,067)	(272,395)	(1,804,732)	(461,980)	(44,543)	(24,800)	(3,564,517)
Taxes, premiums & expenses	(56,002)	11,704	111,454	47,827	-	(300)	114,683
<i>Present value at 30/6/15</i>	13,208,742	2,444,299	50,338,911	15,834,563	1,024,247	757,300	83,608,062

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

Reconciliation of the effect of the asset ceiling

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2014-15 \$'000
Adjustment for effect of asset ceiling at beginning of the year	-	-	-	-	-	-	-
Change in the effect of asset ceiling	-	-	-	-	-	-	-
Adjustment for effect of asset ceiling at end of the year	-	-	-	-	-	-	-

The adjustment for the effect of asset ceiling has been determined based on the maximum economic benefit available to the entity in the form of reductions in future employer contributions.

Fair value of Fund assets

All Pooled Fund assets are invested by STC at arm's length through independent Fund managers, assets are not separately invested for each entity and it is not possible or appropriate to disaggregate and attribute Fund assets to individual entities. The disclosures below relate to total assets of the Pooled Fund.

Asset category ¹	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total 2014-15 \$'000	% of total
Short Term Securities	95,603	2,545,913	-	2,641,516	6.5%
Australian Fixed Interest	958	2,638,759	16,881	2,656,598	6.6%
International Fixed Interest	(110)	1,003,959	-	1,003,849	2.5%
Australian Equities	9,898,541	503,999	4,400	10,406,940	25.7%
International Equities	9,963,287	2,585,150	563,044	13,111,481	32.4%
Property	948,421	718,406	1,785,782	3,452,609	8.6%
Alternatives	622,102	3,020,225	3,527,860	7,170,187	17.7%
Total²	21,528,802	13,016,411	5,897,967	40,443,180	100%

¹ The following hierarchy is used for disclosing the asset categories:

- Level 1: quoted prices in active markets for identical assets or liabilities. The assets in this levels are listed shares; listed unit trusts
- Level 2: inputs other than quoted prices observable for the asset or liability either directly or indirectly. The assets in this level are cash; notes; government, semi-government and corporate bonds; unlisted trusts where quoted prices are available in active markets for identical assets or liabilities
- Level 3: inputs for the asset or liability not based on observable market data (unobservable inputs). The assets in this level are unlisted property; unlisted shares; unlisted infrastructure; distressed debt; hedge funds.

Derivatives, including futures and options, can be used by investment managers. However, each manager's investment mandate clearly states that derivatives may only be used to facilitate efficient cash flow management or to hedge the portfolio against market movements and cannot be used for speculative purposes or gearing of the investment portfolio. As such, managers make limited use of derivatives.

² Additional to the assets disclosed above, at 30 June 2015 the Pooled Fund has provisions for receivables/(payables) estimated to be around \$1.74 billion (2014: \$2.2 billion). This gives total estimated assets of \$42.2 billion (2014: \$40.2 billion).

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

The fair value of the Pooled Fund assets included \$209.2 million (2014: \$173.9 million) in NSW government bonds as at 30 June 2015.

Of the direct properties owned by the Pooled Fund:

- Government Property of NSW occupies part of a property owned by the Pooled Fund with a fair value of \$159 million (2014: \$153 million).
- NSW Ambulance occupies part of a property 50 per cent owned by the Pooled Fund with a fair value of \$204 million (2014: 205 million).

Significant actuarial assumptions at the reporting date

	Pooled Fund	PCSS	JPS
Discount rate	3.03% pa		
Salary increase rate (excluding promotional increases)	2.50% in 2015-16 to 2018-19; 3.50% in 2019-20 and 2020-21; 3.00% in 2021-22 to 2025-26; 3.50% thereafter		2.50% pa
Rate of CPI increase	2.50% in 2015-16; 2.75% in 2016-17 and 2017-18; 2.50% thereafter	N/A	
Pensioner mortality	Pooled Fund: The pensioner mortality assumptions are as per the 2012 Triennial Actuarial Investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report available from the State Super trustee's website. The report shows the pension mortality rates for each age. PCSS & JPS: as per 2014 triennial actuarial valuation		

Sensitivity analysis

The total defined benefit obligation as at 30 June 2015 under several scenarios is presented below. The total defined benefit obligation disclosed is inclusive of the contribution tax provision which is calculated based on the asset level at 30 June 2015.

Scenarios A to F relate to sensitivity of the total defined benefit obligation to economic assumptions, and scenarios G and H relate to sensitivity to demographic assumptions.

Pooled Fund	Base Case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate
Discount rate	3.03%	2.03%	4.03%
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above	as above
Defined benefit obligation (\$'000)	81,826,517	94,041,956	72,015,548
	Base Case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase
Discount rate	as above	as above	as above
Rate of CPI increase	as above	as above rate plus 0.5%	as above rate less 0.5%
Salary inflation rate	as above	as above	as above
Defined benefit obligation (\$'000)	81,826,517	87,098,756	77,055,993

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

Pooled Fund	Base Case	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
	Discount rate	as above	as above
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above rate plus 0.5%	as above rate less 0.5%
Defined benefit obligation (\$'000)	81,826,517	82,341,371	81,329,672
	Base Case	Scenario G +5% pensioner mortality rates	Scenario H -5% pensioner mortality rates
Defined benefit obligation (\$'000)	81,826,517	80,981,618	82,720,682

Scenarios A to D relate to sensitivity of the total defined benefit obligation to economic assumptions, and scenarios E and F relate to sensitivity to demographic assumptions.

	PCSS			JPS		
	Base Case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate	Base Case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate
Discount rate	3.03%	2.03%	4.03%	3.03%	2.03%	4.03%
Rate of CPI increase	N/A	N/A	N/A	N/A	N/A	N/A
Salary inflation rate	as above	as above	as above	as above	as above	as above
Defined benefit obligation (\$'000)	757,300	902,000	645,000	1,024,247	1,174,510	902,223
	Base Case	Scenario C +0.5% salary increase rate	Scenario D -0.5% salary increase rate	Base Case	Scenario C +0.5% salary increase rate	Scenario D -0.5% salary increase rate
Discount rate	as above	as above	as above	as above	as above	as above
Rate of CPI increase	N/A	N/A	N/A	N/A	N/A	N/A
Salary inflation rate	as above	as above rate plus 0.5%	as above rate less 0.5%	as above	as above rate plus 0.5%	as above rate less 0.5%
Defined benefit obligation (\$'000)	757,300	829,000	693,000	1,024,247	1,100,839	954,766
	Base Case	Scenario E +10% pensioner mortality rates	Scenario F -10% pensioner mortality rates	Base Case	Scenario E +10% pensioner mortality rates	Scenario F -10% pensioner mortality rates
Defined benefit obligation (\$'000)	757,300	731,000	785,000	1,024,247	988,676	1,061,711

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

Funding arrangements

Funding arrangements for the Pooled Fund are generally reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at 30 June 2012. Contribution rates are set after discussions between the employer, STC and NSW Treasury.

The next triennial review as at 30 June 2015, the report is expected to be released by the end of 2015.

Funding arrangements for PCSS are reviewed around every three years and were last reviewed in 2014. Contribution rates are set after discussions between the actuary and NSW Treasury.

For the Pooled Fund and PCSS, funding positions are reviewed annually and funding arrangements may be adjusted if required.

JPS is run as a pay-as-you-go scheme, with long-term funding towards full funding by 2030 provided through the Liability Management Ministerial Corporation.

The following is a summary of the 30 June 2015 financial position of the Fund calculated in accordance with AAS 25 *Financial Reporting by Superannuation Plans*.

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2014-15 \$'000
Accrued benefits ¹	10,946,868	1,951,693	25,287,733	7,034,030	601,382	377,400	46,199,106
Net market value of Fund assets	(9,394,117)	(1,615,771)	(17,672,891)	(4,626,700)	-	(283,300)	(33,592,779)
Net deficit	<u>1,552,751</u>	<u>335,922</u>	<u>7,614,842</u>	<u>2,407,330</u>	<u>601,382</u>	<u>94,100</u>	<u>12,606,327</u>

¹ There is no allowance for a contribution tax provision within the accrued benefits figure for AAS 25.

Allowance for contributions tax is made when setting the contribution rates.

Contribution recommendations

SASS multiple of member contributions	SANCS % member salary	SSS multiple of member contributions	PSS % member salary	JPS % member salary	PCSS multiple of member contributions
N/A	N/A	N/A	N/A	N/A	N/A

Economic assumptions

Weighted-Average Assumptions	Pooled Fund 30/06/15 %	JPS 30/06/15 %	PCSS 30/06/15 %
Expected rate of return on Fund assets backing current pension liabilities	8.3 % pa	7.11 % pa	7.8 % pa
Expected rate of return on Fund assets backing other liabilities	7.3 % pa	N/A	N/A
Expected salary increase rate (excluding promotional salary increases)	SASS, SANCS, SSS 2.7% pa (PSS 3.5% pa) to 30 June 2018, then 4.0% pa thereafter		2.5% pa for the first 4 years; 3.5% pa thereafter
Expected rate of CPI increase	2.5%	N/A	N/A

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

Contribution recommendations

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000
Expected employer contributions - financial year to 30 June 2016	N/A	N/A	N/A	N/A	45,712	16,000

The weighted average duration is:

- 13.1 years for the Pooled Fund defined benefit obligation,
- 13.6 years for JPS; and
- 16 years for PCSS.

