

2018-2019

# Crown Entity Financial Statements

**Incorporating financial reports for:**

Restart NSW Fund  
Social and Affordable Housing NSW Fund  
Electricity Retained Interest Corporation - Ausgrid (ERIC-A) Fund  
Electricity Retained Interest Corporation - Endeavour (ERIC-E) Fund  
NSW Generations (Debt Retirement) Fund  
NSW Generations (Community Services & Facilities) Fund



Treasury

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# Crown Entity

Financial Statements  
for the year ended 30 June 2019





## INDEPENDENT AUDITOR'S REPORT

### Crown Entity

To Members of the New South Wales Parliament

### Opinion

I have audited the accompanying financial statements of the Crown Entity, which comprise the Statement of Comprehensive Income for the year ended 30 June 2019, the Statement of Financial Position as at 30 June 2019, the Statement of Changes in Equity and the Statement of Cash Flows, for the year then ended, notes comprising a Summary of Significant Accounting Policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Crown Entity as at 30 June 2019, 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.

### Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Crown Entity in accordance with the requirements of the:

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

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

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

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

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

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## Other Information

The Crown Entity's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Secretary is responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Statement by the Secretary.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

## The Secretary's Responsibilities for the Financial Statements

The Secretary is responsible for the preparation and fair presentation of the financial statements 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 and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Secretary is responsible for assessing the Crown Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting except where the Crown Entity's operations will cease as a result of an administrative restructure.

## Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). The description forms part of my auditor's report.

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My opinion does not provide assurance:

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



Margaret Crawford  
Auditor-General for NSW

18 October 2019  
SYDNEY

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**Crown Entity**  
**Financial Statements**  
**for the year ended 30 June 2019**

**STATEMENT BY THE SECRETARY**

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 2019 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*, *Public Finance and Audit Regulation 2015*, Treasurer's Directions and applicable Australian Accounting Standards.

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



Michael Pratt AM  
Secretary

18/10/19 October 2019

## Crown Entity

### Statement of Comprehensive Income for the year ended 30 June 2019

	Notes	2019 \$'000	2018 \$'000
<b>Revenue</b>			
Retained taxes, fees and fines	3(a)	32,631,781	32,523,510
Commonwealth contributions	3(b)	24,147,508	24,894,935
Financial distributions	3(c)	1,925,443	1,748,342
Investment income	3(d)	2,305,347	1,391,328
Royalty on minerals		2,092,570	1,762,214
Other income	3(e)	787,593	833,627
<b>Total revenue</b>		<b>63,890,242</b>	<b>63,153,956</b>
<b>Expenses</b>			
Superannuation - defined benefit plans	12(o)	1,807,395	1,926,463
Grants and subsidies	4(a)	6,433,448	3,964,640
Finance costs	4(b)	1,479,749	1,662,474
Appropriations	21	61,852,461	57,926,026
Employee related expenses	4(c)	2,394,701	1,330,577
Other expenses	4(d)	850,254	758,084
<b>Total expenses</b>		<b>74,818,008</b>	<b>67,568,264</b>
<b>Gains/(losses) from financial instruments</b>		( 203,676)	5,120
<b>Other gains/(losses)</b>		-	(122,462)
<b>Deficit for the year</b>		<b>(11,131,442)</b>	<b>(4,531,650)</b>
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to surplus or deficit</i>			
Actuarial gains/(losses) on defined benefit plans	12(p)	(13,221,607)	2,371,098
<b>Total other comprehensive income for the year</b>		<b>(13,221,607)</b>	<b>2,371,098</b>
<b>Total comprehensive result for the year</b>		<b>(24,353,049)</b>	<b>(2,160,552)</b>

The accompanying notes form part of these financial statements.



## Crown Entity

### Statement of Financial Position as at 30 June 2019

	Notes	2019 \$'000	2018 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	17	1,723,849	2,603,051
Other financial assets	5	900,000	3,700,000
Derivative financial instruments	10	3,081	-
Advances repayable to the Crown	6	215,943	210,562
Receivables	7	2,937,705	2,951,732
<b>Total current assets</b>		<b>5,780,578</b>	<b>9,465,345</b>
<b>Non-current assets</b>			
Other financial assets	5	30,377,478	20,531,507
Advances repayable to the Crown	6	960,652	834,410
<b>Total non-current assets</b>		<b>31,338,130</b>	<b>21,365,917</b>
<b>Total assets</b>		<b>37,118,708</b>	<b>30,831,262</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Payables	8	419,562	392,507
Bank overdraft	17	10,831,499	7,050,719
Borrowings	9	480,081	524,304
Derivative financial instruments	10	10,658	-
Unfunded superannuation	12(b)	1,729,271	1,647,295
Employee benefits and other provisions	13	9,455,992	7,901,679
Provisions	14	249,368	228,346
Other	20	280,332	317,076
<b>Total current liabilities</b>		<b>23,456,763</b>	<b>18,061,926</b>
<b>Non-current liabilities</b>			
Borrowings	9	32,500,926	28,450,878
Derivative financial instruments	10	196,101	-
Unfunded superannuation	12(b)	65,432,936	52,140,905
Employee benefits and other provisions	13	813,397	679,243
Provisions	14	1,944,929	1,645,678
Other	20	553,866	667,186
<b>Total non-current liabilities</b>		<b>101,442,155</b>	<b>83,583,890</b>
<b>Total liabilities</b>		<b>124,898,918</b>	<b>101,645,816</b>
<b>Net liabilities</b>		<b>(87,780,210)</b>	<b>(70,814,554)</b>
<b>Equity</b>			
Accumulated deficit		(87,780,210)	(70,814,554)
<b>Total equity</b>		<b>(87,780,210)</b>	<b>(70,814,554)</b>

The accompanying notes form part of these financial statements.

## Crown Entity

### Statement of Changes in Equity for the year ended 30 June 2019

	Notes	Accumulated deficit \$'000	Total equity \$'000
<b>Balance at 1 July 2018</b>		<b>(70,814,554)</b>	<b>(70,814,554)</b>
Deficit for the year		(11,131,442)	(11,131,442)
Other comprehensive income			
Actuarial gains/(losses) on defined benefit plans	12(p)	(13,221,607)	(13,221,607)
<b>Total other comprehensive income</b>		<b>(13,221,607)</b>	<b>(13,221,607)</b>
<b>Total comprehensive result for the year</b>		<b>(24,353,049)</b>	<b>(24,353,049)</b>
<b>Transactions with owners in their capacity as owners</b>			
Decrease/(Increase) in net liabilities from equity transfers	23	7,387,393	7,387,393
<b>Total transactions with owners in their capacity as owners</b>		<b>7,387,393</b>	<b>7,387,393</b>
<b>Balance at 30 June 2019</b>		<b>(87,780,210)</b>	<b>(87,780,210)</b>
<b>Balance at 1 July 2017</b>		<b>(68,085,601)</b>	<b>(68,085,601)</b>
Deficit for the year		(4,531,650)	(4,531,650)
Other comprehensive income			
Actuarial gains/(losses) on defined benefit plans	12(p)	2,371,098	2,371,098
<b>Total other comprehensive income</b>		<b>2,371,098</b>	<b>2,371,098</b>
<b>Total comprehensive result for the year</b>		<b>(2,160,552)</b>	<b>(2,160,552)</b>
<b>Transactions with owners in their capacity as owners</b>			
Decrease/(Increase) in net liabilities from equity transfers	23	(568,401)	(568,401)
<b>Total transactions with owners in their capacity as owners</b>		<b>(568,401)</b>	<b>(568,401)</b>
<b>Balance at 30 June 2018</b>		<b>(70,814,554)</b>	<b>(70,814,554)</b>

The accompanying notes form part of these financial statements.

**Crown Entity**

**Statement of Cash Flows  
for the year ended 30 June 2019**

	Notes	2019 \$'000	2018 \$'000
<b>Cash flows from operating activities</b>			
<b>Payments</b>			
Employee related		(2,345,393)	(2,408,548)
Grants and subsidies		(6,409,410)	(3,947,513)
Finance costs		(1,231,133)	(1,315,795)
Appropriations		(61,852,461)	(57,926,026)
Other		(457,937)	(477,774)
<b>Total payments</b>		<b>(72,296,334)</b>	<b>(66,075,656)</b>
<b>Receipts</b>			
Retained taxes, fees and fines		32,206,225	32,349,577
Sale of goods and services		140	58
Commonwealth grants	21	24,141,044	24,890,047
Investment income		1,319,354	1,265,288
Financial distribution from other entities		2,046,412	1,164,072
Other		2,778,303	2,787,130
<b>Total receipts</b>		<b>62,491,478</b>	<b>62,456,172</b>
<b>Net cash flows from operating activities</b>	17(b)	<b>(9,804,856)</b>	<b>(3,619,484)</b>
<b>Cash flows from investing activities</b>			
Purchase of investments		(15,012,880)	(7,967,372)
Advances made		(235,032)	(98,880)
Proceeds from sales of investment		9,050,008	7,547,198
Advance repayments received		115,475	105,263
Dividend received from investment		-	153,700
<b>Net cash flows from investing activities</b>		<b>(6,082,429)</b>	<b>(260,091)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings and advances		3,583,327	900,897
Repayment of borrowings and advances		(328,345)	(335,154)
<b>Net cash flows from financing activities</b>		<b>3,254,982</b>	<b>565,743</b>
<b>Net increase/(decrease) in cash</b>		<b>(12,632,303)</b>	<b>(3,313,832)</b>
Opening cash and cash equivalents		(4,447,668)	(585,766)
Other cash transfer in as a result of restructuring		7,972,321	(548,070)
<b>Closing cash and cash equivalents</b>	17(a)	<b>(9,107,650)</b>	<b>(4,447,668)</b>

The accompanying notes form part of these financial statements.

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## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 1. INFORMATION ON THE CROWN ENTITY

##### *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.

Key financial assets and financial liabilities include:

- Cash and cash equivalents
- Investments in TCorp investment facilities
- the Crown debt portfolio
- the Crown superannuation liability for certain general government agencies
- long service leave liability for certain general government agencies

The Crown Entity collects state taxation, Commonwealth contributions and financial distributions from certain NSW agencies.

The Consolidated Fund, a bank account held by the Crown Entity records these receipts and payments of appropriation to principal general government agencies. Note 21 details the receipts and payments from this account.

The Crown Entity 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.

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 and in the relevant notes. 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 centrally holds several major liabilities of the State which are backed by significant investment holdings. Funding of the Crown Entity's activities, including the management of those key liabilities, are sourced from State revenue from taxes, Commonwealth contributions and financial distributions from State Owned Corporations and investments. Additionally, the ability to raise funds through borrowings supported by the government's AAA credit rating and increase in tax collection, if required, ensures that the Crown Entity will meet its liquidity needs in the short-term and sustainability in the long-term.

It is considered that the application of the going concern concept is appropriate.



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## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

## 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* (the Act)
- *Public Finance and Audit Regulation 2015*
- Treasurer's Directions issued under the Act.

The financial statements have been prepared on the following basis:

- financial assets (except term deposits) 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
- term deposits, receivables, 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).

### ***Statement of compliance***

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

### ***Comparative information***

Except when an Australian Accounting Standard permits or requires otherwise, comparative information is presented in respect of the previous period for all amounts reported in the financial statements. Prior year comparatives have been restated to take account of changes to accounting standards and corrections of prior period errors (if applicable).

### ***New, revised or amending standards and interpretations***

#### i. Effective for the first time in 2018-19

Effective for the first time in 2018-19, the Crown Entity has adopted AASB9 *Financial Instruments* (AASB 9), which resulted in changes in accounting policies in respect of recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments and impairment of financial assets. AASB 9 also significantly amends other standards dealing with financial instruments such as the revised AASB 7 *Financial Instruments: Disclosures* (AASB 7R). The impacts on the accounting policies of financial assets from the adoption of AASB 9 are disclosed in the following sections in Note 2.

#### ii. Issued but not yet effective

As mandated by Treasury Circular TC19-04, the Crown Entity has not early adopted any new accounting standards, amendments and interpretations that have been issued but are not yet effective. The Crown Entity has completed its assessment of the impact on adoption of the following new accounting standards:

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## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- AASB 15 *Revenue from Contracts with Customers* (AASB 15) is effective for reporting periods commencing on or after 1 January 2019. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers. Revenue is recognised when control of goods or services is transferred to the customer at amounts that reflect the consideration to which the Crown Entity expects to be entitled in exchange for transferring the goods or services to the customer. Under AASB 118 *Revenue* (AASB 118), revenue recognition is based on when risks and rewards are transferred.
- AASB 1058 *Income of Not-for-Profits* (AASB 1058) is effective for reporting periods commencing on or after 1 January 2019 and will replace most of the existing requirements in AASB 1004 *Contributions* (AASB 1004). The scope of AASB 1004 is now limited mainly to parliamentary appropriations, administrative arrangements and contributions by owners.

The standards will result in the identification of separate performance obligations that will change the timing of recognition for some revenues, including revenues relating to sales of goods and services and specific purpose grants and subsidies. The adoption of these standards will primarily result in the recognition of decreased liabilities reported on the Statement of Financial Position, predominately consisting of deferred licence revenue.

Under AASB 1058, the Crown Entity will recognise as liabilities, obligations for funding received where there is an obligation to construct recognisable non-financial assets controlled by the Crown Entity.

The Crown Entity will adopt AASB 15 and AASB 1058 on 1 July 2019 through application of the full retrospective transition approach. Recognition and measurement principles of the new standards will be applied for the current year and comparative year as though AASB 15 and AASB 1058 had always applied.

Based on the impact assessments the Crown Entity has undertaken on currently available information, the Crown Entity estimates that the adoption of AASB 15 and AASB 1058 will result in:

- the decrease of deferral of revenue (unearned revenue) of \$406.2 million, with a corresponding increase in receivables of \$25 million and accumulated funds of \$431.2 million.
  - the deferral of revenue and recognition of contractual liabilities and capital grant obligations (unearned revenue) of \$493.1 million, with a corresponding decrease in accumulated funds of the same amount.
- AASB 16 *Leases* (AASB 16) is effective from reporting periods commencing on or after 1 January 2019. For lessees, AASB 16 will result in most leases being recognised on the Statement of Financial Position, as the distinction between operating and finance leases is largely removed.

The Crown Entity is not party to any lease arrangements. Accordingly, there is no impact from the adoption of AASB 16.

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## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

It is unlikely the adoption of the below new accounting standards issued but not effective will have a material impact to the Crown Entity.

- AASB 1059 *Service Concession Arrangements: Grantors* (operative date 1 July 2020)
- AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* (operative date 1 July 2019)
- AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property Annual Improvements 2014-2016 Cycle and Other Amendments* (operative date 1 July 2019)
- AASB 2017-4 *Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments* (operative date 1 July 2019)
- AASB 2018-1 *Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle* (operative date 1 July 2019)
- AASB 2018-2 *Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement* (operative date 1 July 2019)
- AASB 2018-3 *Amendments to Australian Accounting Standards – Reduced Disclosure Requirements* (operative date 1 July 2019)
- AASB 2018-4 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors* (operative date 1 July 2019)
- AASB 2018-5 *Amendments to Australian Accounting Standards - Deferral of AASB 1059* (operative date 1 July 2020)
- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material* (operative date 1 July 2020)
- AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* (operative date 1 July 2019)
- Interpretation 22 *Foreign Currency Transactions and Advance Consideration Not-for-profits only* (operative date 1 July 2019)

#### 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.

##### ***Royalties, licences and permissive occupancies***

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

#### EXPENSES

Expenses are recognised when it is probable that consumption or loss of future economic benefits have occurred, and they can be reliably measured.

##### ***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.

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## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### ***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 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. More details are provided in Note 12.

### ***Appropriations***

Parliamentary appropriations are income where an agency obtains control over appropriated assets after receiving the funds. The Crown Entity recognises these appropriations as expenses as soon as the funds are transferred. Payments of appropriation are made from the Consolidated Fund.

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

### ***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.

## **ASSETS**

Assets are future economic benefits controlled by the Crown Entity and are only recognised in the Statement of Financial Position if it is probable that the future economic benefits embodied in the asset will eventuate and the asset possesses a cost or other value that can be measured reliably.

### ***Financial assets***

The Crown Entity has adopted AASB 9, effective for the first time in 2018-19. Financial assets are classified based on the contractual cash flows and business model applicable to the financial assets held by the Crown Entity in accordance with the appropriate categories of the AASB 9 as follows:

- financial assets at amortised cost
- financial assets at fair value through profit or loss

The Crown Entity does not have any financial assets at fair value through other comprehensive income.



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## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The classification and measurement requirements of AASB 9 did not have a significant impact to the Crown Entity. The Crown Entity continues measuring at fair value, all financial assets previously held at fair value under the previous accounting standard AASB 139 *Financial Instruments: Recognition and Measurement* (AASB 139).

The following are the changes in the classification of the Crown's financial assets:

- receivables, deposits and advances repayable to the Crown classified as 'Loans and receivables' under AASB139 as at 30 June 2018 are held to collect contractual cash flows representing solely payments of principal and interest. At 1 July 2018, these are classified and measured as financial assets at amortised cost.
- Investments in TCorp IM Funds are managed on a fair value basis and hence were designated at fair value through profit and loss under AASB 139 as at 30 June 2018. Under AASB 9, these are now mandatorily required at transition date of 1 July 2018 and going forward to be classified and measured as fair value through profit or loss.

The adoption of AASB 9 and the required or elected reclassifications as at 1 July 2018 is summarised in Note 11.

##### *Financial assets at amortised cost*

The financial assets are classified and measured at amortised cost if the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. The financial assets also satisfy that the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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 expected credit loss. When they are de-recognised or impaired, gains and losses are recognised in surplus or deficit.

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

##### *Financial assets at fair value through profit or loss*

Financial assets are also recognised at fair value through profit or loss when they are managed, and their performance is evaluated on a fair value basis. Gains or losses on financial assets through profit or loss are recognised in surplus or deficit.

##### *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 by replacing AASB 139's incurred loss approach with AASB 9's forward-looking expected credit loss (ECL) approach.

The Crown Entity applies the AASB 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all debt instruments measured at amortised cost. The expected loss allowance is based on the current and forward-looking information on factors affecting the ability of counterparties to settle the receivables.

The Crown Entity applied the provision for impairment in the previous AASB 139 (comparative period only) when there is objective evidence that the Crown Entity will not be able to collect all amount due.

There is no material impact to the Crown Entity on adopting the new impairment model.

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Set out below is the reconciliation of the closing impairment allowances under AASB 139 to the opening loss allowances determined under AASB 9:

	Allowance for impairment under AASB 139 as at 30 June 2018	Re-measurement	ECL under AASB 9 as at 1 July 2018
	\$'000	\$'000	\$'000
Advances repayable to the Crown at amortised cost under AASB139 and AASB 9	15,515	-	15,515

#### *De-recognition of financial assets*

The Crown Entity de-recognises a financial asset, when the contractual rights to the cash flows from the financial assets expire or if the Crown Entity transfers its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and the Crown Entity has either:

- transferred substantially all the risks and rewards of the asset; or
- neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control.

#### **LIABILITIES**

Liabilities are the future sacrifices of economic benefits that the Crown Entity is presently obliged to make as a result of past transactions or other past events. A liability is recognised in the Statement of Financial Position when it is probable that the future sacrifice of economic benefits will be required, and the amount of the liability can be measured reliably.

Except for derivative financial instruments which are at fair value through profit or loss, the Crown Entity measures its financial liabilities as amortised cost. There are no changes in the classification and measurement for the financial liabilities.

#### *De-recognition of financial liabilities*

The Crown Entity derecognises a financial liability when the obligation specified in the contract is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the net result.

#### ***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 judgements and estimates are based on historical experience, independent valuations and/or various other factors that are believed to be reasonable under the circumstances.

Where judgements, key assumptions and estimations have been made in the preparation of the financial statements they are disclosed in the relevant notes to the financial statements, which include Notes 12(h) and 12(m) for unfunded superannuation liability.

#### **TAXATION**

The activities of the Crown Entity are exempt from Australian income tax.

