



Treasury

2017-2018 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

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Treasury

Crown Entity

Financial Statements
for the year ended 30 June 2018



INDEPENDENT AUDITOR'S REPORT

Crown Entity

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements the Crown Entity, which comprise the Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, 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 2018, 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.

Other Information

Other information comprises the information included in the Crown Entity's annual report for the year ended 30 June 2018, other than 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 Department Head.

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.

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. The description forms part of my auditor's report.

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 of NSW

25 October 2018
SYDNEY

Crown Entity
Financial Statements
for the year ended 30 June 2018

STATEMENT BY DEPARTMENT HEAD

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

- (a) The accompanying financial statements exhibit a true and fair view of the financial position of the Crown Entity as at 30 June 2018 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



22 October 2018

Crown Entity

Statement of Comprehensive Income for the year ended 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Revenue			
Retained taxes, fees and fines	3(a)	32,523,510	31,266,805
Commonwealth contributions	3(b),3(f)	24,894,935	24,745,318
Financial distributions	3(c)	1,748,342	1,168,676
Investment income	3(d)	1,208,058	889,046
Share of profit of an associate		-	145,340
Royalty on minerals		1,762,214	1,578,985
Other income	3(e)	833,627	840,566
Total revenue		62,970,686	60,634,736
Expenses			
Superannuation - defined benefit plans	12(o)	1,926,463	1,971,850
Grants and subsidies	4(a)	3,964,640	3,170,979
Finance costs	4(b)	1,662,474	1,656,700
Appropriations	21	57,926,026	53,123,567
Employee related expenses	4(c)	1,330,577	593,958
Other expenses	4(d)	758,084	1,026,297
Total expenses		67,568,264	61,543,351
Gains/(losses) from financial instruments		188,390	(140,504)
Other gains/(losses)	25	(122,462)	-
Deficit for the year		(4,531,650)	(1,049,119)
Other comprehensive income			
<i>Items that will not be reclassified to surplus or deficit</i>			
Actuarial gains/(losses) on defined benefit plans	12(p)	2,371,098	11,781,710
Share of earnings from an associate from revaluations	25	-	387,592
Share of associate's other comprehensive income		-	12,180
Total other comprehensive income for the year		2,371,098	12,181,482
Total comprehensive result for the year		(2,160,552)	11,132,363

The accompanying notes form part of these financial statements.

Crown Entity

Statement of Financial Position as at 30 June 2018

	Notes	2018 \$'000	Restated 2017 \$'000	Restated 1 Jul 2016 \$'000
Assets				
Current assets				
Cash and cash equivalents	17	2,603,051	10,331,325	13,551,449
Other financial assets	5	3,700,000	4,352,798	10,718,951
Derivative financial instruments	6	-	47,851	27,840
Advances repayable to the Crown	7	210,562	219,280	454,748
Receivables	8	2,951,732	2,638,280	2,562,132
Non-current asset held-for-sale	25	-	4,195,952	-
Total current assets		9,465,345	21,785,486	27,315,120
Non-current assets				
Investment in an associate		-	-	3,782,789
Other financial assets	5	20,531,507	16,080,625	3,850,058
Advances repayable to the Crown	7	834,410	823,399	811,972
Receivables		-	-	3,702
Total non-current assets		21,365,917	16,904,024	8,448,521
Total assets		30,831,262	38,689,510	35,763,641
Liabilities				
Current liabilities				
Payables	9	392,507	380,451	402,162
Bank overdraft	17	7,050,719	10,917,091	16,793,102
Borrowings	10	524,304	1,200,667	1,050,349
Unfunded superannuation	12(b)	1,647,295	1,568,520	1,493,491
Employee benefits and other provisions	13	7,901,679	7,451,095	7,617,951
Provisions	14	228,346	153,561	134,312
Other	20	317,076	285,897	317,877
Total current liabilities		18,061,926	21,957,282	27,809,244
Non-current liabilities				
Borrowings	10	28,450,878	27,737,082	26,681,473
Unfunded superannuation	12(b)	52,140,905	54,237,509	65,566,565
Employee benefits and other provisions	13	679,243	640,050	653,779
Provisions	14	1,645,678	1,559,528	1,665,487
Other	20	667,186	643,660	599,039
Total non-current liabilities		83,583,890	84,817,829	95,166,343
Total liabilities		101,645,816	106,775,111	122,975,587
Net liabilities		(70,814,554)	(68,085,601)	(87,211,946)
Equity				
Revaluation surplus reserve		-	-	2,743,072
Accumulated deficit		(70,814,554)	(68,085,601)	(89,955,018)
Total equity		(70,814,554)	(68,085,601)	(87,211,946)