Profit or loss impact

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2014-15 \$'000
Current service cost	332,573	117,752	135,982	65,433	34,508	1,600	687,849
Net interest	126,565	29,813	1,047,232	358,874	34,310	15,300	1,612,094
Defined benefit cost	459,138	147,565	1,183,214	424,307	68,818	16,900	2,299,943

Other comprehensive income

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2014-15 \$'000
Actuarial (gains)/losses on liabilities	742,205	37,709	3,638,389	1,174,240	18,075	62,700	5,673,318
Actual return on Fund assets less Interest income	(754,931)	(136,465)	(1,341,519)	(342,845)	-	(25,500)	(2,601,260)
Adjustment for effect of asset ceiling	-	-	-	-	-	-	-
Total remeasurement in Other Comprehensive Income	(12,726)	(98,756)	2,296,870	831,395	18,075	37,200	3,072,058

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

The following figures are 2014 comparatives

Member numbers

	SASS	SANCS	SSS	PSS	JPS	PCSS
Contributors	23,263	31,771	7,146	1,362	142	46
Deferred benefits	10,488	12,109	1,340	84	-	2
Pensioners	2,904	-	40,215	6,579	179	285
Pensions fully commuted	-	-	13,171	-	-	-

Superannuation position for AASB 119 *Employee Benefits*

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2013-14 \$'000
Accrued liability ¹	12,554,086	2,462,180	46,175,413	14,490,840	981,897	692,900	77,357,316
Estimated reserve account balance	(8,816,223)	(1,569,504)	(16,511,444)	(4,338,015)	-	(257,700)	(31,492,886)
	<u>3,737,863</u>	<u>892,676</u>	<u>29,663,969</u>	<u>10,152,825</u>	<u>981,897</u>	<u>435,200</u>	<u>45,864,430</u>
Future service liability ²	<u>1,541,289</u>	<u>836,928</u>	<u>566,730</u>	<u>117,321</u>	<u>-</u>	<u>-</u>	<u>3,062,268</u>
Net liability to be disclosed in the Statement of Financial Position	<u>3,737,863</u>	<u>892,676</u>	<u>29,663,969</u>	<u>10,152,825</u>	<u>981,897</u>	<u>435,200</u>	<u>45,864,430</u>
Current							1,354,835
Non-current							<u>44,509,595</u>
Total							<u>45,864,430</u>

¹ The accrued liability includes a contribution tax provision. This is calculated based on grossing up the deficit less the allowance for past service expenses and insurable death and disability liabilities at a contribution tax rate of 15 per cent.

² The Future Service Liability (FSL) does not have to be recognised by an employer. It is only used to determine if an asset ceiling limit should be imposed (AASB 119 para 64). Under AASB 119, any prepaid superannuation asset recognised cannot exceed the present value of any economic benefits that may be available in the form of refunds from the plan or reductions in future contributions to the plan. Where the "surplus in excess of recovery" is zero, no asset ceiling limit is imposed. (Note: This also includes a contributions tax provision).

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

Reconciliation of the net defined benefit obligation

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2013-14 \$'000
<i>Present value at 1/7/13</i>	3,905,720	1,032,012	28,441,011	9,656,243	968,694	482,923	44,486,603
Net equity transfers	42,133	8,410	167,070	-	-	-	217,613
Current service cost	330,882	117,154	135,291	65,100	34,552	5,279	688,258
Net interest	134,992	34,731	1,075,640	365,415	36,049	18,155	1,664,982
Actual return on Fund assets less interest income	(1,043,309)	(185,408)	(1,491,254)	(388,513)	-	(22,178)	(3,130,662)
Actuarial losses arising from changes in demographic assumptions	34,575	11,293	95,168	-	-	-	141,036
Actuarial gains arising from changes in financial assumptions	341,181	107,464	1,549,311	633,828	(23,813)	(10,500)	2,597,471
Actuarial (gains)/losses arising from liability experience	698,007	3,083	(38,869)	(99,112)	6,501	(22,779)	546,831
Adjustment for effect of asset	-	-	-	-	-	-	-
Employer contribution	(706,317)	(236,063)	(269,400)	(80,135)	(40,086)	(15,700)	(1,347,701)
<i>Present value at 30/6/14</i>	3,737,864	892,676	29,663,968	10,152,826	981,897	435,200	45,864,431

Reconciliation of the fair value of fund assets

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2013-14 \$'000
<i>Present value at 1/7/13</i>	7,597,719	1,306,304	15,534,838	4,147,618	-	236,077	28,822,556
Equity transfers	17,067	3,427	184,007	-	-	-	204,501
Interest income	276,725	48,486	563,139	151,000	-	8,745	1,048,095
Actual return on Fund assets less interest income	1,043,309	185,408	1,491,254	388,513	-	22,178	3,130,662
Employer contributions	706,317	236,063	269,400	80,135	40,086	15,700	1,347,701
Contributions by participants	138,646	-	111,521	9,828	-	1,100	261,095
Benefits paid	(914,506)	(218,311)	(1,766,600)	(475,700)	(40,086)	(26,100)	(3,441,303)
Taxes, premiums & expenses	(49,054)	8,127	123,886	36,620	-	-	119,579
<i>Fair value at 30/6/14</i>	8,816,223	1,569,504	16,511,445	4,338,014	-	257,700	31,492,886

Reconciliation of the defined benefit obligation

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2013-14 \$'000
<i>Present value at 1/7/13</i>	11,503,439	2,338,316	43,975,849	13,803,861	968,694	719,000	73,309,159
Equity transfers	59,200	11,837	351,077	-	-	-	422,114
Current service cost	330,882	117,154	135,291	65,100	34,552	5,279	688,258
Interest cost	411,717	83,217	1,638,779	516,415	36,049	26,900	2,713,077
Contributions by participants	138,645	-	111,521	9,828	-	1,100	261,094
Actuarial losses arising from changes in demographic assumptions	34,575	11,293	95,168	-	-	-	141,036
Actuarial gains arising from changes in financial assumptions	341,181	107,464	1,549,311	633,828	(23,813)	(10,500)	2,597,471
Actuarial (gains)/losses arising from liability experience	698,007	3,083	(38,869)	(99,112)	6,501	(22,779)	546,831
Benefits paid	(914,506)	(218,311)	(1,766,600)	(475,700)	(40,086)	(26,100)	(3,441,303)
Taxes, premiums & expenses	(49,054)	8,127	123,886	36,620	-	-	119,579
<i>Present value at 30/6/14</i>	12,554,086	2,462,180	46,175,413	14,490,840	981,897	692,900	77,357,316

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

Reconciliation of the effect of the asset ceiling

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2013-14 \$'000
Adjustment for effect of asset ceiling at 1/7/13	-	-	-	-	-	-	-
Change in the effect of asset ceiling	-	-	-	-	-	-	-
Adjustment for effect of asset ceiling at 30/6/14	-	-	-	-	-	-	-

Fair value of Fund assets

All Pooled Fund assets are invested by STC at arm's length through independent fund managers, assets are not separately invested for each entity and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities. The disclosures below relate to total assets of the Pooled Fund.

Asset category ¹	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total 2013-14 \$'000
Short Term Securities	1,572,615	880,140	-	2,452,755
Australian Fixed Interest	10,928	2,354,086	-	2,365,014
International Fixed Interest	-	880,529	-	880,529
Australian Equities	11,494,549	241,423	2,664	11,738,636
International Equities	8,172,677	2,780,531	121	10,953,329
Property	894,113	692,296	1,686,577	3,272,986
Alternatives	565,401	4,897,152	866,857	6,329,410
Total²	22,710,283	12,726,157	2,556,219	37,992,659

¹ The following hierarchy is used for disclosing the asset categories:

- Level 1: quoted prices in active markets for identical assets or liabilities. The assets in this levels are listed shares; listed unit trusts
- Level 2: inputs other than quoted prices observable for the asset or liability either directly or indirectly. The assets in this level are notes; government; semi-government and corporate bonds; unlisted trusts where quoted prices are available in active markets for identical assets or liabilities
- Level 3: inputs for the asset or liability not based on observable market data (unobservable inputs). The assets in this level are unlisted property; unlisted shares; unlisted infrastructure; distressed debt; hedge funds.

Derivatives, including futures and options, can be used by investment managers. However, each manager's investment mandate clearly states that derivatives may only be used to facilitate efficient cash flow management or to hedge the portfolio against market movements and cannot be used for speculative purposes or gearing of the investment portfolio. As such, managers make limited use of derivatives.

² Additional to the assets disclosed above, at 30 June 2014 the Pooled Fund has provisions for receivables estimated to be around \$2.2 billion, giving an estimated assets totalling around \$40.2 billion.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

The percentage invested in each asset class at the reporting date is:

	Pooled Fund	PCSS
	30/06/2014	30/06/2014
	%	%
Short term securities	6.5	N/A
Australian fixed interest	6.2	N/A
International fixed interest	2.3	N/A
Australian equities	30.9	N/A
International equities	28.8	N/A
Property	8.6	N/A
Alternatives	16.7	N/A
Total	100.0	

The fair value of the Pooled Fund assets included \$173.9 million in NSW Government bonds as at 30 June 2014.

Significant actuarial assumptions at the reporting date

	Pooled Fund	PCSS	JPS
Discount rate	3.57% pa		
Salary increase rate (excluding promotional increases)	2.27% pa to 30 June 2015, then 2.5% pa to 30 June 2018, 3.0% pa from 1 July 2018 to 30 June 2023, and 3.5% pa thereafter		
Rate of CPI increase	2.5% pa	N/A	
Pensioner mortality	as per the 2012 actuarial investigation of the Pooled Fund	as per the 2011 triennial actuarial valuation of PCSS	as per the 2010 triennial actuarial valuation of JPS

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

Sensitivity analysis

The total defined benefit obligation as at 30 June 2014 under several scenarios is presented below. The total defined benefit obligation disclosed is inclusive of the contribution tax provision which is calculated based on the asset level at 30 June 2014.