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 3. REVENUE

##### a) Retained taxes, fees and fines

	2019 \$'000	2018 \$'000
Payroll tax	10,530,078	9,996,143
Stamp duties	9,250,702	10,488,292
Gambling and betting taxes	2,573,965	2,341,787
Land tax	4,293,274	3,809,098
Motor vehicle taxes and fees	2,832,897	2,759,302
Fees and fines	691,906	700,887
Government guarantee fees	299,244	286,636
Waste disposal levy	763,333	722,855
Fire and emergency service levy	927,939	917,358
Other	468,443	501,152
	<u>32,631,781</u>	<u>32,523,510</u>

Revenue from taxes, fees and fines are recognised as follows:

- Government-assessed revenue (primarily land tax and gaming) is generally recognised when assessments are issued. Fire and emergency services levy revenue (FESL) is recognised when the final assessments are issued, which is when the right to receive the revenue has occurred.
- Taxpayer-assessed revenue (payroll tax, duties and lotteries) is recognised when funds are received. Additional revenue is recognised for assessments subsequently issued following the review of returns lodged.
- Revenue from fines are recognised when payments are received or when they become overdue and enforcement activity commences. Court fines and additional income from overdue fines referred for further enforcement action is recognised when issued.

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

##### b) Commonwealth contributions

GST revenue	17,850,636	17,910,874
Specific purpose - recurrent	3,525,732	3,775,403
Commonwealth National Partnership payments - recurrent	1,330,646	1,617,680
Commonwealth National Partnership payments - capital	1,383,917	1,541,952
Revenue replacement	56,577	49,026
	<u>24,147,508</u>	<u>24,894,935</u>

Commonwealth contributions help NSW meet expenditure responsibilities. These consist of Specific Purpose and National Partnership payments, GST revenues and other General Revenue Assistance Payments. These contributions are recognised as revenue when cash is received.

The Crown Entity also receives contributions from the Commonwealth Government that are transferred to eligible beneficiaries which are not included in the above. These transfer payments are detailed in Note 22.

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 3. REVENUE (continued)

##### c) Financial distributions

	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Dividends	1,586,239	1,266,581
Income tax equivalents	339,204	481,761
	<b>1,925,443</b>	<b>1,748,342</b>

Dividends and income tax equivalents are received from the State's public trading enterprises and public financial enterprises. Revenue is recognised in the period when the right to receive payment is established.

##### d) Investment income

Interest income from financial assets at amortised cost		
Advances	67,654	78,199
Private sector deposits	116,943	210,841
Net gain/(loss) from TCorpIM Funds designated at fair value through profit or loss	-	1,102,289
Net gain/(loss) from TCorpIM Funds measured at fair value through profit or loss	2,120,750	-
	<b>2,305,347</b>	<b>1,391,328</b>

Investment income includes interest income and distributions from investments, including fair value changes of unit prices, held in TCorp investment facilities. Interest income is calculated by applying the effective interest rate to the gross carrying value of a financial asset except for financial assets that subsequently become credit-impaired. For financial assets that become credit impaired, the effective interest rate is applied to the amortised cost of the financial asset (i.e. deducting the loss allowance for expected credit losses).

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.

##### e) Other income

Contribution from other Government agencies	413,752	482,640
Revenue from Crown land assets	51,504	74,301
Confiscated Crime Proceeds	75,536	-
Crown share of Government agency asset sales	11,281	-
Repayment of contribution from NSW Self Insurance Corporation	90,000	10,000
Repayments of previous years appropriation	8,457	31,637
Long service leave contributions	25,209	44,164
Unclaimed monies	43,623	31,676
Defined benefit superannuation contributions	24,320	28,469
Reimbursements of Local Government Elections expense	-	16,919
Other	43,911	113,821
	<b>787,593</b>	<b>833,627</b>



## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 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)	
	2018-19	2017-18
Education	130,438	145,164
Industry	126,869	140,938
<b>Total</b>	<b>257,307</b>	<b>286,102</b>

(ii) *Conditional contributions for the provision of goods or services over a future period*

Description (Department)	Balance (\$'000)				
	Total	Periods to which the amounts relate			
		2018-19	2019-20	2020-21	2021-22
Ministry of Health	31,766	14,437	11,505	5,824	-
Transport – Roads & Maritime Services	453,233	453,233	-	-	-
<b>Total</b>	<b>484,999</b>	<b>467,670</b>	<b>11,505</b>	<b>5,824</b>	

2017-18 comparative

Description (Department)	Balance (\$'000)				
	Total	Periods to which the amounts relate			
		2017-18	2018-19	2019-20	2020-21
Transport – Roads & Maritime Services	277,933	277,933	-	-	-
<b>Total</b>	<b>277,933</b>	<b>277,933</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

Description (Department)	Balance (\$'000)	
	2018-19	2017-18
Education	155,854	187,864
Industry	144,279	223,197
Transport – Roads & Maritime Services	268,120	378,869
<b>Total</b>	<b>568,253</b>	<b>789,930</b>

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 4. EXPENSES

##### a) Grants and subsidies

	2019 \$'000	2018 \$'000
Infrastructure grants made by Restart	4,642,257	3,273,951
Grants to other Government agencies	1,546,443	316,896
Grants to agencies for redundancy payments	72,511	193,595
First home owners' grant	85,764	134,014
Grant to Liability Management Ministerial Corporation	21,008	20,330
Other	65,465	25,854
	<u>6,433,448</u>	<u>3,964,640</u>

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

##### b) Finance costs

Finance charges from:		
TCorp	1,258,906	1,448,466
Commonwealth Government	65,605	67,915
Other NSW Government agencies	108,144	104,266
Other	412	(54)
Unwinding of discounts	46,682	41,881
	<u>1,479,749</u>	<u>1,662,474</u>

Finance costs mainly refer to borrowing costs. The financial liabilities 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.

##### c) Employee related expenses

The Crown Entity has no employees. Employee related expenses arise from its assumption of certain NSW government agencies long service leave liabilities (LSL). The Crown also takes on the defined benefit superannuation and LSL on-costs from agencies where their defined benefit and LSL liabilities are assumed by the Crown.

The total expenses include any gain or loss on actuarial valuation of these outstanding LSL liabilities.

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 4. EXPENSES (continued)

##### c) Employee related expenses (continued)

	2019 \$'000	2018 \$'000
Long service leave expense	2,367,196	1,339,113
On-costs on long service leave and recreational leave	27,505	(8,536)
	<b>2,394,701</b>	<b>1,330,577</b>

##### d) Other expenses

GST administration costs	191,488	201,747
Remissions and refunds	52,338	63,830
Bad and doubtful debts	94,885	75,470
Audit fees		
Financial statements	847	667
Other engagement fees	291	480
Auditor General's reports to Parliament and performance audits	9,861	9,526
Consultants	14,205	64,625
Other contractors	1,438	4,666
Police superannuation scheme - medical claims cost	14,587	13,974
Land Remediation Provision	6,120	3,846
Land tax discounts	38,765	35,909
Redress scheme	186,282	240,523
University superannuation expense	185,516	(941)
Other	53,631	43,762
	<b>850,254</b>	<b>758,084</b>

#### 5. OTHER FINANCIAL ASSETS

##### Current

Deposits	900,000	3,700,000
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##### Non-current

TCorpIM Funds		
NSW Infrastructure Future Fund	18,276,586	19,447,060
Social and Affordable Housing Fund	1,216,919	1,084,447
NSW Generations (Debt Retirement) Fund	10,883,973	-
	30,377,478	20,531,507

##### Total financial assets at fair value

	<b>31,277,478</b>	<b>24,231,507</b>
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Non-current financial assets at fair value are investments held in TCorpIM Funds which are unit trust investment facilities managed by the NSW Treasury Corporation. These investments are restricted assets of the special deposit accounts namely Restart NSW Fund, Social and Affordable Housing NSW Fund and NSW Generations (Debt Retirement) Fund.

Deposits are term deposits with original maturities of more than 3 months.

##### *Application under AASB 9 (from 1 July 2018)*

Deposits are classified and measured at amortised cost. TCorpIM Funds are managed and their performance is evaluated on a fair value basis and therefore the business model is neither to hold to collect contractual cash flows or sell the financial assets. Hence these investments are mandatorily required to be measured at fair value through profit or loss.

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 5. OTHER FINANCIAL ASSETS (continued)

##### *Impairment*

The Crown Entity's term deposits are issued by financial institutions that have strong credit ratings and therefore considered to be low credit risk investments. Hence the Crown Entity measures the loss allowance for term deposits at an amount equal to 12-month ECL. However, when there is a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

##### *Application under AASB 139 (for comparative period ended 30 June 2018)*

Deposits classified as 'Loans and Receivables' were held to collect contractual cash flows representing solely payments of principal and interest, and they were measured at amortised cost.

The TCorpIM Funds were designated at fair value through profit or loss as these financial assets are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy, and information about these assets is provided internally on that basis to the key management personnel.

##### *Impairment*

The Crown Entity's term deposits were subject to an annual review for impairment. These were considered to be impaired when there was objective evidence that, as a result of one or more events that occurred after the initial recognition of the asset, the estimated future cash flows have been affected.

#### 6. ADVANCES REPAYABLE TO THE CROWN

	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>	215,943	226,077
Less: allowance for expected credit losses	-	-
allowance for impairment	-	(15,515)
<b>Net-Current</b>	<u>215,943</u>	<u>210,562</u>
<b>Non-current</b>	<u>960,652</u>	<u>834,410</u>
<b>Total advances</b>	<u><b>1,176,595</b></u>	<u><b>1,044,972</b></u>
<b>Represented by:</b>		
NSW Land and Housing Corporation	478,432	373,950
Office of Environment and Heritage	25,700	40,691
Trustee of the Home Purchase Assistance Fund	99,353	106,641
NSW Rural Assistance Authority	323,331	240,609
Department of Education	140,500	140,500
Local Government Infrastructure	22,536	40,378
Co-operative advances	41,554	50,628
Ministry of Health	44,548	50,660
NSW Police Force	-	81
Australian Muesum	161	199
Department of Justice	434	570
Other	46	65
	<u><b>1,176,595</b></u>	<u><b>1,044,972</b></u>

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 6. ADVANCES REPAYABLE TO THE CROWN (continued)

<b>Movements in the allowance for expected credit losses</b>	<b>\$'000</b>
Balance at 30 June 2018 under AASB 139	15,515
Amount restated through opening accumulated funds	-
Balance at 1 July 2018 under AASB 9	15,515
Add: increase/(decrease) in allowance recognised in net result	-
Less: amounts written off during the year	<u>(15,515)</u>
<b>Balance at 30 June 2019</b>	<b><u>-</u></b>
<b>Movements in the allowance for impairment</b>	
Balance at 1 July 2017	-
Add: new provisions	15,515
Less: amounts used	-
<b>Balance at 30 June 2018</b>	<b><u>15,515</u></b>

The above advances repayable to the Crown have a face value of \$1,469 million as at 30 June 2019 (2018: \$1,350 million) and stated interest rates of 0.0 – 6.0 per cent and mature in 1 - 23 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.

#### Recognition and Measurement

The advances repayable to the Crown are initially measured at fair value plus any transaction cost.

##### *Subsequent measurement under AASB 9 (from 1 July 2018)*

The advances repayable to the Crown are classified and subsequently measured at amortised cost as they are held for collection of contractual cash flows solely representing payments of principal and interest. Impairment losses are presented in the Statement of Comprehensive Income. Any gain or loss arising on derecognition is recognised directly in net results and presented in other gains/(losses).

##### *Impairment*

The Crown Entity recognises an allowance for expected credit losses (ECLs), which are based on the difference between the contractual cash flows and the cash flows that the Crown Entity expects to receive, discounted at the original effective interest rate. The ECLs are applied on the current and forward-looking information on factors affecting the ability of counterparties to settle the receivables. The Crown Entity assesses ECLs for all advances, generally receivable from agencies of NSW Government, which has a AAA credit rating. The Crown Entity determines that the ECLs are insignificant.

##### *Application under AASB 139 (for comparative period ended 30 June 2018)*

The advances repayable to the Crown were classified as loans and receivables at amortised cost. They were measured at amortised cost using the effective interest method, less any impairment. Changes were recognised in the net result for the year when impaired, derecognised or through the amortisation process.

##### *Impairment*

The advances repayable to the Crown were subject to an annual review for impairment. These were considered to be impaired when there was objective evidence that, as a result of one or more events that occurred after the initial recognition of the asset, the estimated future cash flows have been affected.

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 7. RECEIVABLES

	2019 \$'000	2018 \$'000
<b>Current:</b>		
Retained taxes, fees and fines	2,204,920	2,055,014
Less: allowance for impairment	(289,592)	(303,327)
<b>Net - retained taxes, fees and fines</b>	<b>1,915,328</b>	<b>1,751,687</b>
Tax equivalents	51,166	125,408
Unspent appropriations	1,862	2,861
GST Receivable	3,541	717
Dividends	844,015	862,881
Contributions from General Government agencies	73,110	36,483
Commonwealth grants	38,747	32,283
Other	9,936	139,412
<b>Total current receivables</b>	<b>2,937,705</b>	<b>2,951,732</b>
<b>Total receivables</b>	<b>2,937,705</b>	<b>2,951,732</b>
<b>Movements in the allowance for impairment</b>		
Balance at 1 July	303,327	305,306
Increase in allowance recognised in net result	122,795	90,815
Amount written off during the year	(136,530)	(92,794)
<b>Balance at 30 June</b>	<b>289,592</b>	<b>303,327</b>

#### Recognition and Measurement

Receivables are initially recognised at fair value plus any directly attributable transaction costs.

##### *Application under AASB 9 (from 1 July 2018)*

The Crown Entity holds receivables with the objective to collect the contractual cash flows and therefore measures them at amortised cost using the effective interest method, less any impairment. Changes are recognised in the net result for the year when impaired, derecognised or through the amortisation process.

Taxes, fees and fines are recognised and carried at the original levied amount less an allowance for impairment. Dividends, income tax equivalents and other receivables are recognised on an accrual basis, less any impairment.

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. The current receivables included assessments totalling \$88.6 million (2018: \$84.2 million) that were under objection or appeal.

##### *Impairment*

Except for the statutory receivables, the Crown Entity assesses ECLs for all receivables. ECLs are based on the difference between the contractual cash flows and the cash flows that the Crown Entity expects to receive, discounted at the original effective interest rate. The non-statutory receivables mainly relate to the receivables from agencies of NSW Government and Commonwealth Government, which have a AAA credit rating. The Crown Entity determines that the ECLs for these are insignificant.

The Crown Entity assesses the impairment of statutory receivables when there is an objective evidence that the impairment exists when the Crown Entity will not be able to collect all amount due.



## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 7. RECEIVABLES (continued)

*Application under AASB 139 (for comparative period ended 30 June 2018)*

Subsequent measurement is at amortised cost using the effective interest method, less any impairment. Changes are recognised in the net result for the year when impaired, derecognised or through the amortisation process.

#### 8. 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.

	2019 \$'000	2018 \$'000
<b>Current:</b>		
Financial charges	309,103	283,862
Tax equivalents	27,862	-
Other	82,597	108,645
<b>Total current payables</b>	<u>419,562</u>	<u>392,507</u>
<b>Total payables</b>	<u>419,562</u>	<u>392,507</u>

Financial charges mainly represent accrued interest payable to TCorp and the Commonwealth Government. Other payables are non-interest bearing and are generally on 30-day terms. 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.

#### 9. BORROWINGS

All loans and borrowings are initially recognised 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. The effective interest method is used to measure interest-bearing loans and borrowings at amortised cost. Gains and losses are recognised in surplus or deficit when the liabilities are derecognised, as well as through the amortisation process.

Current	480,081	524,304
Non-current	32,500,926	28,450,878
<b>Total borrowings</b>	<u>32,981,007</u>	<u>28,975,182</u>
<b>Analysed as:</b>		
TCorp borrowings	32,381,273	28,345,014
Commonwealth financial agreements	184	184
Commonwealth specific purpose advances	551,692	582,126
Commonwealth other	47,858	47,858
<b>Total borrowings at amortised cost</b>	<u>32,981,007</u>	<u>28,975,182</u>

Borrowings from TCorp are interest bearing. The weighted average interest cost, including the amortisation of bond premium or discount, of the TCorp debt portfolio was 3.67 per cent (2018: 4.03 per cent). 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 11. The borrowing limits are also detailed in Note 11.

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 9. BORROWINGS (continued)

##### Changes in liabilities arising from financing activities

	1 July 2018 \$'000	Cashflows \$'000	Other * \$'000	30 June 2019 \$'000
TCorp borrowings	28,345,014	3,308,798	727,461	32,381,273
Commonwealth financial agreements	184	-	-	184
Commonwealth specific purpose advances	582,126	( 53,816)	23,382	551,692
Commonwealth other	47,858	-	-	47,858
<b>Total liabilities from financing activities</b>	<b>28,975,182</b>	<b>3,254,982</b>	<b>750,843</b>	<b>32,981,007</b>

\* Other includes non-cash borrowing activities.

	1 July 2017 \$'000	Cashflows \$'000	Other * \$'000	30 June 2018 \$'000
TCorp borrowings	28,279,304	612,409	( 546,699)	28,345,014
Commonwealth financial agreements	189	( 6)	1	184
Commonwealth specific purpose advances	610,398	( 53,219)	24,947	582,126
Commonwealth other	47,858	6,559	( 6,559)	47,858
<b>Total liabilities from financing activities</b>	<b>28,937,749</b>	<b>565,743</b>	<b>( 528,310)</b>	<b>28,975,182</b>

\* Other includes non-cash borrowing activities.

#### 10. DERIVATIVE FINANCIAL INSTRUMENTS

The Social and Affordable Housing Fund (SAHF), being a special deposit account held by the Crown Entity was established to boost the delivery of social and affordable housing across NSW. Refer to Note 19 for details.

The SAHF supports funding obligations of the Department of Family and Community Services' (FACS) commitments to several projects' payments. The SAHF structure involves the Crown Entity making series of variable interest-related monthly service payments. In order to manage the exposure to variable interest rate, the Crown Entity has entered derivative contracts to hedge against unfavourable interest rate movements.

The derivative financial instruments are classified as fair value through profit and loss. The realised and unrealised movements in the fair value of these derivative instruments are recognised in gains or losses from financial instruments. These derivative instruments are recognised on a trade date basis.

##### Fair value of the Crown Entity's derivative financial instruments

	2019 \$'000	2018 \$'000
<b>Current Asset</b>		
Futures	3,081	-
	<b>3,081</b>	-
<b>Current liability</b>		
Futures	10,658	-
	<b>10,658</b>	-
<b>Non-current liability</b>		
Swaps	196,101	-
	<b>196,101</b>	-
<b>Net amount liabilities</b>	<b>203,678</b>	-

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 11. FINANCIAL INSTRUMENTS

The Crown Entity's principal financial instruments are outlined below. 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 or trade 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.

#### Financial instrument categories

On 1 July 2018 (the date of initial application of AASB 9), the Crown Entity's management has assessed which business models apply to the financial assets held by the Crown Entity and has classified its financial instruments into the appropriate AASB 9 categories. The measurement of debt financial assets is based on assessing the contractual cash flow characteristics of the debt instrument and the Crown Entity's business model for managing the instrument. The assessment of the Crown Entity's business model was made as of the date of initial application, 1 July 2018. The assessment of whether contractual cashflows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of AASB 9 did not have a significant impact to the Crown Entity. The Crown Entity continues to measure at amortised cost advances repayable to the Crown, deposits, receivables, borrowings, payables and financial guarantees previously held at amortised cost under AASB 139. In addition, the Crown Entity continues to measure at fair value, all financial assets previously held at fair value under AASB 139. As such there have been no changes to the carrying amount of the financial assets and financial liabilities as at 1 July 2018.

In summary, upon the adoption of AASB 9, the Crown Entity had the following required or elected reclassification as at 1 July 2018.