The accompanying notes form part of these financial statements

Crown Entity

Statement of Changes in Equity as at 30 June 2018

	Notes	Accumulated deficit \$'000	Revaluation surplus \$'000	Total equity \$'000
Balance at 1 July 2017		(67,837,702)	-	(67,837,702)
Correction of prior period error	26	(247,899)	-	(247,899)
Restated total equity at 1 July 2017		(68,085,601)	-	(68,085,601)
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
Total other comprehensive income		2,371,098	-	2,371,098
Total comprehensive result for the year		(2,160,552)	-	(2,160,552)
Transactions with owners in their capacity as owners				
Decrease/(Increase) in net liabilities from equity transfers	23	(568,401)	-	(568,401)
Total transactions with owners in their capacity as owners		(568,401)	-	(568,401)
Balance at 30 June 2018		(70,814,554)	-	(70,814,554)
Balance at 1 July 2016		(89,589,396)	2,743,072	(86,846,324)
Correction of prior period error	26	(365,622)	-	(365,622)
Restated Total Equity at 1 July 2016		(89,955,018)	2,743,072	(87,211,946)
Deficit for the year	26	(1,049,119)	-	(1,049,119)
Other comprehensive income				
Actuarial gains/(losses) on defined benefit plans	12(p)	11,781,710	-	11,781,710
Investment in an associate		12,180	387,592	399,772
Total other comprehensive income		11,793,890	387,592	12,181,482
Total comprehensive result for the year		10,744,771	387,592	11,132,363
Transactions with owners in their capacity as owners				
Decrease/(Increase) in net liabilities from equity transfers	23	7,993,982	-	7,993,982
Total transactions with owners in their capacity as owners		7,993,982	-	7,993,982
Transfer of reserve to accumulated deficit		3,130,664	(3,130,664)	-
Balance at 30 June 2017	26	(68,085,601)	-	(68,085,601)

The accompanying notes form part of these financial statements.

Crown Entity
Statement of Cash Flows
as at 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Payments			
Employee related		(2,408,548)	(2,289,265)
Grants and subsidies		(3,947,513)	(3,201,172)
Finance costs		(1,315,795)	(1,373,053)
Appropriations		(57,926,026)	(53,123,688)
Other		(477,774)	(1,056,290)
Total payments		(66,075,656)	(61,043,468)
Receipts			
Retained taxes, fees and fines		32,349,577	30,952,936
Sale of goods and services		58	1,038
Commonwealth grants	21	24,888,769	24,717,923
Investment income		1,265,288	632,827
Financial distribution from other entities		1,165,350	1,450,055
Other		2,787,130	2,332,689
Total receipts		62,456,172	60,087,468
Net cash flows from operating activities	17	(3,619,484)	(956,000)
Cash flows from investing activities			
Purchase of investments		(7,967,372)	(24,336,149)
Advances made		(98,880)	(178,854)
Proceeds from sales of investment		7,547,198	19,471,029
Advance repayments received		105,263	433,073
Dividend received from investment		153,700	131,950
Net cash flows from investing activities		(260,091)	(4,478,951)
Cash flows from financing activities			
Proceeds from borrowings and advances		900,897	93,640
Repayment of borrowings and advances		(335,154)	(98,348)
Net cash flows from financing activities		565,743	(4,708)
Net increase/(decrease) in cash		(3,313,832)	(5,439,659)
Opening cash and cash equivalents		(585,766)	(3,241,653)
Other cash transfer in as a result of restructuring		(548,070)	8,095,546
Closing cash and cash equivalents	17	(4,447,668)	(585,766)

The accompanying notes form part of these financial statements.

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

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Crown Entity

Notes to the financial statements for the year ended 30 June 2018

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:

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

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

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- *Public Finance and Audit Act 1983*
- *Public Finance and Audit Regulation 2015*
- Treasurer's Directions.

The financial statements have been prepared on the following basis:

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

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

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

The accounting policies applied in the year are consistent with those of the previous financial year. Significant impacts on the accounting policies from the adoption of new, revised or amending standards and interpretations, if any, are disclosed in the relevant accounting policy.

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards and interpretations not yet effective

As mandated by Treasury Circular TC18-01, the Crown Entity has not early adopted any new accounting standards, amendments and interpretations that have been issued but are not yet effective.

The following lists the new standards and interpretation that whilst not yet effective, may be applicable to the Crown Entity:

- AASB 9 *Financial Instruments (December 2014)*
- AASB 15 *Revenue from Contracts with Customers*
- AASB 16 *Leases*
- AASB 1058 *Income of Not-for-Profit Entities*
- AASB 1059 *Service Concession Arrangements: Grantors*
- AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15*
- AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*
- AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15*
- AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15*
- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*
- AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities*
- AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments*
- AASB 2017-5 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections*
- AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation*
- AASB 2018-2 *Amendments to Australian Accounting Standards-Plan Amendment, Curtailment or Settlement (AASB 119)*

It is considered impracticable to presently determine the impact of adopting those new standards and interpretations.

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.