Scenarios A to F relate to sensitivity of the total defined benefit obligation to economic assumptions, and scenarios G and H relate to sensitivity to demographic assumptions.

Pooled Fund	Base Case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate
Discount rate	3.57%	2.57%	4.57%
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above	as above
Defined benefit obligation (\$'000)	75,682,520	86,632,436	66,876,186
	Base Case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase
Discount rate	as above	as above	as above
Rate of CPI increase	2.5%	3.0%	2.0%
Salary inflation rate	as above	as above	as above
Defined benefit obligation (\$'000)	75,682,520	80,421,709	71,394,899
	Base Case	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
Discount rate	as above	as above	as above
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	above rates plus 0.5% pa	above rates less 0.5% pa
Defined benefit obligation (\$'000)	75,682,520	76,158,385	75,224,704
	Base Case	Scenario G +5% pensioner mortality rates	Scenario H -5% pensioner mortality rates
Defined benefit obligation (\$'000)	75,682,520	74,975,828	76,430,192

Scenarios A to D relate to sensitivity of the total defined benefit obligation to economic assumptions and scenarios E and F relate to sensitivity to demographic assumptions.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

	PCSS			JPS		
	Base Case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate	Base Case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate
Discount rate	3.57%	2.57%	4.57%	3.57%	2.57%	4.57%
Rate of CPI increase	N/A	N/A	N/A	N/A	N/A	N/A
Salary inflation rate	as above	as above	as above	as above	as above	as above
Defined benefit obligation (\$'000)	692,900	822,000	592,000	981,897	1,133,525	860,044
	Base Case	Scenario C +0.5% salary increase rate	Scenario D -0.5% salary increase rate	Base Case	Scenario C +0.5% salary increase rate	Scenario D -0.5% salary increase rate
Discount rate	as above	as above	as above	as above	as above	as above
Rate of CPI increase	N/A	N/A	N/A	N/A	N/A	N/A
Salary inflation rate	as above	above rates plus 0.5% pa	above rates less 0.5% pa	as above	above rates plus 0.5% pa	above rates less 0.5% pa
Defined benefit obligation (\$'000)	692,900	574,000	639,000	981,897	1,053,522	917,078
	Base Case	Scenario E +5% pensioner mortality rates	Scenario F -5% pensioner mortality rates	Base Case	Scenario E +5% pensioner mortality rates	Scenario F -5% pensioner mortality rates
Defined benefit obligation (\$'000)	692,900	671,000	716,000	981,897	967,169	997,485

The defined benefit obligation has been recalculated by changing the assumptions as outlines above, whilst retaining all other assumptions.

Funding arrangements

Funding arrangements for the Pooled Fund are generally reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at 30 June 2012. Contribution rates are set after discussions between the employer, STC and NSW Treasury.

Funding arrangements for PCSS are reviewed around every three years and were last reviewed in 2011. Contribution rates are set after discussions between the actuary and NSW Treasury.

For the Pooled Fund and PCSS, funding positions are reviewed annually and funding arrangements may be adjusted if required.

JPS is run as a pay-as-you-go scheme, with long-term funding towards full funding by 2030 provided through the Liability Management Ministerial Corporation.

The following is a summary of the 30 June 2014 financial position of the Fund calculated in accordance with AAS 25 *Financial Reporting by Superannuation Plans*.

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2013-14 \$'000
Accrued benefits	10,599,546	2,012,665	24,690,593	7,009,755	552,178	362,865	45,227,602
Net market value of Fund	(8,816,223)	(1,569,504)	(16,511,444)	(4,338,015)	-	(257,700)	(31,492,886)
Net deficit	1,783,323	443,161	8,179,149	2,671,740	552,178	105,165	13,734,716

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

Contribution recommendations

SASS multiple of member contributions	SANCS % member salary	SSS multiple of member contributions	JPS % member salary	PCSS % member salary
N/A	N/A	N/A	N/A	N/A

Economic assumptions

Weighted-Average Assumptions	Pooled Fund 30/06/2014 %	JPS 30/06/2014 %	PCSS 30/06/2014 %
Expected rate of return on Fund assets backing current pension liabilities	8.3% pa	8.1% pa	8.3% pa
Expected rate of return on Fund assets backing other liabilities	7.3% pa	N/A	N/A
Expected salary increase rate (excluding promotional salary increases)	SASS, SANCS, SSS 2.7% pa (PSS 3.5% pa) to 30 June 2018, then 4.0% pa thereafter		
Expected rate of CPI increase	2.5% pa	3.5% pa N/A	3.5% pa N/A

Contribution recommendations

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000
Expected employer contributions	N/A	N/A	N/A	N/A	41,667	15,000

The weight average duration for the Pooled Fund defined benefit obligation is 13.6 years, 12 years for JPS and 16 years for PCSS.

Profit or loss impact

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2013-14 \$'000
Current service cost	330,882	117,154	135,291	65,100	34,552	5,279	688,258
Net interest	134,992	34,731	1,075,640	365,415	36,049	18,155	1,664,982
Defined benefit cost	465,874	151,885	1,210,931	430,515	70,601	23,434	2,353,240

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

Other comprehensive income

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2013-14 \$'000
Actuarial (gains)/losses on liabilities	1,073,763	121,840	1,605,610	534,716	(17,312)	(33,279)	3,285,338
Actual return on Fund assets less interest income	(1,043,309)	(185,408)	(1,491,254)	(388,513)	-	(22,178)	(3,130,662)
Adjustment for effect of asset ceiling	-	-	-	-	-	-	-
Total remeasurement in Other Comprehensive Income	30,454	(63,568)	114,356	146,203	(17,312)	(55,457)	154,676

14. EMPLOYEE BENEFITS AND OTHER PROVISIONS

	2015 \$'000	2014 \$'000
Current	6,648,098	6,223,310
Non-current	570,528	322,762
Total employee benefits and other provisions	7,218,626	6,546,072

Long Service Leave (LSL)

Although Treasury considers the methodology, analysis and assumptions adopted to calculate these liabilities are appropriate given the data available, estimates of future costs are always inherently uncertain. Therefore differences between the ultimate costs and estimates should be regarded as normal and expected.

Valuation methodology

An assessment of present value of accrued liabilities has been considered by an independent actuary as at the reporting date.

For each future year the amounts of entitlements expected to be paid in service and on termination of employment have been determined by making a projection of each employee based on their current salary and LSL balance, assumed rates of taking LSL in service, rates of death, disablement, retirement, and resignation, and rates of salary escalation. The resulting cash flows have then been converted to a present value by discounting at the reporting date based on the ten year Commonwealth government bond rate as at 30 June.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

14. EMPLOYEE BENEFITS AND OTHER PROVISIONS (continued)

	2015 \$'000	2014 \$'000
a) Long service leave		
Current		
General Government Sector agencies assumed by the Crown, excluding NSW Health	4,215,409	4,000,840
NSW Health	2,263,835	2,048,417
Crown long service leave pool	81,834	83,222
	6,561,078	6,132,479
Non-current		
General Government Sector agencies assumed by the Crown, excluding NSW Health	366,557	210,571
NSW Health	196,855	107,811
Crown long service leave pool	7,116	4,380
	570,528	322,762
b) Other leave benefits		
Current		
Other leave benefits	87,020	90,831
	87,020	90,831
Total employee benefits and other provisions	7,218,626	6,546,072

The expected payment within the next twelve months for General Government Sector agencies' long service leave is \$510 million (2014: \$539 million), for NSW Health is \$240 million (2014: \$241 million) and for the Crown long service leave pool is \$10.9 million (2014: \$13 million).

Movement in major provisions:

	General government sector agencies long service leave (excl. NSW Health) \$'000	NSW Health long service leave \$'000	Crown long service leave pool \$'000	Other leave benefits \$'000	TOTAL \$'000
Balance as at 1 July 2014	4,211,411	2,156,228	87,602	90,831	6,546,072
Add: increase/(decrease) in liability during the year	686,959	414,903	8,826	(3,811)	1,106,877
Add: interest costs	149,477	78,033	3,069	-	230,579
Add/(less): transfer in from other NSW government agency	5,967	157	(279)	-	5,845
Less: cash payments	(471,848)	(188,631)	(10,268)	-	(670,747)
Balance as at 30 June 2015	4,581,966	2,460,690	88,950	87,020	7,218,626
Balance as at 1 July 2013	3,849,695	1,943,343	86,299	87,293	5,966,630
Add: increase in liability during the year	613,544	309,640	9,562	3,538	936,284
Add: interest costs	147,026	75,661	3,228	-	225,915
Add: transfer in from other NSW government agency	95,985	1,604	(1,058)	-	96,531
Less: cash payments	(494,839)	(174,020)	(10,429)	-	(679,288)
Balance as at 30 June 2014	4,211,411	2,156,228	87,602	90,831	6,546,072

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

15. PROVISIONS

	2015 \$'000	2014 \$'000
Current	65,345	97,317
Non-current	1,373,235	1,016,029
Total provisions	1,438,580	1,113,346
Balance as at 1 July	1,113,346	696,910
Less: payments	(40,149)	(21,983)
Less: write back	-	(9,268)
Add: new provisions	389,635	535,095
Actuarial (gains)/losses	(74,792)	(116,995)
Interest costs	50,540	29,587
Balance as at 30 June	1,438,580	1,113,346

a) Outstanding building insurance claims

In 2002, reinsurers of builders warranty insurance ceased to provide cover to the insurers of builders and building works. To protect consumers and maintain stability in the building industry, the State Government intervened and agreed to provide reinsurance protection to private insurers at the time. This arrangement is no longer in place. Home Warranty Insurance Fund now provides insurance policies to the building industry from 1 July 2010. The run-off reinsurance liabilities are held by the Crown. The outstanding claims provisions are assessed annually by an actuary.

b) Land remediation

In July 2009 the Government Property NSW (GPNSW), previously State Property Authority, sold various parcels of the Newcastle landholdings (including two parcels of un-remediated land at Mayfield and Koorangang Island) to the Newcastle Port Corporation (NPC). As part of the transfer arrangements, the NSW Treasurer executed a Deed of Indemnity on behalf of the Crown which indemnified the NPC from liability from any contamination on the lands.