	Note	Measurement Category		Carrying Amount	
		AASB 139	AASB 9	Original \$'000	New \$'000
<b>Financial assets</b>					
Other financial assets	5	At fair value through profit or loss (designated as such upon initial recognition)	Fair Value through profit or loss	20,531,507	20,531,507
Other financial assets	5	Loans and Receivables (at amortised cost)	Amortised cost	3,700,000	3,700,000
Advances repayable to the Crown	6	Loans and Receivables (at amortised cost)	Amortised cost	1,044,972	1,044,972
Receivables <sup>1</sup>	7	Loans and Receivables (at amortised cost)	Amortised cost	1,071,059	1,071,059
<b>Financial liabilities</b>					
Payables	8	Financial liabilities (at amortised cost)	Amortised cost	392,507	392,507
Borrowings	9	Financial liabilities (at amortised cost)	Amortised cost	28,975,182	28,975,182
Financial guarantees	20(b)	Financial liabilities (at amortised cost)	Amortised cost	3,000	3,000

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

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 11. FINANCIAL INSTRUMENTS (continued)

##### Financial instrument categories as at 30 June 2019 (under AASB 9) and as at 30 June 2018 (under AASB 139)

	Note	Category under AASB 9 as at 30 June 2019	Category under AASB 139 as at 30 June 2018	Carrying Amount	
				2019 \$'000	2018 \$'000
<b>Financial assets</b>					
Cash and cash equivalents	17(a)	N/A	N/A	1,723,849	2,603,051
Other financial assets	5	Fair value through profit or loss	Fair value through profit or loss (designated as such upon initial recognition)	30,377,478	20,531,507
Other financial assets	5	Amortised cost	Loans and Receivables (at amortised cost)	900,000	3,700,000
Derivative financial instruments	10	Fair value through profit or loss	N/A	3,081	-
Advances repayable to the Crown	6	Amortised cost	Loans and Receivables (at amortised cost)	1,176,595	1,044,972
Receivables <sup>1</sup>	7	Amortised cost	Loans and Receivables (at amortised cost)	965,808	1,071,059
<b>Financial liabilities</b>					
Payables <sup>1</sup>	8	Amortised cost	Financial liabilities (at amortised cost)	391,700	392,507
Bank overdrafts	17(a)	N/A	N/A	10,831,499	7,050,719
Borrowings	9	Amortised cost	Financial liabilities (at amortised cost)	32,981,007	28,975,182
Derivative financial instruments	10	Fair value through profit or loss	N/A	206,758	-
Financial guarantees	20(b)	Amortised cost	Financial liabilities (at amortised cost)	1,005	3,000

<sup>1</sup> Excludes statutory receivables and payables and prepayments and therefore differs from the amounts shown in the Statement of Financial Position.

#### 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. other price risk
- credit risk
- liquidity risk

Management has overall responsibility for the establishment and oversight of risk management, and 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. The Crown Entity contracts the NSW Treasury Corporation (TCorp) to manage many of these risks in line with Memoranda of Understanding (MoU) and Investment Services Agreements (ISA) between the parties.

NSW Treasury sets the debt, investment and financial risk management strategy for the Crown Entity with TCorp managing and monitoring associated financial risks within the boundaries of its established Board policies, legislative requirements, management guidelines and relevant MoU or ISAs.

Treasury's Asset and Liability Committee (ALCO) monitors and reports on risks in the Crown Entity's financial instrument activities and provides recommendations to the Treasury Secretary around appropriate risk levels and preferences. ALCO is supported by NSW Treasury's Financial Risk Management team (FRM), who provide ALCO's secretariat function and are also responsible for developing financial risk management strategy and policy for the Whole of State.

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## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 11. FINANCIAL INSTRUMENTS (continued)

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

Proposed changes to the MoU and ISA must go through a consultative process between TCorp and the FRM team at NSW Treasury. Regular meetings take place between TCorp, FRM and the Chief Financial Officer to monitor the performance and management of the Crown Entity's investment and debt portfolios. 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.

#### **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.

The effects on the Crown Entity's net result and equity due to reasonably possible changes in risk variables are outlined in the information below. 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 2018. The analysis assumes that all other variables remain constant.

#### **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 at fair value through other comprehensive income or as available-for-sale (until 30 June 2018). Therefore, for these financial instruments, a change in interest rates would not affect the Crown Entity's operating result or equity.

The Crown Entity has entered into derivative contracts (interest rate swap contracts and short-term future contracts) to hedge against interest rate movements for the SAHF's variable interest-related funding obligations to FACS, which has commitments to projects' payments. The details of the derivative financial instruments are set out in Note 10. As the derivative contracts are classified as fair value through profit and loss, a change in interest rates would result in gains or losses in the derivative contracts, which will affect the Crown Entity's operating result.

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.

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 11. FINANCIAL INSTRUMENTS (continued)

	Carrying Amount \$'000	Net result \$'000	-1%	Equity \$'000	Net result \$'000	+1%	Equity \$'000
<b>2019</b>							
<b>Financial assets</b>							
Cash and cash equivalents	1,723,849	(17,238)		-	17,238		-
<b>Financial liabilities</b>							
Bank overdrafts	10,831,499	108,315		-	(108,315)		-
Borrowings managed by TCorp	32,381,273	2,420,371		-	(2,420,371)		-
Net derivative financial instruments	203,677	(50,571)		-	50,571		-
<b>2018</b>							
<b>Financial assets</b>							
Cash and cash equivalents	2,603,051	(26,031)		-	26,031		-
<b>Financial liabilities</b>							
Bank overdrafts	7,050,719	70,507		-	(70,507)		-
Borrowings managed by TCorp	28,345,014	1,956,485		-	(1,956,485)		-

<sup>1</sup> Excludes the financial assets which are in the NSW Infrastructure Future Fund, the Social and Affordable Housing NSW Fund Investment Trust and the NSW Generations (Debt Retirement) Fund Investment Trust facilities held at TCorp. These are subject to the overall price risks of the facility.

#### **Other price risk**

Exposure to 'other price risk' primarily arises from the Crown Entity investments in other financial assets which include mainly investments in various TCorp investment facilities. These investments are held for strategic rather than trading purposes.

The Crown Entity holds units in the following TCorp investment facilities:

Facility	Investment Sectors	Investment Horizon	2019 (\$'000)	2018 (\$'000)
NSW Infrastructure Future Fund	Cash, Australian shares, International shares, emerging market equities, Australian bonds and investment grade credit	10 years and over	18,276,586	19,447,060
Social and Affordable Housing Fund Investment Trust	Cash, Australian shares, International shares, emerging market equities, Australian bonds and investment grade credit	10 years and over	1,216,919	1,084,447
NSW Generations (Debt Retirement) Fund Investment Trust	Cash, Australian shares, International shares, emerging market equities, Australian bonds and investment grade credit	10 years and over	10,883,973	-

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.



## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 11. FINANCIAL INSTRUMENTS (continued)

##### *Other price risk (continued)*

These investments 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.

##### *Other price risk sensitivity analysis*

Facility	Change in unit price (%) <sup>1</sup>	Impact on net result (\$'000)
NSW Infrastructure Future Fund	+/-6%	1,096,595
Social and Affordable Housing Fund Investment Trust	+/-12%	146,030
NSW Generations (Debt Retirement) Fund Investment Trust	+/-15%	1,632,596

<sup>1</sup> The 6%, 12% and 15% relate to the sensitivity for the NSW Infrastructure Future Fund, the Social and Affordable Housing Fund Investment Trust and NSW Generations (Debt Retirement) Fund Investment Trust on a standalone basis based on changes in unit prices since inception of those Funds in December 2016, July 2017 and November 2018 respectively.

##### **Credit risk**

Credit risk arises from the financial assets of the Crown Entity, which comprise of cash and cash equivalents, deposits, advances, receivables, and financial guarantees. The Crown Entity's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments (net of any allowance for ECLs in the current year or allowance for impairment in the comparative period).

##### *Cash and cash equivalents*

Cash comprises 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.

*Accounting policy for impairment of other financial assets, advances repayable to the Crown and receivables under AASB 9*

##### *Other financial assets - Deposits*

The Crown Entity has placed funds on deposit with TCorp, which has been rated 'AAA' by Standard and Poor's. These deposits are similar to money market or bank deposits and can be placed 'at call' or for a fixed term. These deposits are considered to be low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months expected losses. The Crown Entity also placed funds on deposit with other financial institutions, which have high credit ratings. There were no indicators for impairment for these deposits during the year.

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 11. FINANCIAL INSTRUMENTS (continued)

##### *Credit risk (continued)*

###### *Advances repayable to the Crown*

Advances are given to entities on terms set by parties within the NSW Government and which follow the Treasurer's directions. 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 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 Crown Entity recognises an allowance for ECLs, which are based on the difference between the contractual cash flows and the cash flows that the Crown Entity expects to receive, discounted at the original effective interest rate. The ECLs are applied on the current and forward-looking information on factors affecting the ability of counterparties to settle the advances. The Crown Entity groups the advances by counterparties which are mainly NSW Government agencies and applies the ECLs to determine expected loss allowance. The ECLs have been assessed to be insignificant. The advances are written off when there is no reasonable expectation of recovery.

###### *Receivables*

Receivables include statutory receivables and non-statutory receivables. Statutory receivables such as taxes, fees and fines and income tax equivalents are excluded as they are not financial instruments.

The non-statutory receivables comprise of dividends and contributions from certain NSW Government agencies. They also include the grants from Commonwealth Government. These counterparties have a AAA credit rating, and the ECLs are insignificant.

###### *Accounting policy for impairment of receivables and advances repayable to the Crown under AASB 139 (comparative period only)*

The Crown Entity applies the provision for impairment in the previous AASB 139 when there is objective evidence that the Crown Entity will not be able to collect all amount due.

For the comparative period 30 June 2018, the ageing analysis of receivables and advances under AASB 139 were as follows:

	Total \$'000	Past due but not impaired \$'000			Considered impaired \$'000
		< 3 months overdue	3 - 6 months overdue	> 6 months overdue	
<b>2018</b>					
Advances repayable to the Crown	156,015	140,500	-	-	15,515
Receivables	371	371	-	-	-

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 11. FINANCIAL INSTRUMENTS (continued)

##### *Credit risk (continued)*

##### Concentration of credit risk

By credit rating	AAA	AA+	AA	AA-	A+	A	Other ratings <sup>1</sup>	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2019</b>								
Cash and cash equivalents	6,524	-	-	1,717,301	-	-	24	1,723,849
Other financial assets	400,000	-	-	500,000	-	-	-	900,000
Advances	-	-	-	-	-	-	1,176,595	1,176,595
Receivables	-	-	-	3,054	-	-	962,754	965,808
Derivative financial instruments	3,081	-	-	-	-	-	-	3,081
<b>2018</b>								
Cash and cash equivalents	6,825	-	-	2,596,203	-	-	23	2,603,051
Other financial assets	1,300,000	-	-	2,400,000	-	-	-	3,700,000
Advances	-	-	-	-	-	-	1,044,972	1,044,972
Receivables	-	-	-	121,446	-	-	949,613	1,071,059

By classification of counterparty	Governments	Banks	Other	Total
	\$'000	\$'000	\$'000	\$'000
<b>2019</b>				
Cash and cash equivalents	6,524	1,717,300	25	1,723,849
Other financial assets	400,000	500,000	-	900,000
Advances	1,135,042	-	41,553	1,176,595
Receivables	961,780	3,055	973	965,808
Derivative financial instruments	3,081	-	-	3,081
<b>2018</b>				
Cash and cash equivalents	6,825	2,596,203	23	2,603,051
Other financial assets	1,300,000	2,400,000	-	3,700,000
Advances	994,344	-	50,628	1,044,972
Receivables	949,613	120,098	1,348	1,071,059

<sup>1</sup> 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.

##### *Other Financial assets*

Other financial assets at fair value include investments in NSW Infrastructure Future Fund, the Social and Affordable Housing Fund Investment Trust and the NSW Generations (Debt Retirement) Fund Investment Trust managed by TCorp. These investments are unit holdings, and as such, do not give rise to credit risk.

##### *Financial guarantees*

The Crown Entity has a number of financial guarantees to which it is a party on behalf of other entities, agencies and departments. The guarantees outstanding at 30 June 2019 have an estimated amortised total value of \$1.0 million (2018: \$3.0 million). The estimated value was calculated by independent valuers based on the probabilities of these guarantees being exercised.

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## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 11. FINANCIAL INSTRUMENTS (continued)

##### **Credit risk (continued)**

These guarantees include.

*Public Private Partnership Guarantees:* The Crown has guaranteed that various 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 \$11,626 million (2018: \$5,118 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 off-set arrangements within the 'one-account' agreement with the State's contract banker
- Come and Go Facility
- borrowings

The off-set arrangements allow the Consolidated Fund to be drawn down to a maximum debit balance of \$25,000 million (2018: \$25,000 million). The limit can be utilised to the extent that the debit balance of the Consolidated Fund is fully offset by credit balances of all government bank accounts within the Treasury Banking System. The State's overnight net position is maintained in credit at all times.

The Come and Go Facility is a short-term facility provided by TCorp to facilitate liquidity. The facility has a limit of \$3,000 million (2018: \$6,000 million). In 2018-19, \$1,100 million was drawn from the Facility (2018: Nil).

Under the *Public Authorities (Financial Arrangements) Act 1987*, the Crown Entity has approved financial accommodation of \$32,500 million for debt funding. 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 Crown Entity outsources the daily management of its borrowings to TCorp, which manages them in accordance with established modified duration targets and in discussions with NSW Treasury.

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.

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 11. FINANCIAL INSTRUMENTS (continued)

##### Liquidity risk (continued)

	Weighted average effective interest rate %	Nominal amount <sup>1</sup> \$'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
<b>2019</b>								
Payables	-	391,700	-	-	391,700	391,700	-	-
Bank overdrafts	2.35	10,831,499	-	10,831,499	-	10,831,499	-	-
TCorp borrowings <sup>1</sup>	3.67	40,805,263	40,805,263	-	-	1,604,527	11,499,600	27,701,136
Cwth financial agreements	2.87	183	183	-	-	183	-	-
Cwth specific purpose advances <sup>1</sup>	4.41	855,739	855,739	-	-	54,273	215,231	586,235
Cwth other	4.50	47,858	47,858	-	-	-	31,905	15,953
Derivative financial instruments	-	268,582	-	268,582	-	16,929	51,056	200,597
Financial guarantees <sup>2</sup>	-	11,625,908	-	-	11,625,908	663,728	2,452,749	8,509,431
<b>Total financial liabilities<sup>3</sup></b>		<b>64,826,732</b>	<b>41,709,043</b>	<b>11,100,081</b>	<b>12,017,608</b>	<b>13,562,839</b>	<b>14,250,541</b>	<b>37,013,352</b>
<b>2018</b>								
Payables	-	392,507	-	-	392,507	392,507	-	-
Bank overdrafts	2.35	7,050,719	-	7,050,719	-	7,050,719	-	-
TCorp borrowings <sup>1</sup>	4.03	36,669,644	36,669,644	-	-	1,555,357	12,046,493	23,067,794
Cwth financial agreements	2.87	184	184	-	-	184	-	-
Cwth specific purpose advances <sup>1</sup>	4.40	909,555	909,555	-	-	53,997	218,919	636,639
Cwth other	4.50	47,858	47,858	-	-	-	3,988	43,870
Financial guarantees <sup>2</sup>	-	5,408,576	-	-	5,408,576	281,323	1,009,130	4,118,123
<b>Total financial liabilities<sup>3</sup></b>		<b>50,479,043</b>	<b>37,627,241</b>	<b>7,050,719</b>	<b>5,801,083</b>	<b>9,334,087</b>	<b>13,278,530</b>	<b>27,866,426</b>

<sup>1</sup> 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.

<sup>2</sup> 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 \$1.0 million (2018: \$3.0 million).

<sup>3</sup> Total differs from the Statement of Financial Position mainly due to guarantees being measured on a worst-case scenario.

##### Fair value measurement

Financial instruments are generally recognised at cost. 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	2019 Fair value \$'000	Fair value level	2018 Carrying amount \$'000	Fair value \$'000
<b>Financial assets</b>					
Co-operative advances	41,553	41,607	Level 2	50,628	50,703
<b>Financial liabilities</b>					
TCorp borrowings	32,381,273	36,504,255	Level 2	28,345,014	30,362,679

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 11. FINANCIAL INSTRUMENTS (continued)

##### *Fair value measurement (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:

2019	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets at fair value</b>				
Derivatives	3,081	-	-	3,081
TCorpIM funds				
- NSW Infrastructure Fund	-	18,276,587	-	18,276,587
- Social and Affordable Housing Fund Investment Trust	-	1,216,918	-	1,216,918
- NSW Generations (Debt Retirement) Fund Investment Trust	-	10,883,973	-	10,883,973
	<b>3,081</b>	<b>30,377,478</b>	-	<b>30,380,559</b>
<b>Financial liabilities at fair value</b>				
Derivatives	10,658	196,101	-	206,759
	<b>10,658</b>	<b>196,101</b>	-	<b>206,759</b>
<b>2018</b>				
TCorpIM funds				
- NSW Infrastructure Fund	-	19,447,060	-	19,447,060
- Social and Affordable Housing Fund Investment Trust	-	1,062,405	22,042	1,084,447
	-	<b>20,509,465</b>	<b>22,042</b>	<b>20,531,507</b>

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.

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



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## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 11. FINANCIAL INSTRUMENTS (continued)

##### Reconciliation of level 3 fair value measurements

	<b>\$'000</b>
Opening balance at 1 July 2018	22,042
Additions	-
Transfers to Level 2	<u>(22,042)</u>
<b>Closing balance at 30 June 2019</b>	<u>-</u>
Opening balance at 1 July 2017	41,290
Additions	22,042
Derecognition on termination	<u>(41,290)</u>
<b>Closing balance at 30 June 2018</b>	<u><b>22,042</b></u>

There was a transfer between the levels during the year ended 30 June 2019 (2018: Nil).

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 12. UNFUNDED SUPERANNUATION LIABILITY

The Crown Entity's total unfunded superannuation liability is made up of the financial assets and liabilities of six NSW public sector defined benefit superannuation schemes listed below:

<b>Scheme</b>	<b>Coverage</b>	<b>Scheme Type</b>	<b>Benefit Type</b>
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

The four main schemes SSS, PSS, SASS and SANCS are aggregated into one Pooled Fund (Pooled Fund schemes).

SAS Trustee Corporation (STC) engaged two independent actuaries, Mercer Consulting and PWC, to provide superannuation financial year-end reporting information required for all individual self-funding employers (apart from the Crown). Mercer also performs the same work for the Crown but through the engagement with NSW Treasury. This work covers the Pooled Fund schemes, PCSS (in conjunction with Consulting Cumpston Sarjeant Pty Ltd) and JPS.

Actuaries calculated unfunded superannuation liabilities as at 30 June 2019 using:

- latest available scheme membership data
- demographic assumptions of the 2018 Triennial Valuation of the Pooled Fund schemes
- an additional allowance for staff reductions
- Australian Accounting Standard AASB 119 applies (for reporting purposes) and AASB 1056 (for funding purposes) to employee benefits as at 30 June 2019.

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## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 12. UNFUNDED SUPERANNUATION LIABILITY (continued)

##### *Regulatory framework*

**The Pooled Fund schemes** are established under 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 administered by the SAS Trustee Corporation which is a body corporate constituted under the *Superannuation Administration Act 1996* and which reports to the STC Trustee Board. The 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 schemes 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 schemes and the STC 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 STC Trustee Board and internal processes that monitor the STC Trustee Board's adherence to the principles of the Commonwealth's retirement incomes policy.

An actuarial investigation of the Pooled Fund schemes is performed every three years. The last actuarial investigation was performed as at 30 June 2018. The next actuarial investigation will be performed at 30 June 2021.

**The Parliamentary Contributory Superannuation Scheme (PCSS)** is administered by the PCSS Trustee Board and is established under 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 and the activities of its Trustee Board 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 28 November 2018). It is essentially a pay-as-you-go pension scheme not a superannuation fund and as such, it does not have a Trustee Board.

Actuarial investigations of the PCSS and JPS are performed approximately every three years. The last actuarial investigations were performed as at 30 June 2017 for PCSS and 1 January 2018 for JPS.

##### *Governance*

In general terms, a 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.

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 12. UNFUNDED SUPERANNUATION LIABILITY (continued)

##### Risks

There are a number of risks to which a 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.

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

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

##### (a) Member numbers

	SASS	SANCS	SSS	PSS	JPS	PCSS
Contributors	14,946	17,627	1,907	775	129	14
Deferred benefits	9,347	11,016	645	24	-	2
Pensioners	3,267	-	47,268	6,664	233	277
Pensions fully commuted	-	-	13,623	-	-	-

##### (b) Superannuation position for AASB 119 Employee Benefits

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2018-19 \$'000
Accrued liability <sup>1</sup>	14,982,374	2,417,707	65,186,027	20,187,385	1,443,247	979,600	105,196,340
Fair value of the reserve account	(9,906,493)	(1,663,344)	(21,014,846)	(5,113,050)	-	(336,400)	(38,034,133)
Deficit/(surplus)	5,075,881	754,363	44,171,181	15,074,335	1,443,247	643,200	67,162,207
Future service liability <sup>2</sup>	879,159	394,299	173,951	(18,509)	-	-	1,428,900
Net liability to be disclosed in the Statement of Financial Position	5,075,881	754,363	44,171,181	15,074,335	1,443,247	643,200	67,162,207
Current							1,729,271
Non-current							65,432,936
							<b>67,162,207</b>

<sup>1</sup> 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.

<sup>2</sup> 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 2019

#### 12. UNFUNDED SUPERANNUATION LIABILITY (continued)

##### (c) Reconciliation of the net defined benefit obligation

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2018-19 \$'000
<i>Present value at 1/7/18</i>	4,223,471	668,215	35,649,349	11,588,544	1,177,021	481,600	53,788,200
Transfers in/(out) through equity	(633)	(1,166)	15,718	-	-	-	13,919
Current service cost	233,158	50,246	69,696	-	49,332	1,800	404,232
Net interest	108,481	16,899	931,920	302,914	30,449	12,500	1,403,163
Actual return on fund assets less interest income	(530,958)	(86,345)	(1,108,822)	(266,006)	-	(23,200)	(2,015,331)
Actuarial (gains)/losses arising from changes in demographic assumptions	12,176	(404)	655	-	-	-	12,427
Actuarial (gains)/losses arising from changes in financial assumptions	977,702	135,822	10,148,570	4,005,844	229,471	193,200	15,690,609
Actuarial (gains)/losses arising from liability experience	312,109	32,186	(570,754)	(241,308)	5,769	(4,100)	(466,098)
Employer contribution	(259,625)	(61,090)	(965,151)	(315,653)	(48,795)	(18,600)	(1,668,914)
<i>Present value at 30/6/19</i>	<b>5,075,881</b>	<b>754,363</b>	<b>44,171,181</b>	<b>15,074,335</b>	<b>1,443,247</b>	<b>643,200</b>	<b>67,162,207</b>

##### (d) Reconciliation of the fair value of the reserve account

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2018-19 \$'000
<i>Fair value at 1/7/18</i>	10,206,997	1,692,330	20,502,258	4,873,624	-	315,300	37,590,509
Transfers in/(out) through equity	8,799	2,598	20,824	-	-	-	32,221
Interest income	259,447	42,609	524,490	126,778	-	8,300	961,624
Actual return on Fund assets less interest income	530,958	86,345	1,108,822	266,006	-	23,200	2,015,331
Employer contributions	259,626	61,090	965,151	315,653	48,795	18,600	1,668,915
Contributions by participants	119,637	-	36,202	6,457	-	500	162,796
Benefits paid	(1,447,149)	(218,253)	(2,257,960)	(498,615)	(48,795)	(28,200)	(4,498,972)
Taxes, premiums & expenses paid	(31,822)	(3,375)	115,059	23,147	-	(1,300)	101,709
<i>Fair value at 30/6/19</i>	<b>9,906,493</b>	<b>1,663,344</b>	<b>21,014,846</b>	<b>5,113,050</b>	<b>-</b>	<b>336,400</b>	<b>38,034,133</b>

##### (e) Reconciliation of the defined benefit obligation

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2018-19 \$'000
<i>Present value at 1/7/18</i>	14,430,468	2,360,545	56,151,607	16,462,168	1,177,021	796,900	91,378,709
Transfers in/(out) through equity	8,166	1,432	36,542	-	-	-	46,140
Current service cost	233,158	50,246	69,696	-	49,332	1,800	404,232
Interest cost	367,928	59,508	1,456,410	429,692	30,449	20,800	2,364,787
Contributions by participants	119,637	-	36,202	6,457	-	500	162,796
Actuarial (gains)/ losses arising from changes in demographic assumptions	12,176	(404)	655	-	-	-	12,427
Actuarial (gains)/losses arising from changes in financial assumptions	977,702	135,822	10,148,570	4,005,844	229,471	193,200	15,690,609
Actuarial (gains)/losses arising from liability experience	312,109	32,186	(570,754)	(241,308)	5,769	(4,100)	(466,098)
Benefits paid	(1,447,149)	(218,253)	(2,257,960)	(498,615)	(48,795)	(28,200)	(4,498,972)
Taxes, premiums & expenses paid	(31,821)	(3,375)	115,059	23,147	-	(1,300)	101,710
<i>Present value at 30/6/19</i>	<b>14,982,374</b>	<b>2,417,707</b>	<b>65,186,027</b>	<b>20,187,385</b>	<b>1,443,247</b>	<b>979,600</b>	<b>105,196,340</b>

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 12. UNFUNDED SUPERANNUATION LIABILITY (continued)

##### (f) Reconciliation of the effect of the asset ceiling

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2018-19 \$'000
<i>Adjustment for effect of asset ceiling at beginning of the year</i>	-	-	-	-	-	-	-
Interest on the effect of asset ceiling	-	-	-	-	-	-	-
Change in the effect of asset ceiling	-	-	-	-	-	-	-
<i>Adjustment for effect of asset ceiling at end of the year</i>	-	-	-	-	-	-	-

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.

##### (g) 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 <sup>1</sup>	Level 1	Level 2	Level 3	Total	% of total
	\$'000	\$'000	\$'000	2018-19 \$'000	
Short Term Securities	2,135,561	1,906,555	-	4,042,116	9.6%
Australian Fixed Interest	4,993	2,289,679	-	2,294,672	5.4%
International Fixed Interest	6,827	1,952,396	8,871	1,968,094	4.7%
Australian Equities	7,818,302	547,571	3,055	8,368,928	19.8%
International Equities	8,795,299	2,592,132	8	11,387,439	27.0%
Property	698,607	717,079	2,172,544	3,588,230	8.5%
Alternatives	327,328	5,758,094	4,472,758	10,558,180	25.0%
<b>Total</b>	<b>19,786,917</b>	<b>15,763,506</b>	<b>6,657,236</b>	<b>42,207,659</b>	<b>100.0%</b>

<sup>1</sup> 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 level 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.



## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 12. UNFUNDED SUPERANNUATION LIABILITY (continued)

The fair value of the Pooled Fund assets as at 30 June 2019 includes \$99.5 million (2018: \$97.7 million) in NSW government bonds.

Of the direct properties owned by the Pooled Fund:

- STC occupies part of a property 100% owned by the Pooled Fund with a fair value of \$316 million (2018: \$280 million).
- Health Administration Corporation occupies part of a property 50 per cent owned by the Pooled Fund with a fair value of \$331 million (2018: \$287 million).

#### (h) Significant actuarial assumptions at the reporting date

	Pooled Fund	PCSS	JPS
Discount rate		1.32%	
Salary increase rate (excluding promotional increases)	3.2% pa	2.50% pa 2019/20; 3.20% pa thereafter	3.20% pa
Rate of CPI increase	1.75% pa for 2018/19 and 2019/20; 2.00% pa for 2020/21; 2.25% pa for 2021/22 and 2022/23; 2.50% pa thereafter.	1.75% pa for 2019/20; 2.00% pa 2020/21; 2.25% pa 2021/22 and 2022/23; 2.50% pa thereafter	N/A
Pensioner mortality	The pensioner mortality assumptions are as per the 2018 actuarial investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report available from the Trustee's website. The report shows the pension mortality rates for each age.	as per 2017 triennial actuarial valuation	as per 2018 triennial actuarial valuation

#### (i) Sensitivity analysis

The total defined benefit obligation as at 30 June 2019 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 2019.

##### Pooled Fund

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.

	Base Case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate
Discount rate	as above	above -1.0% pa	above +1.0% pa
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above	as above
Defined benefit obligation (\$'000)	102,773,494	118,745,452	89,802,160
	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	above rates plus 0.5% pa	above rates less 0.5% pa
Salary inflation rate	as above	as above	as above
Defined benefit obligation (\$'000)	102,773,494	109,814,634	96,220,489

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 12. UNFUNDED SUPERANNUATION LIABILITY (continued)

	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	as above plus 0.5%pa	as above rates less 0.5% pa
Defined benefit obligation (\$'000)	102,773,494	103,063,041	102,304,236

  

	Base Case	Scenario G Lower mortality*	Scenario H Higher mortality**
Defined benefit obligation (\$'000)	102,773,494	104,492,896	101,520,287

\* Assumes the short-term pensioner mortality improvement factors for years 2019-2023 also apply for years after 2023.

\*\* Assumes the long-term pensioner mortality improvement factors for years post 2023 also apply for years 2019 to 2023.

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

#### Parliamentary Contributory Superannuation and Judges Pension Schemes

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	1.32%	0.32%	2.32%	1.32%	0.32%	2.32%
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)	979,600	1,182,000	824,000	1,443,338	1,646,494	1,266,887

  

	PCSS			JPS		
	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 rates plus 0.5% pa	as above rates less 0.5% pa	as above	as above rates plus 0.5% pa	as above rates less 0.5% pa
Defined benefit obligation (\$'000)	979,600	1,071,000	898,000	1,443,338	1,561,786	1,336,717

  

	PCSS			JPS		
	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)	979,600	946,000	1,013,200	1,443,338	1,384,410	1,514,900

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 2019

#### 12. UNFUNDED SUPERANNUATION LIABILITY (continued)

##### (j) Asset–Liability matching strategies

The Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cash flows to manage liquidity requirements. No explicit asset-liability matching strategy is used by the Trustee.

##### (k) Funding arrangements

Funding arrangements for the Pooled Fund schemes are reviewed at least every three years following the release of the triennial actuarial review. The 2018 actuarial review confirmed that, on condition that the assumed economic and demographic assumptions coming to fruition, the current funding plan is on track to fully fund accrued past service liabilities by 30 June 2030. Contribution rates are set after discussions between the employer, STC and NSW Treasury.

Funding arrangements for PCSS are reviewed around every three years with the last review being carried out in 2017. Contribution rates are set after discussions between the PCSS actuary and NSW Treasury.

JPS is run as a pay-as-you-go scheme. An annual Budget allocation is made to the Attorney General's Department, from which it pays Judges' Pensions. Additionally, Crown contributions are made into the Liability Management Ministerial Corporation (LMMC), which is constituted under the *General Government Liability Management Act 2002*. The LMMC accumulates financial assets primarily to support the long-term target of extinguishing total State Sector unfunded superannuation liabilities (including JPS liabilities) by 2030.

The following is a summary of the 30 June 2019 financial position of the NSW Public Sector defined benefit fund schemes calculated in accordance with AASB 1056 *Superannuation Entities*.

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	2018-19 \$'000
Accrued benefits <sup>1</sup>	11,427,711	1,921,171	29,259,990	7,506,508	754,562	426,300	51,296,242
Net market value of Fund assets	(9,906,493)	(1,663,344)	(21,014,846)	(5,113,050)	-	(336,400)	(38,034,133)
Net deficit	<b>1,521,218</b>	<b>257,827</b>	<b>8,245,144</b>	<b>2,393,458</b>	<b>754,562</b>	<b>89,900</b>	<b>13,262,109</b>

<sup>1</sup> There is no allowance for a contribution tax provision within the accrued benefits figure for AASB 1056. Allowance for contributions tax is made when setting the contribution rates.

##### (l) 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

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 12. UNFUNDED SUPERANNUATION LIABILITY (continued)

##### (m) Economic assumptions

<b>Weighted-Average Assumptions</b>	<b>Pooled Fund 30/06/19 %</b>	<b>JPS 30/06/19 %</b>	<b>PCSS 30/06/19 %</b>
Expected rate of return on Fund assets backing current pension liabilities	7.4% pa	6.7% pa	6.7% pa
Expected rate of return on Fund assets backing other liabilities	6.4% pa	N/A	N/A
Expected salary increase rate (excluding promotional salary increases)	3.2% pa	3.2% pa	2.50% 2019/2020; 3.20% pa thereafter
Expected rate of CPI increase	2.2% pa	N/A	1.75% pa 2019/2020; 2.0% pa 2020/2021; 2.25% pa 2021/2022 and 2022/2023; 2.5% pa thereafter

##### (n) Expected contributions

	<b>SASS \$'000</b>	<b>SANCS \$'000</b>	<b>SSS \$'000</b>	<b>PSS \$'000</b>	<b>JPS \$'000</b>	<b>PCSS \$'000</b>
Expected employer contributions - financial year to 30 June 2020	271,626	63,968	1,012,468	331,200	50,065	15,600

The weighted average duration is:

- 12.4 years for the Pooled Fund defined benefit obligation,
- 14 years for JPS; and
- 17 years for PCSS.

##### (o) Profit or loss impact

	<b>SASS \$'000</b>	<b>SANCS \$'000</b>	<b>SSS \$'000</b>	<b>PSS \$'000</b>	<b>JPS \$'000</b>	<b>PCSS \$'000</b>	<b>Total 2018-19 \$'000</b>
Current service cost	233,158	50,246	69,696	-	49,332	1,800	404,232
Net interest	108,481	16,899	931,920	302,914	30,449	12,500	1,403,163
<b>Defined benefit cost</b>	<b>341,639</b>	<b>67,145</b>	<b>1,001,616</b>	<b>302,914</b>	<b>79,781</b>	<b>14,300</b>	<b>1,807,395</b>

##### (p) Other comprehensive income

	<b>SASS \$'000</b>	<b>SANCS \$'000</b>	<b>SSS \$'000</b>	<b>PSS \$'000</b>	<b>JPS \$'000</b>	<b>PCSS \$'000</b>	<b>Total 2018-19 \$'000</b>
Actual return on Fund assets less Interest income	(530,958)	(86,345)	(1,108,822)	(266,006)	-	(23,200)	(2,015,331)
Actuarial (gains)/losses arising from changes in demographic assumptions	12,176	(404)	655	-	-	-	12,427
Actuarial (gains)/losses arising from changes in financial assumptions	977,702	135,822	10,148,570	4,005,844	229,471	193,200	15,690,609
Actuarial (gains)/losses arising from liability experience	312,109	32,186	(570,754)	(241,308)	5,769	(4,100)	(466,098)
<b>Total remeasurement in Other Comprehensive Income</b>	<b>771,029</b>	<b>81,259</b>	<b>8,469,649</b>	<b>3,498,530</b>	<b>235,240</b>	<b>165,900</b>	<b>13,221,607</b>

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 12. UNFUNDED SUPERANNUATION LIABILITY (continued)

The following figures are 2018 comparatives

##### (a) Member numbers

	SASS	SANCS	SSS	PSS	JPS	PCSS
Contributors	16,650	20,141	2,593	898	129	21
Deferred benefits	9,662	10,593	775	34	-	2
Pensioners	3,247	-	47,098	6,623	233	275
Pensions fully commuted	-	-	13,774	-	-	-

##### (b) Superannuation position for AASB 119 *Employee Benefits*

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2017-18 \$'000
Accrued liability <sup>1</sup>	14,430,468	2,360,545	56,151,607	16,462,168	1,177,021	796,900	91,378,709
Fair value of the reserve account	(10,206,997)	(1,692,330)	(20,502,258)	(4,873,624)	-	(315,300)	(37,590,509)
Deficit/(surplus)	4,223,471	668,215	35,649,349	11,588,544	1,177,021	481,600	53,788,200
Future service liability <sup>2</sup>	963,224	399,462	190,910	(22,192)	-	-	1,531,404
Net liability to be disclosed in the Statement of Financial Position	4,223,471	668,215	35,649,349	11,588,544	1,177,021	481,600	53,788,200
Current							1,647,295
Non-current							52,140,905
							<b>53,788,200</b>

<sup>1</sup> 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.

<sup>2</sup> 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 2019

#### 12. UNFUNDED SUPERANNUATION LIABILITY (continued)

##### 2018 comparatives (continued)

##### (c) Reconciliation of the net defined benefit obligation

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2017-18 \$'000
<i>Present value at 1/7/17</i>	4,248,942	721,727	37,180,758	12,001,090	1,143,212	510,300	55,806,029
Transfers in/(out) due to business combinations and disposals	(6,600)	(1,366)	(11,616)	-	-	-	(19,582)
Transfers in/(out) through equity	1,669	324	18,143	-	-	-	20,136
Current service cost	274,172	56,769	101,216	8,843	41,701	2,500	485,201
Net interest	108,048	18,131	962,074	310,491	29,317	13,200	1,441,261
Actual return on Fund assets less interest income	(587,057)	(104,770)	(1,197,464)	(270,806)	-	(20,300)	(2,180,397)
Actuarial (gains)/losses arising from changes in demographic assumptions	90,462	(7,675)	292,797	74,906	23,814	38,800	513,104
Actuarial (gains)/losses arising from changes in financial assumptions	(7,972)	445	(218,014)	(76,354)	13,759	(25,000)	(313,136)
Actuarial (gains)/losses arising from liability experience	351,606	44,069	(557,775)	(159,067)	(29,720)	(20,200)	(371,087)
Employer contribution	(249,799)	(59,439)	(920,770)	(300,559)	(45,062)	(17,700)	(1,593,329)
<i>Present value at 30/6/18</i>	<b>4,223,471</b>	<b>668,215</b>	<b>35,649,349</b>	<b>11,588,544</b>	<b>1,177,021</b>	<b>481,600</b>	<b>53,788,200</b>

##### (d) Reconciliation of the fair value of the reserve account

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2017-18 \$'000
<i>Present value at 1/7/17</i>	10,180,148	1,744,101	19,854,202	4,624,248	-	298,700	36,701,399
Transfers in/(out) due to business combinations and disposals	(57,093)	(8,896)	(8,032)	-	-	-	(74,021)
Transfers in/(out) through equity	2,701	521	43,589	-	-	-	46,811
Interest income	257,777	43,405	502,216	118,783	-	7,600	929,781
Actual return on Fund assets less interest income	587,057	104,770	1,197,464	270,806	-	20,300	2,180,397
Employer contributions	249,799	59,439	920,770	300,559	45,062	17,700	1,593,329
Contributions by participants	130,930	-	50,265	7,260	-	600	189,055
Benefits paid	(1,105,027)	(245,943)	(2,225,077)	(482,964)	(45,062)	(27,800)	(4,131,873)
Taxes, premiums & expenses paid	(39,295)	(5,067)	166,861	34,932	-	(1,800)	155,631
<i>Fair value at 30/6/18</i>	<b>10,206,997</b>	<b>1,692,330</b>	<b>20,502,258</b>	<b>4,873,624</b>	<b>-</b>	<b>315,300</b>	<b>37,590,509</b>

##### (e) Reconciliation of the defined benefit obligation

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2017-18 \$'000
<i>Present value at 1/7/17</i>	14,429,090	2,465,828	57,034,960	16,625,338	1,143,212	809,000	92,507,428
Transfers in/(out) due to business combinations and disposals	(63,693)	(10,262)	(19,648)	-	-	-	(93,603)
Transfers in/(out) through equity	4,370	845	61,732	-	-	-	66,947
Current service cost	274,172	56,769	101,216	8,843	41,701	2,500	485,201
Interest cost	365,825	61,536	1,464,290	429,274	29,317	20,800	2,371,042
Contributions by participants	130,930	-	50,265	7,260	-	600	189,055
Actuarial (gains)/losses arising from changes in demographic assumptions	90,462	(7,675)	292,797	74,906	23,814	38,800	513,104
Actuarial (gains)/losses arising from changes in financial assumptions	(7,972)	445	(218,014)	(76,354)	13,759	(25,000)	(313,136)
Actuarial (gains)/losses arising from liability experience	351,606	44,069	(557,775)	(159,067)	(29,720)	(20,200)	(371,087)
Benefits paid	(1,105,027)	(245,943)	(2,225,077)	(482,964)	(45,062)	(27,800)	(4,131,873)
Taxes, premiums & expenses paid	(39,295)	(5,067)	166,861	34,932	-	(1,800)	155,631
<i>Present value at 30/6/18</i>	<b>14,430,468</b>	<b>2,360,545</b>	<b>56,151,607</b>	<b>16,462,168</b>	<b>1,177,021</b>	<b>796,900</b>	<b>91,378,709</b>

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 12. UNFUNDED SUPERANNUATION LIABILITY (continued)

##### 2018 comparatives (continued)

##### (f) Reconciliation of the effect of the asset ceiling

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2017-18 \$'000
<i>Adjustment for effect of asset ceiling at beginning of the year</i>	-	-	-	-	-	-	-
Interest on the effect of asset ceiling	-	-	-	-	-	-	-
Change in the effect of asset ceiling	-	-	-	-	-	-	-
<i>Adjustment for effect of asset ceiling at end of the year</i>	-	-	-	-	-	-	-

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.