Pursuant to the *2002 Environmental Deed: Amendment and Acknowledgement Deed* (executed in January 2013) and following the final title transfer of the land parcels to the NPC, GPNSW equity transferred to the Crown Entity the land remediation provisions in July 2013.

During 2014-15, as part of the sale agreement of Delta Electricity's Western assets, the State must bear part of the cost of decommission and demolishing Wallerawang power station where the total net cost of the demolition exceeds \$10 million. EnergyAustralia will be responsible for the initial \$10 million. The Crown Entity has raised a provision of \$30m for this liability.

c) Universities superannuation

The State and the Commonwealth have come to an interim agreement to provide funding support for the unfunded defined benefit superannuation liabilities of NSW Universities who are members of the State Super's defined benefit schemes (SASS, SANCS and SSS). The amount of provision was actuarially assessed by Mercer Actuarial Consulting.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

15. PROVISIONS (continued)

d) Loose-fill asbestos

On 29 June 2015 the State Government announced a voluntary purchase and demolition program for all NSW residential property owners with positive results for loose-fill asbestos insulation. The voluntary purchase/demolition program will offer eligible homeowners a choice of actions:

- i. The State Government purchase of premises and land, or
- ii. The State Government purchase of the premises only.

A Loose-Fill Asbestos Implementation Taskforce (LFAI), managed by NSW Fair Trading, will be established to oversee and implement the program. The LFAI will be in place until all properties registered by 1 August 2016 have been demolished and soil remediated under the scheme.

The Crown Entity has raised a provision of \$279m for this initiative.

e) NSW Policy Holder Protection Fund

As at 30 June 2015, the amount of funds held by the NSW Policy Holder Protection Fund was in excess to the outstanding claims liabilities. Pursuant to the *Insurance Protection Tax Act 2001*, these excess amounts must be refunded to the insurers.

The Crown Entity has raised a provision of \$32m for this liability.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

16. COMMITMENTS FOR EXPENDITURE

State Contingent Funding Support Facility

The Treasurer of NSW, for an on behalf of the Crown Entity, has agreed to provide a \$1.991 billion State Contingent Support Facility to WCX M4 Pty Limited (WCX) in relation to Stage 1 of the WestConnex project.

The Facility will provide further liquidity to WCX and will only be utilised where necessary to enable the payment of project costs in circumstances where WCX is unable to raise external debt.

The facility will be available from January 2017 until the earlier of:

- a. The senior debt completion date;
- b. The date on which the Project Deed terminates; and
- c. 31 December 2017 (or such later date as may be agreed in writing between the parties).

17. CONTINGENT LIABILITIES

Snowy Hydro Limited

On 28 June 2002, the Commonwealth's Snowy Mountain Hydro-electric Authority became a new public company, Snowy Hydro Limited (SHL). This company is owned by NSW, Victoria and the Commonwealth. NSW holds 58 per cent of the issued shares in SHL (all of which are fully paid up) and it has entered into guarantees, indemnities and deeds as part of the agreements leading to the corporatisation of the Snowy Scheme.

It is not possible to estimate the amount of exposure at this time for the following situations:

- Under the Snowy Compensation Deed, if any variation to, or revocation of, the Snowy Water Licence by the Water Administration Ministerial Corporation of NSW (which has not been agreed to by SHL) has an adverse financial impact on SHL, the company will receive that corresponding amount in compensation from NSW under a compensation deed. Recent amendments to the Snowy Water Licence were agreed to by SHL and are not expected to have an adverse financial impact on SHL. No major amendments to the Snowy Licence are currently proposed. The Snowy Water Licence expires on the 75th anniversary of the Corporatisation date (June 2077) or if revoked earlier. The compensation deed terminates on the expiry or revocation of the Snowy Water Licence.
- Under the Snowy Scheme Deed of Indemnity, if a release by SHL of 'Snowy River Increased Flows' (environmental flows or a 'Flushing Flow' under an instruction from the Water Administration Ministerial Corporation) causes spills or downstream damage, the Crown Entity will compensate SHL for the proportion of claims it incurs, to the extent of its share of the cost. No claims currently exist. The risk of exposure is expected to be low. This indemnity lasts while the Snowy Water Licence is in place.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

17. CONTINGENT LIABILITIES (continued)

Snowy Hydro Limited (continued)

In addition, with its 58 per cent investment in SHL, the Crown Entity assumes the responsibility for this portion of SHL's reported contingent liabilities as detailed below:

SHL is involved in various legal proceedings arising out of the normal course of business. The Directors believe that the outcome of these proceedings will not have a material impact on SHL's financial position or results of operations. As at the reporting date, SHL has the following contingent liabilities:

1. SHL has entered into a number of bank guarantees in relation to operating within the national electricity market and for rental properties in Sydney and Melbourne to the value of \$58.4 million (2014: \$36.4 million).
2. Liability for Former Scheme Sites has been extinguished except to the extent of any contaminated former sites. The contaminated sites are being rehabilitated as they are identified. SHL does not believe that the contingent liability on any sites identified in the future would be material.

Sale of Pacific Power International

As a condition of the Pacific Power International sale, the State Government must compensate the trustee of the Energy Industry Superannuation Scheme (EISS) funds for a shortfall of assets in the reserves of the fund relating to the transfer of defined benefit scheme membership to Aurecon, previously Connell Wagner Pty Ltd.

The compensation payment amount would be the lower of:

- the actual shortfall between fund assets and fund liabilities
- the potential shortfall if anticipated investment returns (4.5 per cent a year - excluding CPI) had not been realised

At 30 June 2015, the net market value of fund assets was \$4.9 million less (2014: \$4.3 million less) than the estimated value of liabilities (accrued benefits under AAS 25).

The unfunded liability is different from both the actual fund shortfall and the investment return shortfall. Based on estimates provided for the 2012 EISS triennial review, the actual fund shortfall as at 30 June 2012 was \$8.2 million, and the investment return shortfall was \$2.9 million. As the payment amount is the lower of the amounts, the compensation payment amount would be \$2.9 million. The next review will be performed in 2015.

Any amount paid would depend on future earnings and other cash flows in the reserves of the fund. There would not be a liability unless a payment is required on the occurrence of one of the following events:

- Aurecon ceases to be an employer in the fund
- the last benefit was paid
- the relevant assets were exhausted

The liability would arise at the earliest of these events. There would only be one payment.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

17. CONTINGENT LIABILITIES (continued)

NSW Treasury Corporation (TCorp)

TCorp has issued unconditional payment undertakings on behalf of some government authorities in the national wholesale electricity market to pay to the system administrator, the Australian Energy Market Operator (AEMO), on demand in writing any amount up to an aggregate maximum agreed with individual participants.

At the reporting date, the amounts of these undertakings were as follows:

Market participants	2015 \$m	2014 \$m
National Electricity Market (NEM)	0.03	0.10
Short Term Trading Market (STTM)	-	1.00
	0.03	1.10

TCorp also has undertakings for other government authorities for their performance under contracts with third parties. These amounts are recoverable from the government authority participants. At the reporting date the undertakings were valued at \$146.42 million (2014: \$163.52 million).

Guarantees issued by TCorp

The State Government guaranteed the securities, borrowings and derivative liabilities issued by TCorp with a market value of \$78.0 billion (2014: \$78.2 billion) under the *Public Authorities (Financial Arrangements) Act 1987*.

Interest rate exposure on motor vehicle financing arrangements

The State Government's motor vehicles are financed by an internal arrangement managed by StateFleet and funded by TCorp. The facility is funded through a portfolio of debt with a modified duration of around 3.3 years. There is an interest rate exposure on a principal of \$538 million as at 30 June 2015 (2014: \$531 million).

Unclaimed money

The Crown Entity treats Consolidated Fund unclaimed money receipts as income. However, claims can be legally lodged for several years after the money is paid into the Fund. These future claims are a form of contingent liability and cannot be estimated.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

17. CONTINGENT LIABILITIES (continued)

Contracts with private sector parties

The State Government has guaranteed the obligations and performance of various statutory authorities with private sector party contracts. These are:

- Sydney Harbour Tunnel
- Macarthur Water Filtration Plant
- M2 Motorway
- Olympic Multi-Use Arena
- Olympic Stadium
- Eastern Distributor
- Illawarra and Woronora Water Treatment Plant
- Prospect Water Filtration Plant and Treatment Works
- Cross City Tunnel
- Western Sydney Orbital
- Eastern Creek Alternative Waste Treatment Plant¹
- Lane Cove Tunnel
- Mater Hospital
- Long Bay Prison and Forensic Hospital
- Suburban Rolling Stock
- VISY Mill: Tumut Timber Supply Agreement
- Orange Hospital Redevelopment
- Royal North Shore Hospital Redevelopment
- Sydney International Convention, Exhibition and Entertainment Precinct
- North West Rail Link – Operations, Trains and Systems
- Northern Beaches Hospital
- Sydney Light Rail
- WestConnex Stage 1
- NorthConnex

¹ The Crown Entity holds a guarantee, a contingent asset, which fully offsets this contingent liability.

Defined superannuation benefit guarantee

The State bears the risk of the employer's superannuation guarantee contributions being insufficient to fund the defined employee benefits (in respect of past and future service liabilities) for certain ex-public sector employees following State's decision to sell the businesses. These businesses include Delta West, Eraring and Sydney Ferries.