##### (g) 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 <sup>1</sup>	Level 1	Level 2	Level 3	Total	% of total
	\$'000	\$'000	\$'000	2017-18 \$'000	
Short Term Securities	2,185,469	2,215,695	-	4,401,164	10.5%
Australian Fixed Interest	41,854	2,193,068	-	2,234,922	5.3%
International Fixed Interest	8,116	1,387,991	-	1,396,107	3.3%
Australian Equities	8,719,442	548,908	3,055	9,271,405	22.2%
International Equities	8,499,476	2,391,501	373	10,891,350	26.1%
Property	788,018	608,934	2,314,335	3,711,287	8.9%
Alternatives	420,898	5,332,818	4,141,113	9,894,829	23.7%
<b>Total</b>	<b>20,663,273</b>	<b>14,678,915</b>	<b>6,458,876</b>	<b>41,801,064</b>	<b>100.0%</b>

<sup>1</sup> 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 these 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.



## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 12. UNFUNDED SUPERANNUATION LIABILITY (continued)

##### 2018 comparatives (continued)

The fair value of the Pooled Fund assets as at 30 June 2018 included \$97.7 million in NSW Government bonds.

Of the direct properties owned by the Pooled Fund:

- STC occupies part of a property 100% owned by the Pooled Fund with a fair value of \$280 million.
- Health Administration Corporation occupies part of a property 50 per cent owned by the Pooled Fund with a fair value of \$287 million.

##### (h) Significant actuarial assumptions at the reporting date

	Pooled Fund	PCSS	JPS
Discount rate		2.65%	
Salary increase rate (excluding promotional increases)	2.7% pa for 2018/19; 3.2% pa thereafter	2.50% 2018/2019; 3.20% pa thereafter	2.7% pa for 2018/19; 3.2% pa thereafter
Rate of CPI increase	2.25% pa for 2018/19 and 2019/20; 2.5% pa thereafter.		N/A
Pensioner mortality	The pensioner mortality assumptions are those to be used for the 2018 actuarial investigation of the Pooled Fund. These assumptions will be disclosed in the actuarial investigation report which will be available on the Trustee's website when the investigation is complete. The report will show the pension mortality rates for each age.	as per 2017 triennial actuarial valuation	as per 2018 triennial actuarial valuation

##### (i) Sensitivity analysis

The total defined benefit obligation as at 30 June 2018 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 2018.

##### Pooled Fund

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.

	Base Case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate
Discount rate	as above	as above -1.0% pa	as above +1.0% pa
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above	as above
Defined benefit obligation (\$'000)	89,404,790	102,171,993	78,953,106
	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)	89,404,790	95,063,379	84,144,926

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 12. UNFUNDED SUPERANNUATION LIABILITY (continued)

##### 2018 comparatives (continued)

	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	as above rate plus 0.5%pa	as above rate less 0.5%pa
Defined benefit obligation (\$'000)	89,404,790	89,719,010	88,976,651

  

	Base Case	Scenario G Lower mortality*	Scenario H Higher mortality**
Defined benefit obligation (\$'000)	89,404,790	90,621,117	88,477,852

\* Assumes the short-term pensioner mortality improvement factors for years 2018-2023 also apply for years after 2023.

\*\* Assumes the long-term pensioner mortality improvement factors for years post 2023 also apply for years 2018 to 2023.

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

#### Parliamentary Contributory Superannuation and Judges Pension Schemes

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	2.65%	1.65%	3.65%	2.65%	1.65%	3.65%
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)	796,900	947,000	680,000	1,177,021	1,345,408	1,024,206

  

	PCSS			JPS		
	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)	796,900	866,000	736,000	1,177,021	1,273,624	1,082,720

  

	PCSS			JPS		
	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)	796,900	773,000	829,000	1,177,021	1,127,527	1,221,489

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 2019

#### 12. UNFUNDED SUPERANNUATION LIABILITY (continued)

##### 2018 comparatives (continued)

##### (j) Asset-Liability matching strategies

The Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cash flows to manage liquidity requirements. No explicit asset-liability matching strategy is used by the Trustee.

##### (k) Funding arrangements

Funding arrangements for the Pooled Fund are reviewed at least every three years following the release of the triennial actuarial review. The review of the funding arrangements was being performed together with the triennial actuarial review as at 30 June 2018. It was expected the review would be completed in 2018-19. Contribution rates are set after discussions between the employer, STC and NSW Treasury.

Funding arrangements for PCSS are reviewed around every three years and the review was last reviewed in 2017. Contribution rates are set after discussions between the PCSS 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 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 2018 financial position of the NSW Public Sector defined benefit fund schemes calculated in accordance with AASB 1056 *Superannuation Entities*.

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2017-18 \$'000
Accrued benefits <sup>1</sup>	11,748,278	2,034,206	29,082,257	7,452,140	812,131	415,000	51,544,012
Net market value of Fund assets	(10,206,997)	(1,692,330)	(20,502,258)	(4,873,624)	-	(315,300)	(37,590,509)
Net deficit	<u>1,541,281</u>	<u>341,876</u>	<u>8,579,999</u>	<u>2,578,516</u>	<u>812,131</u>	<u>99,700</u>	<u>13,953,503</u>

<sup>1</sup> There is no allowance for a contribution tax provision within the accrued benefits figure for AASB 1056 *Superannuation Entities*.

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

##### (l) 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

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 12. UNFUNDED SUPERANNUATION LIABILITY (continued)

##### 2018 comparatives (continued)

##### (m) Economic assumptions

Weighted-Average Assumptions	Pooled Fund 30/06/18 %	JPS 30/06/18 %	PCSS 30/06/18 %
Expected rate of return on Fund assets backing current pension liabilities	7.4% pa	6.0%pa	7.0% pa
Expected rate of return on Fund assets backing other liabilities	6.4% pa	N/A	N/A
Expected salary increase rate (excluding promotional salary increases)	2.7% for 2018/19; 3.2% pa thereafter	2.7% 2018/2019; 3.20% pa thereafter	2.7% 2018/2019; 3.20% pa thereafter
Expected rate of CPI increase	2.2% pa	N/A	2.25% 2018/2019 to 2019/2020; 2.5% pa thereafter

##### (n) Expected contributions

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000
Expected employer contributions - financial year to 30 June 2019	260,210	62,059	966,298	314,700	49,929	18,600

The weighted average duration is:

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

##### (o) Profit or loss impact

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2017-18 \$'000
Current service cost	274,172	56,769	101,216	8,843	41,701	2,500	485,201
Net interest	108,048	18,131	962,074	310,491	29,318	13,200	1,441,262
<b>Defined benefit cost</b>	<b>382,220</b>	<b>74,900</b>	<b>1,063,290</b>	<b>319,334</b>	<b>71,019</b>	<b>15,700</b>	<b>1,926,463</b>

##### (p) Other comprehensive income

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2017-18 \$'000
Actual return on Fund assets less interest income	(587,057)	(104,770)	(1,197,464)	(270,806)	-	(20,300)	(2,180,397)
Actuarial (gains)/losses arising from changes in demographic assumptions	90,462	(7,675)	292,797	74,906	23,814	38,800	513,104
Actuarial (gains)/losses arising from changes in financial assumptions	(7,972)	445	(218,014)	(76,354)	13,759	(25,000)	(313,136)
Actuarial (gains)/losses arising from liability experience	351,606	44,069	(557,775)	(159,067)	(29,720)	(20,200)	(371,087)
Effects of transfers in/out due to business combinations and disposals	(6,600)	(1,366)	(11,616)	-	-	-	(19,582)
<b>Total remeasurement in Other Comprehensive Income</b>	<b>(159,561)</b>	<b>(69,297)</b>	<b>(1,692,072)</b>	<b>(431,321)</b>	<b>7,853</b>	<b>(26,700)</b>	<b>(2,371,098)</b>

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 13. EMPLOYEE BENEFITS AND OTHER PROVISIONS

Employee benefits and other provisions include long service leave (LSL) liabilities and related consequential on-costs on the superannuation and LSL liabilities that it assumes from selected NSW public sector agencies.

	2019 \$'000	2018 \$'000
Current	9,455,992	7,901,679
Non-current	813,397	679,243
<b>Total employee benefits and other provisions</b>	<b>10,269,389</b>	<b>8,580,922</b>

##### a) Long service leave

LSL is measured at the present value of future payments anticipated for the employee services as at the reporting date. 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 the ten-year Commonwealth government bond rate as at 30 June.

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.

##### b) 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.

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 13. EMPLOYEE BENEFITS AND OTHER PROVISIONS (continued)

	2019 \$'000	2018 \$'000
<b>c) Long service leave</b>		
<b>Current</b>		
General Government Sector agencies assumed by the Crown, excluding NSW Health	6,000,989	4,986,671
NSW Health	3,313,566	2,788,157
Crown long service leave pool	39,508	35,236
	<b>9,354,063</b>	<b>7,810,064</b>
<b>Non-current</b>		
General Government Sector agencies assumed by the Crown, excluding NSW Health	521,825	433,731
NSW Health	288,136	242,448
Crown long service leave pool	3,435	3,064
	<b>813,396</b>	<b>679,243</b>
<b>d) Other leave benefits</b>		
<b>Current</b>		
Other leave benefits	101,930	91,615
	<b>101,930</b>	<b>91,615</b>
<b>Total employee benefits and other provisions</b>	<b>10,269,389</b>	<b>8,580,922</b>

The expected payment within the next twelve months for General Government Sector agencies' long service leave is \$543 million (2018: \$546 million), for NSW Health is \$295 million (2018: \$286 million) and for the Crown long service leave pool is \$4.2 million (2018: \$4.1 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 2018	5,420,402	3,030,605	38,300	91,615	<b>8,580,922</b>
Add: increase/(decrease) in liability during the year	1,422,812	728,297	7,244	10,314	<b>2,168,667</b>
Add: interest costs	144,700	81,900	1,000		<b>227,600</b>
Add/(less): transfer in from other NSW government agency	49,400	-	-		<b>49,400</b>
Less: cash payments	(514,500)	(239,100)	(3,600)		<b>(757,200)</b>
<b>Balance as at 30 June 2019</b>	<b>6,522,814</b>	<b>3,601,702</b>	<b>42,944</b>	<b>101,929</b>	<b>10,269,389</b>
Balance as at 1 July 2017	5,119,006	2,816,968	64,657	90,514	<b>8,091,145</b>
Add: increase in liability during the year	731,589	361,037	23,043	1,368	<b>1,117,037</b>
Add: interest costs	133,700	75,400	1,100	-	<b>210,200</b>
Add/(less): transfer in from other NSW government agency	(22,593)	-	(37,900)	-	<b>(60,493)</b>
Less: cash payments	(541,300)	(222,800)	(12,600)	(267)	<b>(776,967)</b>
<b>Balance as at 30 June 2018</b>	<b>5,420,402</b>	<b>3,030,605</b>	<b>38,300</b>	<b>91,615</b>	<b>8,580,922</b>

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 14. 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. They are recognised at the net present value of the estimated future costs required to settle the obligation.

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 costs or changes in the discount rate used are recognised in the net result.

	2019 \$'000	2018 \$'000
Current	249,368	228,346
Non-current	1,944,929	1,645,678
<b>Total provisions</b>	<b>2,194,297</b>	<b>1,874,024</b>
Balance as at 1 July	1,874,024	1,713,089
Less: payments	(100,492)	(120,621)
Less: write back	-	(1,318)
Add: new provisions	9,019	244,369
Actuarial (gains)/losses	365,064	(3,376)
Interest costs	46,682	41,881
<b>Balance as at 30 June</b>	<b>2,194,297</b>	<b>1,874,024</b>

##### 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 Building Compensation 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.



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## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 14. PROVISIONS (continued)

During 2014-15, as part of the sale agreement of Delta Electricity's Western assets, the State must bear part of the cost of decommissioning 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.

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*.

##### **c) Universities superannuation**

The State and the Commonwealth has shared responsibilities 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.

##### **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, was 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.

##### **e) NSW Policy Holder Protection Fund**

As at 30 June 2019, the amount of funds held by the NSW Policy Holder Protection Fund was in excess of the outstanding claims liabilities. Pursuant to the *Insurance Protection Tax Act 2001*, these excess amounts must be refunded to the insurers.

##### **f) Commonwealth Redress Scheme**

On 1 July 2018 the Commonwealth Government established the National Redress Scheme to support people who have experienced institutional childhood sexual abuse. Provisions have been made by the Crown for NSW's contribution to fund the scheme.

The provision is measured at the present value of future payments anticipated for settlement of claims as at the reporting date. The estimated future cash outflows are discounted using the 10-year Commonwealth government bond rate as at 30 June. An independent actuary calculates the provision using several key inputs including the number of Redress participants and average payment size.

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## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 15. CONTINGENT LIABILITIES

##### 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 2019, the net market value of fund assets was estimated to be \$6.7 million less (2018: \$8.5 million less) than the estimated value of liabilities (accrued benefits under AASB 1056).

The unfunded liability is different from both the actual fund shortfall and the investment return shortfall. Based on EISS's 30 June 2018 triennial actuarial valuation, the actual fund shortfall as at 30 June 2018 was \$9.7 million, and the investment return shortfall was nil. As the payment amount is the lower of the amounts, the compensation payment amount would be nil. The next triennial actuarial valuation is due to be performed as at 30 June 2021.

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.

##### 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. The amount of obligation cannot be reliably estimated.

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.

##### 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.

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## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 15. 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
- 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 Plant<sup>1</sup>
- 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
- NorthConnex
- Newcastle Integrated Service Operator
- New Grafton Correctional Centre
- Sydney Growth Trains
- New Intercity Fleet
- Sydney Metro City & Southwest: Tunnel and Station Excavation Works
- Regional Rail

It is not possible to estimate the amount of contingent liability exposure at this time.

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

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## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 15. 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.

##### Sale of Delta Electricity's Western Assets

- *Pre-completion contamination liability* - the State retains the liability for remediating pre-existing contamination at Mt Piper power station site to minimum legal standards.

##### Sale of Colongra Power Station

- *Pre-completion contamination liability* - the State retains the liability for remediating pre-existing contamination at Colongra power station site to minimum legal standards. 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 Generator Property Management Pty Ltd).

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## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 15. CONTINGENT LIABILITIES (continued)

##### 99-year leases of TransGrid, Ausgrid and Endeavour Energy network assets

- *General warranties* - under the respective network lease transactions, the State has potential liabilities under various warranties, indemnities and guarantees provided to the respective lessees in relation to performance of certain obligations.

##### Sale of Macquarie Generation

- *Pre-completion contamination liability* - the State retains the liability for remediating pre-existing contamination at Bayswater and Liddell power station sites to minimum legal standards. The State's obligations end (in respect of each station) 18 months after decommissioning, demolition and remediation of each power station site. Both stations are still operating at the reporting date.
- *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.

##### Sale of Vales Point power station

- *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.
- *Pre-completion contamination liability* - the State retains the liability for remediating pre-existing contamination at Vales Point power station to minimum legal standards. The State will also retain the costs for remediating ash dam contamination (migration of contamination in water from ash dams) and legacy contamination (contamination associated with identified asbestos landfill sites) to the minimum legal standards.
- *Vales Point Hand Back Deed* - where an option is exercised under the Hand Back Deed, the State will be responsible for the demolition and remediation of Vales Point and the Site Land.

##### Sale of Eraring Energy

- *Pre-completion contamination liability* - the State retains the liability for remediating pre-existing contamination at Eraring and Shoalhaven power station sites to minimum legal standards. 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.

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## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 15. CONTINGENT LIABILITIES (continued)

##### Partial sale of Westconnex

- *General warranties* - the State has potential liabilities under warranties and indemnities provided to the purchasers in relation to performance of certain obligations.

##### NSW Treasury Corporation (TCorp)

###### *Guarantees issued by TCorp*

The State Government guaranteed the securities, borrowings and derivative liabilities issued by TCorp with a market value of \$74.1 billion (2018: \$65.5 billion) under the *Public Authorities (Financial Arrangements) Act 1987*.

###### *Other undertakings*

TCorp 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 \$74.7 million (2018: \$84 million).

##### 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 years. There is an interest rate exposure on a principal of \$106 million as at 30 June 2019 (2018: \$207 million).

##### Pending court cases

Claims have been made against the State challenging the constitutional validity of stamp duty on motor vehicles. The proceedings are at an early stage and is therefore not possible to estimate the financial impact or result of the claims.

##### Equity commitment to Roads Retained Interest Pty Ltd (RR IPL)

The Crown Entity has a capital commitment with respect to Equity Commitment Deeds signed by the Treasurer, under which the State will make available cash to RR IPL when Capital Call Notices are issued by the WCX Group to RR IPL. As at the reporting date, the uncalled amount is \$746 million.

#### 16. 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 \$7.0 million (2018: \$15.7 million).

The liquidators currently intend to distribute up to "more than 50 per cent" depending on the scheme company. Recoveries from the liquidators are paid into the Consolidated Fund. During the year the Crown Entity did not receive liquidators' distributions (2018: nil).

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 17. CASH FLOW INFORMATION

##### 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.

Of the cash and cash equivalents, \$1,274 million is restricted cash assets (2018: \$2,179 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 18 and 19 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

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:

	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank	1,723,849	2,603,051
Bank overdraft	<u>(10,831,499)</u>	<u>(7,050,719)</u>
<b>Net cash and cash equivalents per Statement of Cash Flows</b>	<b><u>(9,107,650)</u></b>	<b><u>(4,447,668)</u></b>

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

<b>Net cash flows from operating activities</b>	(9,804,856)	(3,619,484)
Non cash items added back		
Equity adjustments- prior period errors	-	247,899
Non cash finance costs	(307,270)	(283,004)
Administrative restructure - transfer in	16,961	28,566
Proceeds on asset disposals	-	33
Impairment loss on sale of investments	-	(122,462)
Dividends from investments	-	153,700
	<u>(290,309)</u>	<u>24,732</u>
Change in operating assets and liabilities		
Movement in working capital	(121,458)	155,664
Increase/(decrease) in other liabilities	(1,997,340)	(1,276,608)
Decrease/(increase) in other assets	1,082,521	184,046
	<u>(1,036,277)</u>	<u>(936,898)</u>
<b>Movement for the year</b>	<b><u>(1,326,586)</u></b>	<b><u>(912,166)</u></b>
<b>Deficit for the year</b>	<b><u>(11,131,442)</u></b>	<b><u>(4,531,650)</u></b>



## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 18. TRUST FUNDS

The Crown Entity holds money in various trust funds for various purposes. 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 Fund -		
	State Rail Authority wind-up \$'000	compensation deposits \$'000	Funeral Fees \$'000
Balance 1.7.2018	13	143	112
Add: receipts	-	-	-
Less: payments	-	-	-
<b>Balance 30.6.2019</b>	<b>13</b>	<b>143</b>	<b>112</b>
Balance 1.7.2017	13	143	112
Add: receipts	-	-	-
Less: payments	-	-	-
<b>Balance 30.6.2018</b>	<b>13</b>	<b>143</b>	<b>112</b>

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 for 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.