The State must pay the contribution shortfall on an annual basis and is obliged to make good any employer reserve shortfall upon the insolvency of the employer.

Indemnities have also been provided to the private sector employer in respect of loss suffered, for example, from non-payment of an unfunded amount or tax losses suffered due to payments by the State.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

17. CONTINGENT LIABILITIES (continued)

NSW Energy Industry Reform

The State Government provided a Deed of Indemnity to the directors and designated senior management of some State-owned Corporations (SOC) at the time of the electricity asset transaction. This Deed indemnifies them against claims and liabilities in connection with the Energy Industry Reform transactions (Transaction Process).

The SOCs covered in this indemnity are:

- Essential Energy
- Eraring Energy
- Ausgrid
- Macquarie Generation
- Endeavour Energy
- Delta Electricity

To the extent permitted by law, the indemnity covers each indemnified party, in their capacity as directors or senior managers, against:

- civil liability arising in respect of the Transaction Process if such liability is or was not due to conduct which involved a lack of good faith on the part of the indemnified party, and
- costs in defending proceedings, whether civil or criminal, in which judgement is or was given in favour of the indemnified party or in which the indemnified party is or was acquitted or where the proceedings are discontinued or in connection with any application in relation to a proceeding in which a court grants or granted relief to the indemnified party.

The indemnified parties have a duty to maintain in force comprehensive directors' and officers' insurance policies which cover all of the risks indemnified by the State Government under the indemnities until:

- the completion of the Transaction Process, and
- for seven years following the completion of the Transaction Process for any acts or omissions of the indemnified party occurring before completion of the Transaction Process.

The indemnity does not apply in respect of a liability which arises out of any act or omission on the part of the indemnified party that involves, among others as detailed in the Deed of Indemnity, gross negligence, recklessness and conduct contrary to any written direction or instructions to the indemnified party made by or on behalf of the State Government.

It is not possible to estimate the amount of contingent liability exposure at this time. There are no known claims as at the time of preparing this report.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

17. CONTINGENT LIABILITIES (continued)

Cobbora Holding Company Pty Limited

The Crown Entity provides funding for the Cobbora Holding Company Pty Limited (Cobbora).

In February 2011, Cobbora executed coal sales contracts with Origin Energy and two State owned corporations to supply coal to four of the State's power stations from financial year 2016. On 1 July 2013 the State reached agreements with Origin Energy to terminate its Coal Supply Agreement with Cobbora. The remaining agreements with Delta Electricity and Macquarie Generation (both with State-owned corporations) were also terminated.

The Crown Entity continues to provide funding support for Cobbora, however as the State will no longer be developing the mine the risk exposure associated with Cobbora has reduced.

The State Government provides an indemnity to the directors of Cobbora Holding Company Pty Limited against claims and liabilities in connection with the Cobbora Project. There are no known claims as at the reporting date.

In August 2014 the State provided an indemnity to Cobbora Directors and Officers relating to potential exposure resulting from the Cobbora sale process. There are no known or expected claims in relation to this indemnity as at the reporting date.

NSW Lotteries

As part of the sale of NSW Lotteries on 31 March 2010, the State Government provided limited warranties, indemnities and other obligations in favour of the new operator.

The Crown Entity made a provision for unclaimed prize funds of \$6 million. The provision amount was based on historical data which showed that annual claims for unclaimed prizes were no more than \$1 million in a normal year. The NSW Lotteries transaction resulted in the State Government being liable for unclaimed prizes extant at 29 March 2010. In accordance with the *Public Lotteries Regulation 2007*, any prizes won on or before 30 November 2010 must be claimed on or before 1 December 2016. The Crown Entity has estimated a potential liability of \$1 million per annum until 2016. However, future claims cannot be reliably measured and could exceed the current provision. As at 30 June 2015, a total of \$732,509 (2014: \$720,557) has been claimed.

The State Government is liable for the direct losses incurred by NSW Lotteries if an adverse regulatory event occurs. The State Government's aggregate liability is capped. There are no known adverse regulatory events as at the reporting date.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

17. CONTINGENT LIABILITIES (continued)

Data Centre Reform Project

In May 2012, the Government entered into a 10 year operating lease agreement for the provision of data centre capacity on a government-wide basis. The Government committed to move a minimum of 3 megawatts of Information and Communications Technology load into the data centres over the 10 years. The total value of the lease payments is estimated to be \$137 million.

The Government is party to a Tripartite Deed with respect to finance facilities provided to the lessor by a financier. The Government has a contingent liability to the financier with a maximum exposure of up to \$72 million, and which reduces to zero over the contract period.

If the Government is obliged to make a payment to the financier, it is entitled to be reimbursed by the lessor. Failing such reimbursement, the Government has recourse to security over the data centres and related assets.

The lease obligations of the Government will be managed by the Office of Finance and Services (OFS). The schedule of Operating Lease Expenditure and Lease Revenue Commitments has been disclosed by OFS.

TAB Exclusivity

The New South Wales TAB, a wholly owned subsidiary of Tabcorp, holds a 99-year licence issued in March 1998 to conduct totalizator betting in NSW. The licence included a 15-year 'exclusivity period' which expired on 22 June 2013. The State has agreed to extend TAB's exclusivity licence for a further 20 years to 2033 for a payment of \$75 million from Tabcorp. The \$75 million licence fee comprises of an initial payment of \$50 million (paid during 2013-14) with the balance to be paid over 10 years from 2024.

Under the agreement, the State must compensate to Tabcorp if an adverse regulatory event occurs. The amount to be refunded is the initial payment reduced by \$2.5 million for each year between the year of receipt and when the adverse regulatory event occurs.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

17. CONTINGENT LIABILITIES (continued)

Sale of Delta West Electricity

- *Environment Protection Authority (EPA) adverse decision* - the State will indemnify EnergyAustralia against any costs incurred by EnergyAustralia in the period from 2 September 2013 until 30 June 2017 due to any adverse EPA decision in respect of Wallerawang power station. The State's total liability is capped at \$100 million. The State will meet compliance costs or unavoidable operating costs (where the decision is made to close the power station).
- *Pre-completion contamination liability* - the State will retain the costs for remediating pre-existing contamination at Mt Piper and Wallerawang power station sites to minimum legal standards. Contamination determined by reference to base line study or studies by EnergyAustralia within 3 years after completion (2 September 2013). The State will retain the costs for remediating contamination at certain legacy/end of life sites and at Wallerawang if it ceases operations by the end of 2018.
- *Indemnity for early termination* - if EnergyAustralia elects to terminate the Wallerawang Connection Agreement after 30 June 2018 prior to its termination date (January 2029), the State must indemnify EnergyAustralia for the cost of the Connection Agreement early termination.

Sale of Eraring Energy

- *General warranties* - under the Sale and Purchase Agreement, the State has potential liabilities under tax warranties given to Origin Energy. Claims under the tax warranties must be brought before 1 August 2018.
- *Pre-completion contamination liability* - the State has indemnified Origin Energy for remediation costs in relation to pre-completion contamination at the sold power stations. The State's obligations end (in respect of each station) 3 years after decommissioning or the end of the Shoalhaven lease in 2070 (or later if there are further legal obligations to remediate identified during subsequent monitoring).
- *Coal haul road liability* - if existing Aboriginal land right claims affect Crown Land titles over the coal haul road from Newstan Colliery to the Eraring Power station, compensation will be payable by the State to the native title holders to negotiate a continued right to use. The State's obligations end (in respect of each existing Aboriginal Land Claim): 12 months after the date on which the Minister or Court (as applicable) determines that Crown Land subject to an existing Aboriginal Land Claim is not claimable land or an easement or similar for the purposes of the Coal Haul Road is granted to the indemnified party; or the date on which an existing Aboriginal Land Claim is withdrawn or terminated.
- *Ash dam liability* - the State will pay half the incremental cost of implementing an alternative arrangement for ash disposal if the existing proposal (as at 1 August 2013) for further backfilling at the ash dam cannot be implemented. The State's liability ceases if the issue is not resolved by 1 August 2023.

Sale of Green State Power

- *General warranties* - under the Sale and Purchase Agreement, the State has potential liabilities under various warranties given to GSP Energy (a subsidiary of Trustpower). Warranties are subject to various caps and carve-outs and claims must be brought before 17 January 2016.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

17. CONTINGENT LIABILITIES (continued)

Sale of Colongra Power Station

- *General warranties* - under the Sale and Purchase Agreement, the State has potential liabilities under various warranties given to Snowy Hydro. Warranties are subject to various caps and carve-outs and claims must be brought before 30 July 2016.
- *Land contamination liability* - The State has retained the remediation costs in relation to pre-completion contamination at the Colongra power station site. The State has also indemnified Snowy Hydro in relation to the cost to remediate land at the Colongra site if contamination occurs post-completion as a result of the adjacent Munmorah power station site (currently owned by Delta Electricity).

Sale of Macquarie Generation

- *General warranties* - under the Sale and Purchase Agreement, the State has potential liabilities under various warranties given to AGL. Warranties are subject to various caps and limits and must be brought within 18 months. The 18 months period expires on 2 March 2016.
- *Pre-completion contamination liability* - the State has indemnified AGL for remediation costs in relation to pre-completion contamination at the sold power stations. The State's obligations end (in respect of each station) 18 months after decommissioning, demolition and remediation of each power station site.
- *Defined benefit superannuation guarantee* – The State has provided a guarantee to the SAS Trustee Corporation to make good any reserve shortfall in relation to the transferring defined benefits employees if the private sector employer becomes insolvent.
- *Barnard river scheme native title indemnity* – The State has indemnified AGL for costs related to any native title claims affecting a parcel of Crown land related to the Barnard River Scheme.