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## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 19. 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 HIH 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.

##### **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.

##### **Electricity Networks Residual Liabilities Fund**

Established under Section 12 of the *Electricity Network Assets (Authorised Transactions) Act 2015 No 5* (the Act), this account was set up for the holding and payment of moneys in connection with the transactions to transfer electricity network assets to the private sector under the Act.

##### **Social and Affordable Housing NSW Fund**

Established under Section 4 of the *Social and Affordable Housing NSW Fund Act 2016 No 51*, the purpose of the Fund is to provide funding to promote any of the objects of the *Housing Act 2001* or the *Community Housing Providers (Adoption of National Law) Act 2012*.

##### **Electricity Retained Interest Corporation Fund – Ausgrid (ERIC-A Fund)**

Established under Section 32 of the *Electricity Retained Interest Corporations Act 2015 No 6*, the purpose of the Fund is to provide funding to the Electricity Retained Interest Corporation in its function to provide stewardship and oversight of the State's retained interest in the Ausgrid's network infrastructure assets.

##### **Electricity Retained Interest Corporation Fund – Endeavour Energy (ERIC-E Fund)**

Established under Section 32 of the *Electricity Retained Interest Corporations Act 2015 No 6*, the purpose of the Fund is to provide funding to the Electricity Retained Interest Corporation in its function to provide stewardship and oversight of the State's retained interest in the Endeavour's network infrastructure assets.

##### **Snowy Hydro Legacy Fund (SHLF)**

Established by the *Snowy Hydro Legacy Fund Act 2018*, the purpose of the Fund is to improve economic development in regional New South Wales and, for that purpose, to fund infrastructure projects that primarily benefit regional New South Wales.

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 19. SPECIAL DEPOSIT ACCOUNTS (continued)

##### NSW Generations Funds (NGFs)

###### *NSW Generations (Debt Retirement) Fund*

Established by the *NSW Generations Funds Act 2018*, the purpose of the Fund is to provide funding for reducing the debt of the State in accordance with the principles of sound financial management set out in section 7 of the *Fiscal Responsibility Act 2012*.

###### *NSW Generations (Community Services and Facilities) Fund*

Established by the *NSW Generations Funds Act 2018*, the purpose of the Community Services and Facilities Fund is to provide funding for cost-effective facilities and services throughout the State that improve the wellbeing of communities and the lives of the people of New South Wales.

The table below discloses transactions and balances of the operating bank accounts (excludes investments in TCorpIM Funds) of each of the special deposit accounts. The transactions of these accounts are recognised in the financial statements of the Crown Entity.

Accounts	NSW Policyholders	Crown Long Service	Structured Finance	Confiscated	Restart NSW
	Protection Fund	Leave Pool	Activities	Proceeds Account	
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance 1.7.2018	104,345	11,199	556	127,203	1,607,394
Plus receipts	-	8,775	40	35,427	4,745,928
Less payments	-	(3,649)	(1)	(80,924)	(5,646,052)
<b>Balance 30.6.2019</b>	<b>104,345</b>	<b>16,325</b>	<b>595</b>	<b>81,706</b>	<b>707,270</b>
Balance 1.7.2017	104,345	18,860	626	103,918	8,425,672
Plus receipts	-	22,413	29	23,697	541,024
Less payments	-	(30,074)	(99)	(412)	(7,359,302)
<b>Balance 30.6.2018</b>	<b>104,345</b>	<b>11,199</b>	<b>556</b>	<b>127,203</b>	<b>1,607,394</b>

  

Accounts	Electricity Network	Social and	ERIC-A Fund	ERIC -E Fund	Snowy Hydro
	Residual Liabilities	Affordable Housing			Legacy Fund
	\$'000	NSW	\$'000	\$'000	\$'000
Balance 1.7.2018	193,565	132,612	668	955	-
Plus receipts	3,628	2,878	145,834	38,505	40,000
Less payments	(743)	(35,318)	(145,746)	(38,758)	(9,142)
<b>Balance 30.6.2019</b>	<b>196,450</b>	<b>100,172</b>	<b>756</b>	<b>702</b>	<b>30,858</b>
Balance 1.7.2017	181,090	1,119,971	905	1,000	-
Plus receipts	54,848	12,262	195,748	78,821	-
Less payments	(42,373)	(999,621)	(195,985)	(78,866)	-
<b>Balance 30.6.2018</b>	<b>193,565</b>	<b>132,612</b>	<b>668</b>	<b>955</b>	<b>-</b>

  

Accounts	NSW Generations	NSW Generations
	(Debt Retirement)	(Community
	Fund	Services and
	\$'000	Facilities) Fund
	\$'000	\$'000
Balance 1.7.2018	-	-
Plus receipts	9,988,075	28,123
Less payments	(9,981,320)	(378)
<b>Balance 30.6.2019</b>	<b>6,755</b>	<b>27,745</b>
Balance 1.7.2017	-	-
Plus receipts	-	-
Less payments	-	-
<b>Balance 30.6.2018</b>	<b>-</b>	<b>-</b>

Separate bank accounts are kept for Structured Finance Activities, Restart NSW, Electricity Networks Residual Liabilities, Social and Affordable Housing Fund, ERIC-A Fund, ERIC-E Fund, Snowy Hydro Legacy Fund, NSW Generations (Debt Retirement) Fund and NSW Generations (Community Services and Facilities) Fund.

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 20. OTHER LIABILITIES

	2019 \$'000	2018 \$'000
<b>Current:</b>		
Confiscated proceeds	81,706	127,203
Trust accounts	267	267
Deferred income <sup>(a)</sup>	149,627	148,675
Financial guarantees <sup>(b)</sup>	305	1,300
Other	48,427	39,631
	<b>280,332</b>	<b>317,076</b>
<b>Non-current:</b>		
Deferred income <sup>(a)</sup>	553,166	665,486
Financial guarantees <sup>(b)</sup>	700	1,700
	<b>553,866</b>	<b>667,186</b>
<b>Total other liabilities</b>	<b>834,198</b>	<b>984,262</b>

#### (a) Deferred income

Deferred income represents revenues collected but not earned as at 30 June and primarily consists of multi-year licence fees. Income is recognised on a straight-line basis over the specified period of time in accordance with the substance of the relevant agreement/item.

#### Movements in deferred income

Balance at beginning of the year	814,161	774,146
Add: licence fees deferred	126,625	183,327
Less: amortisation	(142,993)	(143,312)
Less: income recognition	(95,000)	-
Balance at the end of the year	<b>702,793</b>	<b>814,161</b>

#### (b) Financial guarantees

##### *Recognition and measurement under AASB 9 from 1 July 2018*

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value being premium received. Subsequent to initial recognition, the Crown Entity's under each guarantee is measured at the higher of:

- a) the amount initially recognised less cumulative amortisation, or
- b) the expected credit loss allowance in respect of the debt held by the guaranteed party.

##### *Recognition and measurement under AASB 139 for comparative period ended 30 June 2018*

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.

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 20. OTHER LIABILITIES (continued)

##### Movements in financial guarantees

	2019 \$'000	2018 \$'000
Balance at the beginning of the year	3,000	4,400
Less: amortisation	(1,995)	(1,400)
<b>Balance at the end of the year</b>	<b>1,005</b>	<b>3,000</b>
Current	305	1,300
Non-current	700	1,700
	<b>1,005</b>	<b>3,000</b>

##### (i) Structured finance activities

Through the Structured Finance Activities Special Deposits Account, the State has several finance leases for rail stock. 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 value of \$1.0 million (2018: \$1.5 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. TCorp regularly monitors risk exposure on behalf of the Crown.

##### (ii) 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
- Regional Rail
- 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
- NorthConnex

The guarantees have been valued at Nil (2018: 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 2019

#### 21. CONSOLIDATED FUND TRANSACTIONS

	2019 \$'000	2018 \$'000
<b>Cash flows from operating activities</b>		
<b>Receipts</b>		
Retained taxes, fees and fines	32,228,256	32,334,352
Commonwealth grants	24,141,044	24,890,047
Financial distributions	2,046,412	1,164,072
Other	2,607,123	2,248,931
<b>Total receipts</b>	<b><u>61,022,835</u></b>	<b><u>60,637,402</u></b>
<b>Payments</b>		
Appropriations paid to other agencies	(61,852,461)	(57,926,026)
Appropriations paid to Crown Finance Entity	(18,959,743)	(5,661,829)
<b>Total payments</b>	<b><u>(80,812,204)</u></b>	<b><u>(63,587,855)</u></b>
<b>Net cash flows used in operating activities</b>	<b>( 19,789,369)</b>	<b>( 2,950,452)</b>
<b>Other cash flows</b>		
Borrowing transferred	6,303,326	1,112,473
Investment income transferred	-	153,699
Interest receipts transferred	317,552	336,396
Advance repayments transferred	102,812	92,902
Other	9,007,211	4,410,524
	<b><u>15,730,901</u></b>	<b><u>6,105,994</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(4,058,468)</b>	<b>3,155,542</b>
<b>Opening cash and cash equivalents</b>	<b>(6,952,076)</b>	<b>(10,841,369)</b>
Cash transferred in as a result of restructuring	-	-
Return of capital	331,353	733,751
<b>Closing cash and cash equivalents</b>	<b><u>(10,679,191)</u></b>	<b><u>(6,952,076)</u></b>
<b>Cash and cash equivalents</b>		
Cash in transit	152,308	98,643
Bank overdraft	(10,831,499)	(7,050,719)
	<b><u>(10,679,191)</u></b>	<b><u>(6,952,076)</u></b>

## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 22. 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.

	2019 \$'000	2018 \$'000
<b>Payments</b>		
Non-Government schools - recurrent	(4,067,475)	(3,808,485)
Local Government - financial assistance	(554,453)	(533,295)
Local Government - roads	(223,263)	(215,208)
	<u>(4,845,191)</u>	<u>(4,556,988)</u>
<b>Receipts</b>		
Non-Government schools - recurrent	4,067,475	3,808,485
Local Government - financial assistance	554,453	533,295
Local Government - roads	223,263	215,208
	<u>4,845,191</u>	<u>4,556,988</u>

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

#### 23. EQUITY TRANSFERS

The transfer of net liabilities or 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 instance this will approximate fair value.

All other equity transfers are recognised at fair value.

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

	2018-19 \$'000
Transfers from sale of Government businesses	8,730,836
Capital injection into Roads Retained Interest Pty Limited	(142,646)
Capital injection into RailCorp	(1,904,584)
Capital injection into Forestry Corporation of NSW	(24,000)
Capital injection into TAFE Commission	(100,000)
Distributions from Roads Retained Interest Pty Ltd	1,080,971
Net superannuation liabilities transferred in	(13,919)
Debt liabilities transferred in	(571,012)
Proceeds from sale of properties	393
Return of capital	331,354
	<u>7,387,393</u>



## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 23. EQUITY TRANSFERS (continued)

	2017-18 \$'000
Transfers from sale of Government businesses	1,041
Capital injection into Hunter Water	(4,346)
Capital injection into RailCorp	(1,206,720)
Investment in Sydney Motorway Corporation	(85,760)
Net superannuation liabilities transferred in	(20,136)
Return of capital	733,752
Other net assets/(liabilities) transferred from administrative restructure	13,768
	<u>(568,401)</u>

#### 24. RELATED PARTY DISCLOSURES

##### (a) Ultimate parent

The NSW Government is the ultimate parent of the Crown Entity and is also the ultimate parent of the NSW Treasury. NSW Treasury provides key management personnel services to the Crown Entity.

##### (b) Key management personnel remuneration

Key management personnel (KMP) are those considered to have the authority and responsibility for planning, directing and controlling of the entity's activities. KMP of the Crown Entity includes the Treasurer, the NSW Treasury Secretary, and certain NSW Treasury Deputy Secretaries and Executive Directors.

The Crown Entity follows the NSW Treasury's framework and processes in the identification, recording and determination of disclosure for KMP and related party transactions. All identified KMP are required to complete annual declarations in relation to related party transactions. During the year in review, no KMP has declared that he/she or their close family members have made any transactions with the Crown Entity.

The Crown Entity does not have any employees, KMP services were provided by NSW Treasury and were reimbursed. The cost of KMP services reimbursed to NSW Treasury is included in the overall reimbursement of employee services and the KMP service cost is not separately identifiable. There was no remuneration paid nor loans made to any of the KMP by the Crown Entity during the period.

##### (c) Transactions with related parties

###### *Terms and conditions of transactions with related parties*

All transactions with related parties are conducted in the normal course of business.

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## Crown Entity

### Notes to the financial statements for the year ended 30 June 2019

#### 24. RELATED PARTY DISCLOSURES (continued)

##### *Transactions with jointly controlled related entities*

The Crown Entity interacts extensively with Commonwealth and other government agencies that are jointly controlled entities of NSW government, in its role to fund the operations of government. Key activities of the Crown Entity include, but not restricted to, administration of the *Appropriation Act*, central management of the State's borrowing needs and reporting on the unfunded superannuation and long service leave liabilities of certain general government agencies. Services provided by other government agencies to the Crown Entity include staffing and certain investment and debt management activities. Details of the significant asset and liability balances with these jointly controlled entities are disclosed in the respective notes to the financial statements.

Further, revenue for retained taxes, fees and fines includes the amount collected from several jointly controlled entities of NSW government. Other revenue earned and expenses incurred towards jointly controlled entities are disclosed in the respective notes to the financial statements.

#### 25. EVENTS AFTER THE REPORTING DATE

There were no events subsequent to reporting date requiring disclosure.

**End of audited financial statements**



Treasury

## Appendix 1

# Crown Entity - Expenditure on Consultants

Financial Report  
for the year ended 30 June 2019

Finance & Accounting/Tax	Project	Amount (excl GST) \$
<b>PWC</b>	Tax & accounting advisory services for WestConnex	1,832,818
<b>KPMG</b>	Finance & accounting advisory services for Pillar 3 and Disability & Customer Care Service Transfer	199,875
<b>Deloitte Touche</b>	Advisory and development of the Crown Budgeting Tool	135,610
		<b>2,168,303</b>

Legal Services	Project	Amount (excl GST) \$
<b>Allens</b>	Legal advisory services for WestConnex	2,013,881
<b>Baker &amp; McKenzie</b>	Legal advisory services for Disability & Customer Care Service Transfer	1,108,605
<b>Allens</b>	Legal advisory services for Residual Assets Transactions - Generation Assets	388,843
<b>Gilbert &amp; Tobin</b>	Legal advisory services for Residual Assets Transactions - Generation Assets	117,290
<b>Minter Ellison</b>	Legal advisory services for Residual Assets Transactions - Ports	111,528
<b>Baker &amp; McKenzie</b>	Legal advisory services for Residual Assets Transactions - Generation Assets	102,041
		<b>3,842,188</b>

Management Services	Project	Amount (excl GST) \$
<b>Sydney Motorway Corporation Pty Ltd</b>	Traffic consulting & economic modelling advice for WestConnex	3,811,349
<b>Ironstone Capital Advisory Pty Limited</b>	Transaction advisory services for Disability & Customer Care Service Transfer	2,625,000
<b>Newgate</b>	Management advisory services for WestConnex	271,688
<b>Turner &amp; Townsend</b>	Technical advice for WestConnex	744,271
<b>AECOM</b>	Management advisory services for Residual Assets Transactions - Generation Assets	288,434
<b>Environmental Resources Management (ERM)</b>	Management advisory services for Residual Assets Transactions - Generation Assets	98,694
<b>MBB Group Pty Ltd</b>	Technical advisory management services for WestConnex	71,700
<b>Genisys</b>	Technical advice for WestConnex	65,500
<b>O'Connor Marsden</b>	Probity advice for WestConnex	58,910
<b>Atworthy</b>	Management advisory services for Sydney Desalination Plant	58,801
<b>Castalia</b>	Management advisory services for the Review of Electricity Price Commissioner's Powers	54,000
		<b>8,148,346</b>
	<b>Sub Total</b>	<b>14,158,837</b>
<b>Consultants costing less than \$50,000</b>		
<b>Management Services</b>	5 projects totalling	26,847
<b>Finance &amp; Accounting/Tax</b>	2 project totalling	19,654
	<b>Sub Total</b>	<b>46,500</b>
<b>TOTAL EXPENDITURE ON CONSULTANTS</b>		<b>14,205,338</b>



Treasury

## Appendix 2

# Restart NSW Fund

Financial Report  
for the year ended 30 June 2019



## INDEPENDENT AUDITOR'S REPORT

### Restart NSW Fund

To Members of the New South Wales Parliament

### Opinions

#### Opinion on the audit of the financial report

I have audited the accompanying special purpose financial report (the financial report) of the Restart NSW Fund (the Fund), which comprise the Statement of the Fund's Activities for the year ended 30 June 2019, the Statement of the Fund's Position as at 30 June 2019, notes to the financial report, and the Statement by the Treasurer. The financial report has been prepared by the Treasurer using the basis of accounting described in Note 2 to the financial report for the purpose of fulfilling the Treasurer's annual reporting obligations under section 9 of the *Restart NSW Fund Act 2011* (the Act).

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

#### Opinion on whether payments complied with the Act

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

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

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

### Basis for Opinions

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

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

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

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

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

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

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



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

### **Emphasis of Matter - Basis of Accounting**

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

### **The Treasurer's Responsibilities for the Financial Report**

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

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

### **The Treasurer's Responsibilities under the *Restart NSW Fund Act 2011***

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

### **Auditor's Responsibilities**

#### **Audit of the financial report**

My objectives are to:

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

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

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

My opinion does not provide assurance:

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

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### **Audit of whether payments complied with the Act**

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

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

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

### **Inherent Limitations**

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

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

### **Use of Report**

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



Margaret Crawford  
Auditor-General for New South Wales

29 October 2019  
SYDNEY

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**Restart NSW Fund**  
**Financial Report**  
**for the year ended 30 June 2019**

**STATEMENT BY THE TREASURER**

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 2019; and
- (b) The financial report has been prepared as a special purpose financial report and related notes in accordance with the basis of accounting described in Note 2.

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



**The Hon. Dominic Perrottet MP**  
**Treasurer**

*21* October 2019

## Restart NSW Fund

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

	Note	2019 \$'000	2018 \$'000
<b>Receipts</b>			
Reservation for Sydney Metro West	3	2,336,500	-
Proceeds from issue of bonds by the Crown Finance Entity	3	80,000	14,846
Interest earned	3	52,021	240,830
Other authorised transfers	3	4,358	97,957
Contributions from other Government agencies	3	23,049	187,390
<b>Total receipts</b>		<b><u>2,495,928</u></b>	<b><u>541,023</u></b>
<b>Payments</b>			
Infrastructure projects	4	5,646,002	3,593,110
Administrative expenses	4	50	16
Other	4	-	16,175
<b>Total payments</b>		<b><u>5,646,052</u></b>	<b><u>3,609,301</u></b>
<b>Net receipts/(payments)</b>		<b><u>(3,150,124)</u></b>	<b><u>(3,068,278)</u></b>
<b>Statement of Fund's Position</b>			
Opening balance of the Fund		21,054,454	23,106,297
Net receipts/(payments)		(3,150,124)	(3,068,278)
Income/(loss) from investments	5	1,079,526	1,016,435
<b>Closing balance of the Fund</b>		<b><u>18,983,856</u></b>	<b><u>21,054,454</u></b>
Balance of Fund held in			
Cash and cash equivalents		707,270	1,607,394
Investment in NSW Infrastructure Future Fund investment trust	5	18,276,586	19,447,060
		<b><u>18,983,856</u></b>	<b><u>21,054,454</u></b>

The accompanying notes form part of the financial report.



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## Restart NSW Fund

### Notes to the Financial Report for the year ended 30 June 2019

#### 1. INFORMATION ON THE RESTART NSW FUND

##### Reporting entity

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

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 Treasurer on the date the accompanying Statement by the Treasurer was signed.

##### 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.

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## Restart NSW Fund

### Notes to the Financial Report for the year ended 30 June 2019

#### 1. INFORMATION ON THE RESTART NSW FUND (continued)

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

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

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

##### Statement of compliance

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

##### Value of the Fund

The total balance of the Fund consists of cash and funds invested in the NSW Infrastructure Future Fund (NIFF).

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

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

**Funds invested in NSW Infrastructure Future Fund** are investments held in the NIFF, a unit trust investment facility administered by the NSW Treasury Corporation (TCorp). The NIFF's investment strategy is designed to best meet scheduled infrastructure funding commitments over the life of these commitments.

## Restart NSW Fund

### Notes to the Financial Report for the year ended 30 June 2019

#### 3. RECEIPTS

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

	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Section 7(1)(a) receipts - appropriation</b>		
Restart NSW Reservation for Sydney Metro West	2,336,500	-
<b>Section 7(1)(b) receipts - issue of bonds by the Crown Finance Entity</b>		
Proceeds from Waratah bonds	80,000	14,846
<b>Section 7(1)(c) receipts - interest earned</b>		
Interest earned	52,021	240,830
<b>Section 7(1)(d) receipts - other monies authorised to be paid into the Fund</b>		
Proceeds from the long term lease of Endeavour Energy	-	8,190
Proceeds from the issuance of Land and Property Information titling and registry licence	-	1,041
Proceeds from sale of land at Enfield Intermodal Logistics Centre	429	-
Proceeds from the sale of assets-Cobbora Holding	-	88,685
GST received	3,929	41
	<u>4,358</u>	<u>97,957</u>
<b>Section 7(1)(e) receipts - contributions from other Government agencies</b>		
Contribution from Property NSW - sale proceeds of Government properties	23,049	187,390
<b>Total Receipts</b>	<u><b>2,495,928</b></u>	<u><b>541,023</b></u>

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

The Fund holds all of its cash in the Treasury Banking System. Interest is paid monthly by the Crown and the interest receivable by the Fund and not yet received was nil as at 30 June 2019 (2018: \$nil million).



## Restart NSW Fund

### Notes to the Financial Report for the year ended 30 June 2019

#### 4. PAYMENTS

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

	2019 \$'000	2018 \$'000
<b>Section 8(a) payments - infrastructure projects</b>		
<i>Restart NSW (excluding Rebuilding NSW)</i>		
Additional support Tourism Infrastructure (Formerly-Taronga Zoo Visitor Plan)	12,743	14,834
Batemans Bay Bridge Replacement	64,609	-
Bridges for the Bush Program	8,192	12,859
Cobbora Transition Fund	2,770	3,517
Easing Sydney's Congestion (Pinch Points)	-	1
Fixing Country Roads	1,546	2,774
Grafton Bridge	9,376	94,311
Housing Acceleration Fund (HAF 4)	30,589	19,166
Housing Acceleration Fund (HAF 5)	1,794	-
Hunter Infrastructure and Investment Fund-4876	4,140	17,377
Illawarra Infrastructure Fund	8,803	18,479
Newcastle Inner Bypass (Rankin Park to Jesmond)	3,167	3,884
North-South Rail	15,000	-
Northern Beaches Hospital Roads	-	117,065
NorthConnex (M1 to M2 connection)	-	38,090
NSW Cycling Infrastructure Initiative	534	-
Pacific Highway	-	1,322
Parramatta Light Rail	152,042	118,787
Queanbeyan Ring Road	2,969	6,504
Redevelopment of Circular Quay	12,500	-
Regional Freight Pinch Point Program and Safety Program	39,767	44,060
Regional Growth: Economic Activation Fund - Connecting Country Communities	5,108	9,104
Regional Growth: Economic Activation Fund - Growing Local Economy	6,845	-
Regional Growth: Economic Activation Fund - Other Significant Infrastructure	12,329	2,500
Regional Health Infrastructure Program	12,084	13,280
Regional Tourism Infrastructure Program	29,799	32,272
Resources for Regions Program	32,950	46,993
Royal Flying Doctor Service Multipurpose Facility	1,973	210
South Western Sydney Housing Acceleration Fund (HAF3)	13,089	556
Sydney Airport Area Road Upgrades ( WestConnex Gateway planning)	30,002	29,339
Sydney Motorways Network Planning	-	1
Water Security for Regions Program	61,084	42,886
Western NSW Freight Productivity Improvement Program	-	5,983
Western Sydney Centre of Innovation in Plant Sciences	941	-
Western Sydney roads for Sydney's Second Airport	140,033	119,577
	<u>716,778</u>	<u>815,731</u>

## Restart NSW Fund

### Notes to the Financial Report for the year ended 30 June 2019

#### 4. PAYMENTS (continued)

	2019 \$'000	2018 \$'000
<i>Rebuilding NSW</i>		
Bridges for the Bush Program	56,504	6,605
Bus Priority Infrastructure (including B-Line)	84,306	205,613
Corridor Identification and Reservation	10,914	3,132
Culture and Arts	32,482	30,012
Fixing Country Rail	17,562	456
Fixing Country Roads	47,775	18,568
Future Focused Schools	204,238	59,161
Gateway to the South Pinch Points	82,818	23,911
Parramatta Light Rail	101,306	-
Pinch Points and Clearways	76,923	58,056
Primary and Integrated Care Strategy	13,840	-
Regional Growth - Environment and Tourism fund	14,609	4,950
Regional Growth Roads	260,975	51,603
Regional Multipurpose Services (MPS) Health Facilities	58,320	45,051
Regional Road Freight Corridor	285,402	116,476
Regional School Renewal Program	58,976	52,344
Safe & Secure Water Program ( Regional Water Security & Supply Fund)	8,869	269
Smart Motorways	197,530	115,223
Sports Stadia	147,894	145,855
Sydney Metro City and Southwest	1,794,870	1,484,735
Traffic Management Upgrades	49,741	9,900
WestConnex Northern/Southern Extensions & Western Harbour Tunnel	388,586	26,357
	<u>3,994,440</u>	<u>2,458,276</u>
<i>Equity contributions</i>		
Equity contribution to Rail Corporation	934,784	319,103
	<u>934,784</u>	<u>319,103</u>
<b>Total Section 8(a) payments</b>	<b><u>5,646,002</u></b>	<b><u>3,593,110</u></b>
<b>Section 8(b) payments - administrative expenses</b>		
Bank charges	2	2
Auditor's remuneration	10	14
GST payments	38	-
	<u>50</u>	<u>16</u>
<b>Section 8(c) payments - other</b>		
Share of long term lease transaction costs	-	16,175
	<u>-</u>	<u>16,175</u>
<b>Total payments</b>	<b><u>5,646,052</u></b>	<b><u>3,609,301</u></b>
<b><u>Section 9(2) payments- percentage of the total amount of payments made to rural and regional areas</u></b>		
Total amount of payments on infrastructure projects since inception of the Fund	15,997,658	10,351,656
Total amount of payments to rural and regional areas since inception of the Fund	3,026,185	1,916,827
Cumulative % of total payments from the Fund made to rural and regional areas	18.92%	18.52%

## Restart NSW Fund

### Notes to the Financial Report for the year ended 30 June 2019

#### 5. INVESTMENT IN NSW INFRASTRUCTURE FUTURE FUND

	2019 \$'000	2018 \$'000
<b>Opening balance</b>	19,447,060	14,680,625
(Less)/add: Investments - cash transferred (out)/in (to)/from the operating bank account	(2,250,000)	3,750,000
Add/(Less): Net income/(loss) from investments:		
Distribution reinvested	682,762	849,651
Unrealised gain/(loss) on other financial assets	396,764	166,784
	<u>1,079,526</u>	<u>1,016,435</u>
<b>Closing balance</b>	<b><u>18,276,586</u></b>	<b><u>19,447,060</u></b>

The Fund is authorised to invest in accordance with Section 10 of the Act. Implemented since 2017-18, NIFF is the investment vehicle for the Fund in assisting the NSW Government to meet its infrastructure objectives. NIFF is managed by TCorp.

Asset allocation and investment instructions of NIFF are governed by the Investment Services Agreement (ISA) signed by the Treasurer and TCorp in December 2016, updated in January 2018.

#### Asset allocation

Actual NIFF asset allocation as at the reporting date:

Asset class	Strategic Asset Allocation (%)	Actual Asset Allocation (%)	Value (\$'000)
Cash	56.0	56.1	10,253,164
Australian Shares	12.0	11.0	2,010,424
International Shares	17.5	18.2	3,326,339
Emerging Market Debt	3.0	3.1	566,574
Bank Loans	3.5	3.5	639,681
Australian Bonds	8.0	8.1	1,480,404
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>18,276,586</b>

#### Performance returns

NIFF investment return objective is to achieve CPI + 2.0% over a 10-year period. The fund performance against the benchmark is as below:

	YTD (%)	Since inception (%)
Net return ( <i>after fees</i> )	5.90	6.29
Strategic Asset Allocation (SAA) benchmark	5.78	5.97
<b>Net relative to SAA benchmark</b>	<b>0.12</b>	<b>0.32</b>

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## Restart NSW Fund

### Notes to the Financial Report for the year ended 30 June 2019

#### 6. FINANCIAL INSTRUMENTS

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

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

The Fund's other financial instrument is cash held in the Treasury Banking System which is subject to interest rate risk. As at the reporting date, 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 \$7.07 million (2018: \$16.0 million).

#### Risk management

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

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

#### 7. EVENTS AFTER THE REPORTING DATE

There are no events after reporting date requiring disclosure.

**End of audited financial report**



Treasury

## Appendix 3

# Social and Affordable Housing NSW Fund

Financial Report  
for the year ended 30 June 2019



## INDEPENDENT AUDITOR'S REPORT

### Social and Affordable Housing NSW Fund

To Members of the New South Wales Parliament

#### Opinions

##### Opinion on the audit of the financial report

I have audited the accompanying special purpose financial report (the financial report) of the Social and Affordable Housing NSW Fund (the Fund), which comprise the Statement of the Fund's Activities for the year ended 30 June 2019, the Statement of the Fund's Position as at 30 June 2019, notes to the financial report, and the Statement by the Treasurer. The financial report has been prepared by the Treasurer using the basis of accounting described in Note 2 to the financial report for the purpose of fulfilling the Treasurer's annual reporting obligations under section 12(1) of the *Social and Affordable Housing NSW Fund Act 2016* (the Act).

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

##### Qualified opinion on whether payments complied with the Act

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

In my opinion, except for the matter described in the Basis for Opinions paragraph, payments from the Fund have, in all material respects, been made in accordance with the Act for the year ended 30 June 2019.

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

#### Basis for Opinions

My opinion on the audit of the financial report is unqualified, but I qualified my opinion on whether payments made from the Fund were in accordance with the Act. Section 6 of the Act requires the Treasurer to control and manage the Fund. The Treasurer can delegate these functions under section 13 of the Act. During 2018–19 one instance was identified where a payment of \$35,057 was made from the Fund without the Treasurer's delegation under section 13 of the Act. The payment required delegation of that function.

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

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

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

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

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



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

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

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

### **Emphasis of Matter - Basis of Accounting**

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

### **The Treasurer's Responsibilities for the Financial Report**

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

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

### **The Treasurer's Responsibilities under the *Social and Affordable Housing NSW Fund Act 2016***

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

### **Auditor's Responsibilities**

#### **Audit of the financial report**

My objectives are to:

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

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

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



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My opinion does not provide assurance:

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

### **Audit of whether payments complied with the Act**

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

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

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

### **Inherent Limitations**

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

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

### **Use of Report**

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



Margaret Crawford  
Auditor-General for New South Wales

29 October 2019  
SYDNEY

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**Social and Affordable Housing NSW Fund**

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

**STATEMENT BY THE TREASURER**

Pursuant to Section 12 of the *Social and Affordable Housing NSW Fund Act 2016*, I declare that in my opinion:

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

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



**The Hon. Dominic Perrottet MP  
Treasurer**

29 October 2019

## Social and Affordable Housing NSW Fund

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

	Note	2019 \$'000	2018 \$'000
<b>Receipts</b>			
Interest earned	3	2,876	12,259
GST received	3	2	3
<b>Total receipts</b>		<b><u>2,878</u></b>	<b><u>12,262</u></b>
<b>Payments</b>			
Grant expenses	4	2,896	550
Administrative expenses	4	10	35
Financial management expenses	4	412	36
<b>Total payments</b>		<b><u>3,318</u></b>	<b><u>621</u></b>
<b>Net receipts</b>		<b><u>(440)</u></b>	<b><u>11,641</u></b>
<b>Statement of Fund's Position</b>			
Opening balance of the Fund		1,217,059	1,119,971
Net (payments)/receipts		(440)	11,641
Income/(loss) from investments	5	100,472	85,447
<b>Closing balance of the Fund</b>		<b><u>1,317,091</u></b>	<b><u>1,217,059</u></b>
Balance of Fund held in			
Cash and cash equivalents		100,172	132,612
Investment in Social and Affordable Housing NSW Fund investment trust	5	1,216,919	1,084,447
		<b><u>1,317,091</u></b>	<b><u>1,217,059</u></b>

The accompanying notes form part of the financial report.

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## Social and Affordable Housing NSW Fund

### Notes to the Financial Report for the year ended 30 June 2019

#### 1. INFORMATION ON THE SOCIAL AND AFFORDABLE HOUSING NSW FUND

##### Reporting entity

The Social and Affordable Housing NSW Fund (the Fund) is required to prepare an annual report under Section 12 of the *Social and Affordable Housing NSW Fund Act 2016* (the Act). Section 5 of the Act states that the purpose of the Fund is to provide funding to promote any of the objects of the *Housing Act 2001* or the *Community Housing Providers (Adoption of National Law) Act 2012*. The primary objective of which is to boost the delivery of social and affordable housing across NSW.

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

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

##### Key Activities

The Fund was established for the provision of a long-term revenue stream to address the funding gap for social and affordable housing developments.

##### Funding Sources for Social and Affordable Housing NSW Fund

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

- a) all money appropriated by Parliament, or advanced by the Treasurer, for payment into the Fund,
- b) all money appropriated by Parliament to the Treasurer for the general purposes of the Government (and not for the purposes of individual government agencies) and directed by the Treasurer to be paid into the Fund,
- c) the proceeds of the investment of money in the Fund,
- d) any money borrowed by the Treasurer for the purpose of the Fund,
- e) any grant, gift, bequest or other contribution of money to the Fund made by a government agency or other person or body,
- f) the payment or repayment of principal or interest on money loaned from the Fund (including fees associated with the loan),
- g) any money payable arising from a financial adjustment (or other financial risk management strategy) effected by the Treasurer for the purpose of the Fund,
- h) all other money directed or authorised to be paid into the Fund by or under any Act or law.

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

Section 7(3) provides that the Treasurer may direct that any money directed to be paid into the Fund by the Treasurer is subject to repayment including an amount in the nature of interest from the Fund.

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## Social and Affordable Housing NSW Fund

### Notes to the Financial Report for the year ended 30 June 2019

#### 1. INFORMATION ON THE SOCIAL AND AFFORDABLE HOUSING NSW FUND (continued)

##### Payments out of the Fund

Section 8(1) of the Act prescribes the payments from the Fund. These are:

- a) all or any part of the cost of any project, program or initiative that the Treasurer is satisfied promotes the purpose of the Fund,
- b) administrative expenses relating to the control and management of the Fund,
- c) the payment or repayment of principal or interest on money borrowed by the Treasurer for the purpose of the Fund (including any costs associated with the borrowing),
- d) any payment or repayment of money from the Fund referred to in section 7(3),
- e) any money payable arising from a financial adjustment (or other financial risk management strategy) effected by the Treasurer for the purpose of the Fund,
- f) any money directed or authorised to be paid from the Fund by or under this Act or any other Act or law.

Section 8(2) states that payments for the cost of a project, program or initiative may be provided by way of a grant, subsidy, loan, or other financial assistance and may be subject to terms as the Treasurer thinks fit.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of preparation

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

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

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

##### Statement of compliance

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

##### Value of the Fund

The total balance of the Fund consists of cash and funds invested in the Social and Affordable Housing NSW Fund.

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

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

## Social and Affordable Housing NSW Fund

### Notes to the Financial Report for the year ended 30 June 2019

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Funds invested in the Social and Affordable Housing NSW Fund** are investments held in the Social and Affordable Housing NSW Fund Investment Trust (SAHF), a unit trust investment facility administered by the NSW Treasury Corporation (TCorp). The SAHF's investment strategy is designed to best meet scheduled funding commitments to boost the delivery of social and affordable housing across NSW.

#### 3. RECEIPTS

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

	2019 \$'000	2018 \$'000
<b>Section 7(1)(c) receipts</b>		
Interest earned	2,876	12,259
<b>Section 7(1)(h) receipts</b>		
GST received	2	3
<b>Total Receipts</b>	<u>2,878</u>	<u>12,262</u>

#### 4. PAYMENTS

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

<b>Section 8(1)(a) payments - grant expenses</b>		
Payments to FACS	2,896	550
<b>Section 8(1)(b) payments - administrative expenses</b>		
Auditor's remuneration	10	13
Other operating expenses	-	22
	<u>10</u>	<u>35</u>
<b>Section 8(1)(e) payments - financial management expenses</b>		
Financial risk management costs	412	36
<b>Total payments</b>	<u>3,318</u>	<u>621</u>

## Social and Affordable Housing NSW Fund

### Notes to the Financial Report for the year ended 30 June 2019

#### 5. INVESTMENT IN SOCIAL AND AFFORDABLE HOUSING NSW FUND

	2019	2018
	\$'000	\$'000
<b>Opening balance</b>	<b>1,084,447</b>	-
Add: Investments - cash transferred in from the operating bank account	32,000	999,000
Add/(Less): Net income/(loss) from investments		
Distribution reinvested	47,584	68,740
Unrealised gain/(loss) on other financial assets	52,888	16,707
	100,472	85,447
<b>Closing balance</b>	<b>1,216,919</b>	<b>1,084,447</b>

The Fund is authorised to invest in accordance with Section 9 of the Act. Implemented since 2017-18, the investment trust is the investment vehicle for the Fund in assisting the NSW Government to meet its delivery of social and affordable housing objective. SAHF is managed by TCorp.

Asset allocation and investment instructions of SAHF are governed by the Investment Services Agreement (ISA) signed by the Treasurer and TCorp in July 2017. The ISA was last reviewed in June 2019.

#### Asset allocation

Actual SAHF asset allocation as at the reporting date:

<b>Asset class</b>	<b>Strategic Asset Allocation (%)</b>	<b>Actual Asset Allocation (%)</b>	<b>Value (\$'000)</b>
Cash	2.0	2.5	30,423
Australian Bonds	15.0	14.8	180,104
Inflation Linked Bonds	8.0	8.1	98,570
Australian Shares	17.0	16.9	205,659
International Shares	27.0	27.3	332,222
Emerging Market Shares	5.5	5.7	69,364
Listed Property	1.0	1.0	12,169
Multi-Asset Class	3.5	3.1	37,724
Global Credit	1.0	1.0	12,169
Emerging Market Debt	4.5	4.5	54,761
Bank Loans	5.5	5.4	65,714
High Yield	2.0	1.9	23,121
Unlisted Property	5.0	4.6	55,978
Unlisted Infrastructure	3.0	3.2	38,941
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>1,216,919</b>



## Social and Affordable Housing NSW Fund

### Notes to the Financial Report for the year ended 30 June 2019

#### 5. INVESTMENT IN SOCIAL AND AFFORDABLE HOUSING NSW FUND (continued)

##### Performance returns

SAHF investment return objective is to achieve CPI + 2.75% over rolling 5-year periods. The fund performance against the benchmark is as below:

	YTD (%)	Since inception (%)
Net return ( <i>after fees</i> )	9.10	9.68
Strategic Asset Allocation (SAA) benchmark	9.93	10.04
<b>Net relative to SAA benchmark</b>	<b>-0.83</b>	<b>-0.36</b>

#### 6. FINANCIAL INSTRUMENTS

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

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

The Fund's other financial instrument is cash held in the Treasury Banking System which is subject to interest rate risk. As at 30 June 2019, a rise or fall of 1 per cent in interest rate over the course of the year would result in an increase or decrease in interest earned of approximately \$1.00 million (2018: \$1.33 million).