18. CONTINGENT ASSETS

HIH collapse

Following the HIH collapse, the Crown Entity assumed builders warranty and third party motor insurance liabilities of about \$650 million. The discounted present value of the outstanding liability is estimated to be \$64.8 million as at 30 June 2015 (2014: \$112.2 million).

The liquidators currently intend to distribute up to “more than 50 per cent” depending on the scheme company. During 2014-15 the Crown Entity received \$82.2 million (2014: \$25.0 million). Recoveries from the liquidators are paid into the Consolidated Fund.

GST credits

The recoverable input tax credits form the Crown Entity's share of SHL operating lease, capital and other expenditure commitments constitute a contingent asset. These are as follows:

	2015 \$'000	2014 \$'000
GST recoverable input tax credits:		
Capital commitments	1,023	554
Other commitments	8,030	517
Operating lease commitments - lessee	15,634	3,628
	<u>24,687</u>	<u>4,699</u>

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

19. CASH FLOW INFORMATION

Cash and cash equivalents

In 2014-15, under the *Public Authorities (Financial Arrangements) Act 1987*, the Governor approved financial accommodation of \$28,000 million for debt funding for the Crown Entity. This amount is the overall funding to the Crown Entity which includes existing and new loans, including Waratah bond borrowings for Restart NSW Fund.

The Come and Go Facility has a limit of \$3,500 million. No amounts were drawn under the Come and Go Facility as at 30 June 2015 (2014: Nil).

Of the cash and cash equivalents, \$8,107.4 million is restricted cash assets (2014: \$6,494.6 million). This is cash in Special Deposit Accounts and trust funds that can only be used in line with the Special Deposit Account legislation and for trust fund purposes. Notes 20 and 21 details these transactions. Conditional contributions disclosed in Note 3(f) are also considered restricted assets.

Cash and cash equivalents in the Statement of Financial Position are cash at bank, restricted cash in special deposit accounts and other short term deposits.

(a) Reconciliation of cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents include cash at bank, short term deposits and bank overdraft.

Cash and cash equivalents assets recognised in the Statement of Financial Position are reconciled at the end of the financial year to the Statement of Cash Flows as follows:

	2015 \$'000	2014 \$'000
Cash at bank	13,724,143	8,117,722
Bank overdraft	(10,343,012)	(6,331,689)
	3,381,131	1,786,033

(b) Reconciliation of cash flows used from operating activities to deficit for the year

Net cash flows used in operating activities	349,841	(336,084)
Non cash items added back		
Share of profit of an associate	107,949	255,676
Depreciation and amortisation	(8)	(46)
Non cash finance costs	(34,153)	7,977
Administrative restructure - transfer in	176,144	(597,748)
Proceeds on asset disposals	1,216	657,410
	251,148	323,269
Change in operating assets and liabilities		
Movement in working capital	257,863	365,222
Increase in other liabilities	(2,169,003)	(1,911,272)
Decrease/(increase) in other assets	(17,865)	4,485
	(1,929,005)	(1,541,565)
Movement for the year	(1,677,857)	(1,218,296)
Deficit for the year	(1,328,016)	(1,554,380)

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

20. TRUST FUNDS

The Crown Entity holds money in various trust funds for various purposes. These are explained below. The monies held in trust are included in the financial statements as the Crown Entity holds them in its main operating account. The Crown Entity cannot use these amounts for the achievement of its objectives. The following is a summary of the transactions in the trust accounts:

Accounts	Land Acquisition		
	State Rail Authority wind- up \$'000	Fund - compensation deposits \$'000	Funeral Fees \$'000
Balance 1.7.2013	772	740	112
Add: receipts	-	-	-
Less: payments	-	(597)	-
Balance 30.6.2014	772	143	112
Add: receipts	4,016	-	-
Less: payments	(650)	-	-
Balance 30.6.2015	4,138	143	112

The *Trustee Act 1925* requires that trust funds should be held separate from other operating funds of the agency. The Crown Entity has not kept a separate bank account for the above trust funds due to the immateriality of the amounts involved. These trust funds are included in other liabilities of the Crown Entity.

State Rail Authority

This account was established to hold money vested to the Crown by the previous State Rail Authority of NSW for the payment of fine and legal costs relating to the Waterfall train accident.

Land Acquisition Fund

This trust account holds the funds vested in regards to payments of compensation on land resumptions.

Funeral Fees

This account was set up to meet the claims of people whom have prepaid their funeral fees to Russell Kinsella Pty Ltd. The company was unable to provide the service due to receivership. The Department of Fair Trading was the original holder of the trust and may from time to time, receive claims for compensation.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

21. SPECIAL DEPOSIT ACCOUNTS

The Crown Entity operates a number of special deposits accounts. These are:

NSW Policyholders Protection Fund

The *Insurance Protection Tax Act 2001* established this fund to hold taxes and other payments to meet HH home building and third-party motor accident insurance policy claims of declared insolvent insurers.

Crown long service leave pool

This account holds long service leave funds for certain government agencies.

Structured finance activities

This account is used to finance cross border leases and other structured finance activities arranged by TCorp.

Confiscated proceeds account

The *Criminal Assets Recovery Act 1990* established this account to hold money recovered from criminals until used in accordance with the Act.

Workers compensation (bushfire, emergency and rescue services)

This is a special workers compensation scheme for bushfire fighters, emergency service workers and rescue association workers. This account was established by the *Workers Compensation (Bush Fire, Emergency and Rescue Services) Act 1987 No 83* (the Act).

The WorkCover Authority (the Authority) has control, empowered by the Act, over the payments in and out of the account. The balance of this account was transferred to the Authority during March 2015.

Builders warranty insurance

This is used to manage reinsurance arrangements the government put in place to help stabilise the building warranty insurance market.

Royal North Shore Hospital (RNSH) interest adjustment account

A contribution payment was received from ABN Amro for the project to redevelop Royal North Shore Hospital. The project is a joint financing arrangement approved by the State Government. The effective date of contract is 23 October 2008 and concludes on 22 October 2036. ABN Amro is the financier of the project. This account was established to record and maintain separately the funds received from ABN Amro Bank.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

21. SPECIAL DEPOSIT ACCOUNTS (continued)

Restart NSW

The purpose of this account is to improve economic growth and productivity in the State through funding major infrastructure projects. It is funded from major State asset sales, windfall State tax revenue allocated through the Budget process and other funds such as the proceeds of issuing Waratah Bonds.

Accounts	NSW Policyholders Protection Fund \$'000	Non Budget Long Service Leave Pool \$'000	Structured Finance Activities \$'000	Confiscated Proceeds Account \$'000
Balance 1.7.2013	135,208	20,910	1,304	108,865
Plus receipts	44,374	10,061	133	5,344
Less payments	(53,271)	(11,487)	(495)	(895)
Balance 30.6.2014	126,311	19,484	942	113,314
Plus receipts	-	16,266	126	22,849
Less payments	(9,966)	(10,547)	(292)	(13,528)
Balance 30.06.2015	116,345	25,203	776	122,635

Accounts	Workers Compensation \$'000	Builders Warranty Insurance \$'000	RNSH Interest Adjustment \$'000	Restart NSW \$'000
Balance 1.7.2013	6,336	1,140	2,925	4,681,525
Plus receipts	5,000	2	86	1,974,319
Less payments	(7,590)	(1,142)	-	(429,109)
Balance 30.6.2014	3,746	-	3,011	6,226,735
Plus receipts	5,000	-	83	2,439,111
Less payments	(4,918)	-	-	(830,852)
Less transfers	(3,828)	-	-	-
Balance 30.06.2015	-	-	3,094	7,834,994

The Crown Entity has not kept a separate bank account for the above special deposit accounts except for Structured Finance Activities, RNSH and Restart NSW. The transactions for these accounts are recognised in the financial statements.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

22. OTHER LIABILITIES

	2015 \$'000	2014 \$'000
Current:		
Confiscated proceeds	122,635	113,314
Special deposit and trust accounts	7,487	7,784
Deferred income ^(a)	171,785	178,815
Unclaimed prizes	1,000	1,000
Financial guarantees ^(b)	1,900	1,900
Other	23,007	9,101
	327,814	311,914
Non-current:		
Deferred income ^(a)	603,481	486,939
Financial guarantees ^(b)	6,100	7,900
Unclaimed prizes	4,267	4,279
	613,848	499,118
Total other liabilities	941,662	811,032

Deferred income mainly consists of multi-year licence fees issued by a range of Government agencies. These are recognised on a straight-line basis over the specified period of time in accordance with the substance of the relevant agreement/item.

(a) Deferred income

Current	171,785	178,815
Non-current	603,481	486,939
Total deferred income	775,266	665,754

Movements in deferred income

Balance at beginning of the year	665,754	658,825
Add: licence fees deferred	288,357	203,553
Less: amortisation	(178,845)	(196,624)
Balance at the end of the year	775,266	665,754

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

22. OTHER LIABILITIES (continued)

(b) Financial guarantees

	2015 \$000	2014 \$000
Balance at the beginning of the year	9,800	11,900
Less: amortisation	(1,800)	(2,100)
Balance at the end of the year	8,000	9,800
Current	1,900	1,900
Non-current	6,100	7,900
Total financial guarantees	8,000	9,800

(i) Structured finance activities

Through the Structured Finance Activities Special Deposits Account, the State began several finance leases for rail stock and electricity assets. The Crown has guaranteed certain payment and performance obligations under these cross-border lease arrangements.

The estimated fair value was made at the date of inception and amortised over the life of the guarantees. The guarantees have a current amortised valued of \$4.2 million (2014: \$5.4 million).

The likelihood of these guarantees being called upon is very low due to the arrangements in place as part of the leases to ensure the payments are made.