##### Risk management

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

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

#### 7. EVENTS AFTER THE REPORTING DATE

There are no events after reporting date requiring disclosure.

End of audited financial report



Treasury

## Appendix 4

# Electricity Retained Interest Corporation - Ausgrid (ERIC-A) Fund

Financial Report  
for the year ended 30 June 2019



## INDEPENDENT AUDITOR'S REPORT

### Electricity Retained Interest Corporation – Ausgrid (ERIC-A) Fund

To Members of the New South Wales Parliament

#### Opinions

##### Opinion on the audit of the financial report

I have audited the accompanying special purpose financial report (the financial report) of the Electricity Retained Interest Corporation – Ausgrid (ERIC-A) Fund (the Fund), which comprise the Statement of the Fund's Activities for the year ended 30 June 2019, the Statement of the Fund's Position as at 30 June 2019, notes to the financial report, and the Statement by the Treasurer. The financial report has been prepared by the Treasurer using the basis of accounting described in Note 2 to the financial report for the purpose of fulfilling the Treasurer's annual reporting obligations under section 35 of the *Electricity Retained Interest Corporations Act 2015* (the Act).

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

##### Opinion on whether payments complied with the Act

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

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

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

#### Basis for Opinions

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

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

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

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

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



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

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

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

### **Emphasis of Matter - Basis of Accounting**

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

### **The Treasurer's Responsibilities for the Financial Report**

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

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

### **The Treasurer's Responsibilities under the *Electricity Retained Interest Corporations Act 2015***

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

### **Auditor's Responsibilities**

#### **Audit of the financial report**

My objectives are to:

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

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

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

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My opinion does not provide assurance:

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

### **Audit of whether payments complied with the Act**

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

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

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

### **Inherent Limitations**

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

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

### **Use of Report**

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



Margaret Crawford  
Auditor-General for New South Wales

29 October 2019  
SYDNEY

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**ERIC–A Fund**  
**Financial Report**  
**for the year ended 30 June 2019**

**STATEMENT BY THE TREASURER**

Pursuant to Section 35 of the *Electricity Retained Interest Corporations Act 2015*, I declare that in my opinion:

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

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



**The Hon. Dominic Perrottet MP**  
**Treasurer**

21 October 2019

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## ERIC–A Fund

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

	Note	2019 \$'000	2018 \$'000
<b>Receipts</b>			
Financial returns	3	145,678	195,628
Interest earned	3	156	120
<b>Total receipts</b>		<u>145,834</u>	<u>195,748</u>
<b>Payments</b>			
Funds transferred to NSW Consolidated Fund	4	144,654	195,042
Board remuneration of the Corporation	4	349	355
Administrative expenses of the Corporation	4	743	588
<b>Total payments</b>		<u>145,746</u>	<u>195,985</u>
<b>Net receipts/(payments)</b>		<u>88</u>	<u>(237)</u>
<b>The Fund's position as at 30 June</b>			
Opening balance of the Fund - Cash		668	905
Net receipts/(payments)		<u>88</u>	<u>(237)</u>
<b>Closing balance of the Fund</b>		<u>756</u>	<u>668</u>

The accompanying notes form part of the financial report.



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**ERIC–A Fund**  
**Notes to the Financial Report**  
**for the year ended 30 June 2019**

**1. INFORMATION ON THE ERIC-A FUND**

**Reporting entity**

The Electricity Retained Interest Corporation – Ausgrid Fund (the Fund) is required to prepare an annual report under Section 35 of the *Electricity Retained Interest Corporations Act 2015* (the Act). The Fund was set up pursuant to Section 32 of the Act which establishes a Fund in the Special Deposits Account (SDA) for each Corporation constituted by the Act for each separate part of the retained interest following the transfer of electricity network assets.

The Electricity Retained Interest Corporation – Ausgrid (the Corporation) is the corporation that oversees the State's retained interest as a lessee of network infrastructure assets of Ausgrid for the purpose of protecting its value to the State.

Section 4 of the *Public Finance and Audit Act 1983* defines a SDA as an account of funds which the Treasurer is, by statutory or other authority, required to hold otherwise than for or on account of the Consolidated Fund. The Fund is controlled by the State and Section 32(2) of the Act gives the Corporation responsibility for the administration of the Fund on behalf of the State.

The annual report for the Fund is a Special Purpose Financial Report with the “financial year” being from 1 July to 30 June. The Fund is an SDA of the Crown Finance Entity.

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

**Key Activities**

The principal objective of the Fund is to set aside an account where all financial returns (including dividend income, return of capital and any financial distribution) derived by the Corporation or any subsidiary of the Corporation are deposited.

**Payments into the Fund**

Section 33 of the Act states the amounts payable into the Fund. These are:

- a) all financial returns (including dividend income, return of capital and any other financial distribution) derived by the Corporation or any subsidiary of the Corporation from that part of the retained interest for which the Corporation is responsible, and
- b) the proceeds of investment of the Fund, and
- c) such money as may be advanced by the Treasurer for payment into the Fund, and
- d) such money as may be appropriated by Parliament for payment into the Fund, and
- e) any money borrowed by the Corporation or a subsidiary of the Corporation.

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**ERIC–A Fund**  
**Notes to the Financial Report**  
**for the year ended 30 June 2019**

**1. INFORMATION ON THE ERIC-A FUND (continued)**

**Payments out of the Fund**

Section 34 of the Act prescribes the payments from the Fund. These are:

- a) such amounts as the Treasurer directs for payment into the Consolidated Fund, and
- b) such amounts (if any) as the Corporation is required to pay the Treasurer under Part 4A (Payment of tax-equivalents) of the *Public Finance and Audit Act 1983*, and
- c) such amounts as the Treasurer authorises for expenditure by the Corporation or a subsidiary of the Corporation in the exercise of the functions of the Corporation, and
- d) such amounts as the Treasurer directs for payment of the costs of operation of the Corporation and any subsidiary of the Corporation, including remuneration, allowances, accommodation and other associated costs of the Board, General Manager and staff of the Corporation or a subsidiary of the Corporation.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of preparation**

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

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

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

**Statement of compliance**

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

**Value of the Fund**

The total balance of the Fund consists of cash only.

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

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

**ERIC–A Fund**  
**Notes to the Financial Report**  
**for the year ended 30 June 2019**

### 3. RECEIPTS

The Fund is authorised to receive amounts in accordance with Section 33 of the Act.

	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Section 33 (a) receipts - financial returns</b>		
Distributions from network partnership arrangement	145,678	195,628
<b>Section 33 (b) receipts - interest earned</b>	156	120
<b>Total receipts</b>	<b>145,834</b>	<b>195,748</b>

### 4. PAYMENTS

Payments from the Fund are in accordance with Section 34 of the Act.

<b>Section 34 (a) payments - funds transferred to NSW Consolidated Fund</b>	<b>144,654</b>	<b>195,042</b>
<b>Section 34 (c) payments - administrative expenses of the Corporation</b>		
ASIC fees	4	3
Auditor's remuneration	90	88
Other	649	497
<b>Total administrative expenses</b>	<b>743</b>	<b>588</b>
<b>Section 34 (d) payments - board remuneration of the Corporation</b>		
Salaries & wages	225	224
Superannuation	30	31
PAYG	94	100
<b>Total board remuneration</b>	<b>349</b>	<b>355</b>
<b>Total payments</b>	<b>145,746</b>	<b>195,985</b>

### 5. FINANCIAL INSTRUMENTS

#### Risk management

The Fund's only financial instrument is the cash held in the Treasury Banking System which is subject to interest rate risk. As at 30 June 2019, a rise or fall of 1 per cent in interest rate over the course of the year would result in an increase or decrease in the interest earned of approximately \$7,554 (2018: \$6,680).

### 6. EVENTS AFTER THE REPORTING DATE

There are no events after reporting date requiring disclosure.

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**ERIC–A Fund  
Notes to the Financial Report  
for the year ended 30 June 2019**

**End of audited financial report**



Treasury

## Appendix 5

# Electricity Retained Interest Corporation - Endeavour (ERIC-E) Fund

Financial Report  
for the year ended 30 June 2019



## INDEPENDENT AUDITOR'S REPORT

### Electricity Retained Interest Corporation – Endeavour (ERIC-E) Fund

To Members of the New South Wales Parliament

#### Opinions

##### Opinion on the audit of the financial report

I have audited the accompanying special purpose financial report (the financial report) of the Electricity Retained Interest Corporation – Endeavour (ERIC-E) Fund (the Fund), which comprise the Statement of the Fund's Activities for the year ended 30 June 2019, the Statement of the Fund's Position as at 30 June 2019, notes to the financial report, and the Statement by the Treasurer. The financial report has been prepared by the Treasurer using the basis of accounting described in Note 2 to the financial report for the purpose of fulfilling the Treasurer's annual reporting obligations under section 35 of the *Electricity Retained Interest Corporations Act 2015* (the Act).

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

##### Opinion on whether payments complied with the Act

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

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

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

#### Basis for Opinions

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

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

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

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

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



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

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

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

### **Emphasis of Matter - Basis of Accounting**

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

### **The Treasurer's Responsibilities for the Financial Report**

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

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

### **The Treasurer's Responsibilities under the *Electricity Retained Interest Corporations Act 2015***

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

### **Auditor's Responsibilities**

#### **Audit of the financial report**

My objectives are to:

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

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

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



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My opinion does not provide assurance:

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

### **Audit of whether payments complied with the Act**

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

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

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

### **Inherent Limitations**

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

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

### **Use of Report**

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



Margaret Crawford  
Auditor-General for New South Wales

29 October 2019  
SYDNEY

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**ERIC-E Fund**  
**Financial Report**  
**for the year ended 30 June 2019**

**STATEMENT BY THE TREASURER**

Pursuant to Section 35 of the *Electricity Retained Interest Corporations Act 2015*, I declare that in my opinion:

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

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



**The Hon. Dominic Perrottet MP**  
**Treasurer**

29 October 2019

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## ERIC-E Fund

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

	Note	2019 \$'000	2018 \$'000
<b>Receipts</b>			
Financial returns	3	38,454	78,715
Interest earned	3	51	106
<b>Total receipts</b>		<b>38,505</b>	<b>78,821</b>
<b>Payments</b>			
Funds transferred to NSW Consolidated Fund	4	37,176	77,897
Administrative expenses of the Corporation	4	1,225	592
Board remuneration of the Corporation	4	357	377
<b>Total payments</b>		<b>38,758</b>	<b>78,866</b>
<b>Net receipts/(payments)</b>		<b>(253)</b>	<b>(45)</b>
<b>The Fund's Position as at 30 June</b>			
Opening balance of the Fund - Cash		955	1,000
Net receipts/(payments)		(253)	(45)
<b>Closing balance of the Fund</b>		<b>702</b>	<b>955</b>

The accompanying notes form part of the financial report.

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## ERIC-E Fund

### Notes to the Financial Report for the year ended 30 June 2019

#### 1. INFORMATION ON THE ERIC-E FUND

##### Reporting entity

Electricity Retained Interest Corporation – Endeavour Fund (the Fund) is required to prepare an annual report under Section 35 of the *Electricity Retained Interest Corporations Act 2015* (the Act). The Fund was set up pursuant to Section 32 of the Act which establishes a Fund in the Special Deposits Account (SDA) for each Corporation constituted by the Act for each separate part of the retained interest following the transfer of electricity network assets.

Electricity Retained Interest Corporation – Endeavour (the Corporation) is the corporation that oversees the State's retained interest as a lessee of network infrastructure assets of Endeavour Energy for the purpose of protecting its value to the State.

Section 4 of the *Public Finance and Audit Act 1983* defines a SDA as an account of funds which the Treasurer is, by statutory or other authority, required to hold otherwise than for or on accounts of the Consolidated Fund. The Fund is controlled by the State and Section 32(2) of the Act gives the Corporation responsibility for the administration of the Fund on behalf of the State.

The annual report for the Fund is a Special Purpose Financial Report with the "financial year" being from 1 July to 30 June. The Fund is an SDA of the Crown Finance Entity.

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

##### Key Activities

The principal objective of the Fund is to set aside an account where all financial returns (including dividend income, return of capital and any financial distribution) derived by the Corporation or any subsidiary of the Corporation are deposited.

##### Payments into the Fund

Section 33 of the Act states the amounts payable into the Fund. These are:

- a) all financial returns (including dividend income, return of capital and any other financial distribution) derived by the Corporation or any subsidiary of the Corporation from that part of the retained interest for which the Corporation is responsible, and
- b) the proceeds of investment of the Fund, and
- c) such money as may be advanced by the Treasurer for payment into the Fund, and
- d) such money as may be appropriated by Parliament for payment into the Fund, and
- e) any money borrowed by the Corporation or a subsidiary of the Corporation.

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## ERIC-E Fund

### Notes to the Financial Report for the year ended 30 June 2019

#### 1. INFORMATION ON THE ERIC-E FUND (continued)

##### Payments out of the Fund

Section 34 of the Act prescribes the payments from the Fund. These are:

- a) such amounts as the Treasurer directs for payment into the Consolidated Fund, and
- b) such amounts (if any) as the Corporation is required to pay the Treasurer under Part 4A (Payment of tax-equivalents) of the *Public Finance and Audit Act 1983*, and
- c) such amounts as the Treasurer authorises for expenditure by the Corporation or a subsidiary of the Corporation in the exercise of the functions of the Corporation, and
- d) such amounts as the Treasurer directs for payment of the costs of operation of the Corporation and any subsidiary of the Corporation, including remuneration, allowances, accommodation and other associated costs of the Board, General Manager and staff of the Corporation or a subsidiary of the Corporation.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of preparation

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

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

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

##### Statement of compliance

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

##### Value of the Fund

The total balance of the Fund consists of cash only.

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

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

## ERIC-E Fund

### Notes to the Financial Report for the year ended 30 June 2019

#### 3. RECEIPTS

The Fund is authorised to receive amounts in accordance with Section 33 of the Act.

	2019 \$'000	2018 \$'000
<b>Section 33 (a) receipts - financial returns</b>		
Distributions from network partnership arrangements	38,454	78,715
<b>Section 33 (b) receipts - interest earned</b>	51	106
<b>Total receipts</b>	<u>38,505</u>	<u>78,821</u>

#### 4. PAYMENTS

Payments from the Fund are to be in accordance with Section 34 of the Act.

<b>Section 34 (a) payments - funds transferred to NSW Consolidated Fund</b>	<b>37,176</b>	<b>77,897</b>
<b>Section 34 (c) payments - administrative expenses of the Corporation</b>		
ASIC fees	4	2
Auditor's remuneration	87	75
Other	1,134	515
<b>Total administrative expenses</b>	<u>1,225</u>	<u>592</u>
<b>Section 34 (d) payments - board remuneration of the Corporation</b>		
Salaries & wages	233	239
Superannuation	30	33
Payroll tax & PAYG	94	105
<b>Total board remuneration</b>	<u>357</u>	<u>377</u>
<b>Total payments</b>	<u>38,758</u>	<u>78,866</u>

#### 5. FINANCIAL INSTRUMENTS

The Fund's only financial instrument is cash held in the Treasury Banking System which is subject to interest rate risk. As at the reporting date, 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 the interest earned of approximately \$7,023 (2018: \$9,550).

#### 6. EVENTS AFTER THE REPORTING DATE

There are no events after reporting date requiring disclosure.

**End of audited financial report**



Treasury

## Appendix 6

# NSW Generations (Debt Retirement) Fund

Financial Report  
for the period ended 30 June 2019





## INDEPENDENT AUDITOR'S REPORT

### NSW Generations (Debt Retirement) Fund

To Members of the New South Wales Parliament

### Opinions

#### Opinion on the audit of the financial report

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

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

#### Opinion on whether payments complied with the Act

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

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

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

### Basis for Opinions

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

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

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

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

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

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

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

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

### **Emphasis of Matter - Basis of Accounting**

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

### **The Treasurer's Responsibilities for the Financial Report**

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

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

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

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

### **Auditor's Responsibilities**

#### **Audit of the financial report**

My objectives are to:

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

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

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



My opinion does not provide assurance:

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

### **Audit of whether payments complied with the Act**

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

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

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

### **Inherent Limitations**

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

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

### **Use of Report**

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



Margaret Crawford  
Auditor-General for New South Wales

29 October 2019  
SYDNEY

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NSW Generations (Debt Retirement) Fund

Financial Report  
for the period ended 30 June 2019

STATEMENT BY THE TREASURER

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

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

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



The Hon. Dominic Perrottet MP  
Treasurer

29 October 2019

## NSW Generations (Debt Retirement) Fund

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

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

The accompanying notes form part of the financial report.

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## NSW Generations (Debt Retirement) Fund

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

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

##### Reporting entity

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

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

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

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

##### Key Activities

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

##### Funding Sources for the NSW Generations (Debt Retirement) Fund

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

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

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

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

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## NSW Generations (Debt Retirement) Fund

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

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

##### Payments out of the Fund

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

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

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of preparation

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

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

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

##### Statement of compliance

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

##### Value of the Fund

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

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

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

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



## NSW Generations (Debt Retirement) Fund

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

#### 3. RECEIPTS

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

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

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

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

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

## NSW Generations (Debt Retirement) Fund

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

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

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

##### Asset Allocation

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

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

##### Performance returns

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

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

#### 5. FINANCIAL INSTRUMENTS

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

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

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

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## **NSW Generations (Debt Retirement) Fund**

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

#### **5. FINANCIAL INSTRUMENTS (continued)**

##### **Risk management**

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

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

#### **6. EVENTS AFTER THE REPORTING DATE**

There are no events after reporting date requiring disclosure.

**End of audited financial report**



Treasury

## Appendix 7

# NSW Generations (Community Services and Facilities) Fund

Financial Report  
for the period ended 30 June 2019



## INDEPENDENT AUDITOR'S REPORT

### NSW Generations (Community Services and Facilities) Fund

To Members of the New South Wales Parliament

#### Opinions

##### Opinion on the audit of the financial report

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

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

##### Opinion on whether payments complied with the Act

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

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

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

#### Basis for Opinions

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

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

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

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

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



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

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

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

### **Emphasis of Matter - Basis of Accounting**

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

### **The Treasurer's Responsibilities for the Financial Report**

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

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

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

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

### **Auditor's Responsibilities**

#### **Audit of the financial report**

My objectives are to:

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

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

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



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My opinion does not provide assurance:

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

#### **Audit of whether payments complied with the Act**

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

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

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

#### **Inherent Limitations**

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

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

#### **Use of Report**

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



Margaret Crawford  
Auditor-General for New South Wales

20 October 2019  
SYDNEY

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NSW Generations (Community Services and Facilities) Fund

Financial Report  
for the period ended 30 June 2019

STATEMENT BY THE TREASURER

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

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

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



The Hon. Dominic Perrottet MP  
Treasurer

29 October 2019

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## NSW Generations (Community Services and Facilities) Fund

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

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

The accompanying notes form part of the financial report.

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## NSW Generations (Community Services and Facilities) Fund

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

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

##### Reporting entity

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

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

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

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

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

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

##### Key Activities

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

##### Funding Sources for the Fund

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

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

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## NSW Generations (Community Services and Facilities) Fund

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

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

##### Payments out of the Fund

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

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

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

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

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

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of preparation

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

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

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

##### Statement of compliance

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

##### Value of the Fund

The total balance of the Fund consists of cash only.

## NSW Generations (Community Services and Facilities) Fund

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

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

#### 3. RECEIPTS

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

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

#### 4. PAYMENTS

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

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

#### 5. FINANCIAL INSTRUMENTS

##### Risk management

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

#### 6. EVENTS AFTER THE REPORTING DATE

There are no events after reporting date requiring disclosure.

**End of audited financial report**



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Treasury