(ii) Government Insurance Act 1927

Under the *Government Insurance Act 1927*, the State Government has provided guarantees for the GIO liabilities for general, life and reinsurance policies that it issued until 15 June 1992.

Actuarial assessment of the GIO liabilities is:

	31 Dec 2014 \$'000	31 Dec 2013 \$'000
General insurance	211,200	184,800
Life insurance	50,300	56,200
Inward reinsurance	39,400	40,000
	300,900	281,000

The guarantee on these policies continues under the State Government Deed issued for GIO's privatisation and subsequent purchase by AMP Limited.

The guarantees have a current amortised value of \$3.7 million (2014: \$4.4 million).

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

22. OTHER LIABILITIES (continued)

(iii) Public private partnerships

The Crown has provided guarantees to a number of statutory authorities who do not represent the Crown. These guarantees which includes payment guarantees, give lenders a similar assurance as if they were lending to a Crown agency.

The current outstanding guarantees relate to:

- Eastern Creek Alternative Waste Treatment Plant
- Mater Hospital
- Long Bay Prison and Forensic Hospital
- Suburban Rolling Stock
- Orange Hospital Redevelopment
- Royal North Shore Hospital Redevelopment
- Macarthur Water Filtration Plant
- Illawarra and Woronora Water Treatment Plant
- Prospect Water Filtration Plant and Treatment Works
- Northern Beaches Hospital
- North West Rail Link – Operations, Trains and Systems
- Sydney Light Rail
- WestConnex Stage 1
- NorthConnex

The guarantees have been valued at Nil (2014: Nil). This is due to the remote likelihood of any of these guarantees being called. Government has structured its arrangements to minimise the risk of default.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

23. CONSOLIDATED FUND TRANSACTIONS

	2015 \$'000	2014 \$'000
Cash flows from operating activities		
Receipts		
Retained taxes, fees and fines	26,592,933	24,524,719
Commonwealth grants	22,831,159	22,506,101
Financial distributions	2,372,404	2,844,474
Other	2,267,627	3,071,466
Total receipts	54,064,123	52,946,760
Payments		
Recurrent appropriations paid to other agencies	(44,957,156)	(42,823,662)
Recurrent appropriations paid to Crown Finance Entity	(6,304,877)	(5,882,435)
Capital appropriations paid to other agencies	(4,442,477)	(4,124,184)
Capital appropriations paid to Crown Finance Entity	(722,117)	(185,381)
Total payments	(56,426,627)	(53,015,662)
Net cash flows used in operating activities	(2,362,504)	(68,902)
Other cash flows		
Proceeds from borrowing transferred	(2,508,239)	1,122,626
Investment income transferred	89,900	145,000
Interest receipts transferred	351,160	205,704
Advance repayments transferred	191,156	140,990
Other	124,023	77,042
	(1,752,000)	1,691,362
Net decrease in cash and cash equivalents	(4,114,504)	1,622,460
Opening cash and cash equivalents	(6,197,657)	(8,100,689)
Cash transferred in as a result of restructuring	6,295	53,000
Return of capital	56,342	227,572
Closing cash and cash equivalents	(10,249,524)	(6,197,657)
Cash and cash equivalents		
Cash in transit	93,486	93,490
Bank overdraft	(10,343,012)	(6,291,147)
	(10,249,524)	(6,197,657)

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

24. TRANSFER PAYMENTS

The Crown Entity receives contributions from the Commonwealth Government that are transferred to eligible beneficiaries. The beneficiaries are non-government schools and Local Governments. Payments to non-government schools are paid directly by the Crown Entity while payments to Local Governments are made by the Local Government Division within the Department of Premier and Cabinet.

	2015	2014
	\$'000	\$'000
Payments		
Non-Government schools - recurrent	(3,217,209)	(2,867,796)
Non-Government schools - targeted programs	(4,313)	(113,012)
Non-Government schools - capital	-	(1,377)
Local Government - financial assistance	(510,450)	(252,829)
Local Government - roads	(205,226)	(100,875)
Purchase of water rights	-	(120,000)
	<u>(3,937,198)</u>	<u>(3,455,889)</u>
Receipts		
Non-Government schools - recurrent	3,217,209	2,867,796
Non-Government schools - targeted programs	4,313	113,012
Non-Government schools - capital	-	1,377
Local Government - financial assistance	510,450	252,829
Local Government - roads	205,226	100,875
Purchase of water rights	-	120,000
	<u>3,937,198</u>	<u>3,455,889</u>

Transfer payments are not recognised as revenue or expenditure as the Crown Entity does not have control over these funds.

Crown Entity

Notes to the financial statements for the year ended 30 June 2015

25. EQUITY TRANSFERS

The following is a summary of increase/(decrease) in net liabilities from equity transfer during the year:

2014-15

	\$'000
Capital injection for Housing Acceleration Fund projects	(2,850)
Capital injection for Delta Electricity	(150,000)
Investment in Sydney Motorway Corporation	(940,000)
Return of capital	56,342
Transfers from sale of Government businesses	693,354
Borrowings transferred	(1,117,152)
Superannuation liabilities transferred	(176,124)
Cash management policy reforms - return of cash surpluses	26,534
Transfers from dissolution of Government agencies	6,276
	<u>(1,603,620)</u>

2013-14

Capital injection for Housing Acceleration Fund projects	(40,000)
Capacity charges from electricity transaction	103,512
Return of capital	124,061
Superannuation liabilities transferred	(217,612)
Long Service Leave liabilities transferred	(48,956)
Transfers from sale of Government businesses	2,436,125
	<u>2,357,130</u>

26. EVENTS AFTER THE REPORTING DATE

On 1 July 2015, Department of Finance, Service and Innovation transferred \$840 million of defined benefit superannuation liabilities to the Crown Entity.

On 1 July 2015, Transport for NSW transferred \$1,356.4 million of employee benefits liabilities (long service and defined benefit superannuation liabilities) to the Crown Entity.

End of audited financial statements

Crown Entity Expenditure on Consultants

Consultants	Project	Amount (ex. GST) \$
Consultants costing \$50,000 or more		
<i>Finance, Accounting and/or Tax</i>		
Ernst & Young	Financial advisor for the Electricity Networks Transactions	7,474,682
Ernst & Young	Accounting, tax and business optimisation advisor for the Disability and Customer Care Services Transfer	5,504,858
Goldman Sachs Australia	Financial advisor for the Generation Assets and Cobbora Mine Development project	4,052,163
Ironstone Capital Advisory	Financial advisor for the Disability and Customer Care Services Transfer	3,935,080
KPMG Australia	Accounting and tax advisor for the Generation Assets and Cobbora Mine Development project	1,231,155
Pricewaterhouse Coopers Securities	Accounting and tax advisor for the Newcastle Port project	267,652
Mercer Consulting (Australia)	Actuarial advisor for the Generation Assets and Cobbora Mine Development project	93,794
<i>Information Technology</i>		
Ansarada Pty Ltd	Data room services provider for the Electricity Networks Transactions	185,908
Ansarada Pty Ltd	Data room services provider for the Generation Assets and Cobbora Mine Development project	174,881
<i>Management Services</i>		
Worley Parsons	Engineering advisor for the Electricity Networks Transactions	4,407,321
Environmental Resources Management Australia	Environmental advisor for the Electricity Networks Transactions	578,656
BIS Shrapnel	Regulatory advisor for the Electricity Networks Transactions	476,900
Newgate Communications	Issues management and communications advisor for the Electricity Networks Transactions	431,227
RSM Bird Cameron	Probity advisor for the Electricity Networks Transactions	281,115
KPMG Australia	Specialist disability advisor for the Disability and Customer Care Services Transfer	174,981
Newgate Communications	Issues management and communications advisor for the Generation Assets and Cobbora Mine Development project	150,572
O'Connor Marsden	Probity advisor for the Generation Assets and Cobbora Mine Development project	145,398
Worley Parsons	Engineering advisor for the Generation Assets and Cobbora Mine Development project	105,689
ACIL Allen Consulting	Marketing advisor for the Generation Assets and Cobbora Mine Development project	91,635
Gary Clarke Consulting	Probity auditing advisor for the Generation Assets and Cobbora Mine Development project	90,774
RSM Bird Cameron	Probity advisor for the Disability and Customer Care Services Transfer	75,430
HDR Pty Ltd	Specialist coal advisor for the Generation Assets and Cobbora Mine Development project	58,000
Gary Clarke Consulting	Probity auditing advisor for the Electricity Networks Transactions	54,020

Consultants	Project	Amount (ex. GST) \$
Consultants costing \$50,000 or more (continued)		
Legal		
Allens Linklaters	Legal advisor for the Electricity Networks Transactions	6,002,357
Baker & McKenzie	Legal advisor for the Generation Assets and Cobbora Mine Development project	3,323,115
Baker & McKenzie	Legal advisor for the Disability and Customer Care Services Transfer	1,383,449
Minter Ellison	Legal advisor for the Port of Newcastle and Port Botany projects	284,909
Economic Assessment		
Houston Kemp Economists		1,338,884
	Sub-total:	42,374,605
Consultants costing less than \$50,000		
Finance, Accounting and/or Tax	6 projects totalling	78,086
Management Services	7 projects totalling	285,571
	Sub-total:	363,657
Total expenditure on consultants¹		42,738,262

¹ Total consultancy cost reported in the Crown Entity financial statements includes payment to the Department of Premiers and Cabinet of \$1.735 million for reimbursement of expenditure in relation to the Disability and Customer Care Services Transfer project.

Restart NSW Fund

Financial Report for the year ended 30 June 2015



The
Treasury

Restart NSW Fund

Financial Report
for the year ended 30 June 2015



INDEPENDENT AUDITOR'S REPORT

Restart NSW Fund

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the Restart NSW Fund, which comprises the statement of cash receipts and payments for the year ended 30 June 2015, notes comprising a summary of significant accounting policies and other explanatory information and the Secretary of Treasury's assertion statement. The financial report has been prepared by the Secretary of Treasury using the basis of accounting described in Note 2 within the financial report to assist the Treasurer in fulfilling the annual reporting obligations under the *Restart NSW Fund Act 2011*.

Opinion

In my opinion, the financial report is prepared, in all material respects, in accordance with the basis of accounting described in Note 2 within the financial report.

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

Basis of Accounting

Without modifying my opinion, I draw attention to Note 2 within the financial report, which describes the basis of accounting. The financial report is prepared to assist the Treasurer in fulfilling the annual reporting obligations under the *Restart NSW Fund Act 2011*. As a result, the financial report may not be suitable for another purpose.

The Secretary's Responsibility for the Financial Report

The Secretary to Treasury is responsible for the preparation of the financial report in accordance with the basis of accounting described in Note 2, and for such internal control as the Secretary determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including an assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Restart NSW Fund's preparation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Restart NSW Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Secretary, as well as evaluating the overall presentation of the financial report.

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

My opinion does *not* provide assurance:

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

Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and relevant ethical pronouncements. The *Public Finance and Audit Act 1983* further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by the possibility of losing clients or income.



A T Whitfield PSM
Acting Auditor-General

21 October 2015
SYDNEY

Restart NSW Fund
Financial Report
for the year ended 30 June 2015

STATEMENT BY DEPARTMENT HEAD

1. Pursuant to Section 9 of the *Restart NSW Fund Act 2011*, I declare that in my opinion:

- (a) The accompanying financial report provides details of the transactions of the Restart NSW Fund for the year ended 30 June 2015; and
- (c) The financial report has been prepared as a special purpose financial statement 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.



Rob Whitfield
Secretary

8 October 2015

Restart NSW Fund

Statement of Cash Receipts and Payments for the year ended 30 June 2015

	Note	2015 \$'000	2014 \$'000
Receipts			
Windfall tax revenue	3	1,166,375	56,800
Proceeds from issue of bonds by the State	3	450,741	272,054
Interest earned	3	135,848	71,334
Other authorised transfers	3	686,147	1,574,131
Total receipts		<u>2,439,111</u>	<u>1,974,319</u>
Payments			
Infrastructure projects	4	330,845	429,102
Administrative expenses	4	7	7
Other authorised payments	4	500,000	-
Total payments		<u>830,852</u>	<u>429,109</u>
Net receipts		<u>1,608,259</u>	<u>1,545,210</u>
Opening balance of Special Deposit Account		6,226,735	4,681,525
Closing balance of Special Deposit Account		<u>7,834,994</u>	<u>6,226,735</u>

The accompanying notes form part of the financial report.

Restart NSW Fund

Notes to the Financial Report for the year ended 30 June 2015

1. RESTART NSW FUND INFORMATION

Reporting entity

Restart NSW Fund (the Fund) is a not-for-profit entity (as profit is not its principal objective) and is required to prepare an annual report under Section 9 of the *Restart NSW Fund Act 2011* (“the Act”). Section 6 of the Act states that the purpose of the Fund is to improve economic growth and productivity in the State, and for that purpose:

- a) to fund major infrastructure projects, and
- b) to fund infrastructure projects that will improve:
 - i) public transport, and
 - ii) roads, and
 - iii) infrastructure required for the economic competitiveness of the State (including the freight, inter-modal facilities and access to water), and
 - iv) local infrastructure in regional areas that are affected by mining operations, and
 - v) hospital and other health facilities and services, and
 - vi) workplaces for law and justice officers, teachers, nurses and other staff providing services to the public.

Section 6(2) of the Act states a reference to **funding a project** includes a reference to funding the planning, selection, implementation and delivery of the project.

Section 5 of the Act establishes the Fund as a Special Deposit Account. Section 5 of the *Public Finance and Audit Act 1983* defines Special Deposit Account as an account which the Treasurer is required, by statutory or other authority, to hold apart from 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 “financial year” being from 1 July to 30 June.

The financial report was authorised for issue by the Secretary of NSW Treasury on the date the accompanying Statement by the Secretary was signed.

Restart NSW Fund

Notes to the Financial Report for the year ended 30 June 2015

1. RESTART NSW FUND INFORMATION (continued)

Key Activities

The Fund was established for the purpose of setting aside funding for, and securing the delivery of, major infrastructure projects and other necessary infrastructure.

Funding Sources for Restart NSW Fund

Section 7(1) of the Act states the amounts payable into the Fund. These are:

- a) all money advanced by the Treasurer or appropriated by Parliament for the purposes of the Fund, including any such money that is certified by the Treasurer as windfall tax revenue in excess of Budget forecasts, and
- b) money borrowed for the purposes of the Fund, including by the issue of special bonds to the people of the State and others, and
- c) the proceeds of the investment of money in the Fund, and
- d) all money directed or authorised to be paid into the Fund by or under this or any other Act or law, and
- e) all money received from voluntary contributions to the Fund made by a government agency or other person or body.

Section 7(2) gives authority to Government agencies to make voluntary contributions to the Fund.

Payments out of the Fund

Section 8 of the Act prescribes the payments from the Fund. These are:

- a) any money approved by the Minister on the recommendation of Infrastructure NSW to fund all or any part of the cost of any project that the Minister is satisfied promotes a purpose of the Fund, and
- b) any money required to meet administrative expenses related to the Fund, and
- c) any money directed or authorised to be paid from the Fund by or under this or any other Act or law.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Fund's financial report is a special purpose financial statement 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 entity. Revenues are realised and recorded when received in cash. Expenditures are recorded when cash is actually paid.

The measurement focus in the financial statement is balances of cash 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.

Restart NSW Fund

Notes to the Financial Report for the year ended 30 June 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Statement of compliance

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

Cash Controlled by the 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.

Receipts and Payments

Receipts are recognised and recorded when received in cash. Payments are recorded when cash is actually paid.

3. RECEIPTS

The Fund is authorised to receive amounts in accordance with Section 7 of the Act.

	2015	2014
	\$'000	\$'000
Section 7(1)(a) receipts - windfall tax		
Windfall tax revenue	1,166,375	56,800
Section 7(1)(b) receipts - issue of bonds		
Proceeds from Waratah bonds	450,741	272,054
Section 7(1)(c) receipts - interest earned		
Interest earned	135,848	71,334
Section 7(1)(d) receipts - other monies authorised to be paid into the Fund		
Proceeds from the long term lease of Port of Newcastle	3,208	1,518,808
Proceeds from sale of Eraring Energy	-	48,100
Proceeds from sale of Green State Power	62,680	7,222
Proceeds from sale of Macquarie Generation	620,245	-
GST received	14	1
	<u>686,147</u>	<u>1,574,131</u>
Total Receipts	<u>2,439,111</u>	<u>1,974,319</u>

Proceeds from Waratah bonds issued were paid into the Fund by the Crown Entity. The Fund has no obligation to repay these bonds. The liability is assumed by the Crown Entity.

As at 30 June 2015 the Fund held all of its cash in the Treasury Banking System. Interest receivable by the Fund and not yet received was \$78.077 million (2014: \$58.756 million).

Restart NSW Fund

Notes to the Financial Report for the year ended 30 June 2015

4. PAYMENTS

Payments from the Fund are in accordance with Section 8 of the Act.

	2015 \$'000	2014 \$'000
Section 8(a) payments - infrastructure projects		
<i>Local Government and Community Projects and Programs</i>		
Resources for Regions Initial Round	700	4,967
Resources for Regions 2013-14 Rounds	32,481	-
Illawarra Infrastructure Fund	8,227	-
Cobbora Transition Fund	2,649	-
Regional Water Security	4,201	-
<i>NSW Government Projects and Programs</i>		
Pacific Highway	15,770	356,500
Princes Highway	64,000	22,000
Bridges for the Bush	18,795	27,850
Pinchpoint Programs	25,405	7,785
NorthConnex (M1-M2)	35,000	10,000
Sydney Motorway Network Planning	7,711	-
Northern Beaches Hospital Roads	10,000	-
Western Sydney Infrastructure Plan	27,493	-
Bells Line of Road Corridor Improvement Program	12,000	-
WestConnex Enabling Works	4,000	-
Western NSW Freight Productivity Improvement Program	10,000	-
Regional Freight Pinch Point Program	8,537	-
State Infrastructure Strategy Planning	4,182	-
Regional Water Security - Broken Hill	36,500	-
Hawkesbury - Nepean Flood Mitigation Strategy	2,994	-
Centre of Excellence for Aged Care - Bulli Hospital	200	-
	330,845	429,102
Section 8(b) payments - administrative expenses		
Auditors Remuneration	7	7
Section 8(c) payments - other monies authorised to be paid from the Fund		
Investment in shares in Sydney Motorway Corporation for WestConnex	500,000	-
Total payments	830,852	429,109

Percentage of payments made to regional and rural areas

Section 9(2) payments - payments made to regional and rural areas	204,355	411,317
% of total payments from the Fund	25%	96%

The total amount of payments made to rural and regional areas from the Fund in 2014-15 was less than 30%. This was due to the investment in Sydney Motorway Corporation of \$500M in the current year.

Restart NSW Fund

Notes to the Financial Report for the year ended 30 June 2015

5. FINANCIAL INSTRUMENTS

Risk management

The Fund's only financial instrument is the cash deposit in the Treasury Banking System and is subject to interest rate risk. As at 30 June 2015, 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 \$78.350 million (2014: \$62.267 million)

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.

6. EVENTS AFTER THE REPORTING DATE

There are no events subsequent to reporting date requiring disclosure.

End of audited financial report