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 become liabilities by the agency to the Crown Entity. The Crown Entity accounts for the appropriations 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 is 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.

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Financial assets are classified as:

- fair value through profit or loss
- loans and receivables

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

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

Impairment of financial assets

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

De-recognition of financial assets

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

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

De-recognition of financial liabilities

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

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

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 2018

3. REVENUE

a) Retained taxes, fees and fines

	2018 \$'000	2017 \$'000
Payroll tax	9,996,143	9,355,974
Stamp duties	10,488,292	11,487,334
Gambling and betting taxes	2,341,787	2,237,444
Land tax	3,809,098	3,233,799
Motor vehicle taxes and fees	2,759,302	2,672,406
Fees and fines	700,887	640,559
Government guarantee fees	286,636	399,084
Waste disposal levy	722,855	708,352
Fire and emergency service levy	917,358	127,122
Other	501,152	404,731
	32,523,510	31,266,805

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

Revenue replacement	49,026	26,636
Specific purpose - recurrent	3,775,403	3,416,890
Commonwealth National Partnership payments - recurrent	1,617,680	1,817,329
Commonwealth National Partnership payments - capital	1,541,952	2,304,327
GST revenue	17,910,874	17,180,136
	24,894,935	24,745,318

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 2018

3. REVENUE (continued)

c) Financial distributions

	2018 \$'000	2017 \$'000
Dividends	1,266,581	668,852
Income tax equivalents	481,761	499,824
	1,748,342	1,168,676

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		
Advances	78,199	87,842
Private sector deposits	210,841	445,834
TCorp investment facilities	919,018	355,370
	1,208,058	889,046

Investment income includes interest income and distributions from investments held in TCorp investment facilities. Interest income is recognised as interest accrued by using the effective interest method. The Crown Entity calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate method discounts estimated future cash receipts through the expected life of the financial asset.

e) Other income

Contribution from other Government agencies	482,640	295,341
Revenue from Crown land assets	74,301	51,167
Crown share of Government agency asset sales	-	11,792
Repayment of contribution from NSW Self Insurance Corporation	10,000	195,000
Repayments of previous years appropriation	31,637	69,679
Long service leave contributions	44,164	58,025
Unclaimed monies	31,676	39,019
HIH insurance recoveries	-	5,392
Defined benefit superannuation contributions	28,469	23,670
Reimbursements of Local Government Elections expense	16,919	12,666
Other	113,821	78,815
	833,627	840,566

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.

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

3. REVENUE (continued)

Contributions (continued)

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)	
	2017-18	2016-17
Education	145,164	139,281
Industry	146,606	312,369
Total	291,770	451,650

(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			
		2017-18	2018-19	2019-20	2020-21
Transport – Roads & Maritime Services	277,933	277,933	-	-	-
Total	277,933	277,933	-	-	-

2016-17 comparative

Description (Department)	Balance (\$'000)				
	Total	Periods to which the amounts relate			
		2016-17	2017-18	2018-19	2019-20
Transport – Roads & Maritime Services	653,715	653,715	-	-	-
Total	653,715	653,715	-	-	-

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

Description (Department)	Balance (\$'000)	
	2017-18	2016-17
Education	220,584	182,976
Industry	115,987	339,207
Ministry of Health	-	31,400
Transport – Roads & Maritime Services	378,869	361,199
Total	715,440	914,782

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

4. EXPENSES

a) Grants and subsidies

	2018 \$'000	2017 \$'000
Grants to agencies for redundancy payments	193,595	120,613
Grants to other Government agencies	316,896	139,173
Infrastructure grants made by Restart	3,273,951	2,683,351
First home owners grant	134,014	201,872
Grant to Liability Management Ministerial Corporation	20,330	19,671
Other	25,854	6,299
	3,964,640	3,170,979

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	1,448,466	1,450,156
Commonwealth Government	67,915	70,429
Other NSW Government agencies	104,266	64,547
Other	(54)	27,974
Unwinding of discounts	41,881	43,594
	1,662,474	1,656,700

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

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

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 liabilities.

Crown Entity

**Notes to the financial statements
for the year ended 30 June 2018**

4. EXPENSES (continued)

c) Employee related expenses (continued)

	2018	2017
	\$'000	\$'000
Long service leave expense	1,339,113	604,015
On-costs on long service leave and recreational leave	(8,536)	(10,057)
	1,330,577	593,958

d) Other expenses

Remissions and refunds	63,830	59,796
Bad and doubtful debts	75,470	110,971
Audit fees		
Financial statements	667	864
Other engagement fees	480	216
Auditor General's reports to Parliament and performance audits	9,526	8,460
Consultants	64,625	76,272
Other contractors	4,666	2,275
Builders warranty claims	(5,376)	(4,610)
Police superannuation scheme - medical claims cost	13,974	12,612
GST administration costs	201,747	218,639
Land Remediation Provision	3,846	98,889
Land tax discounts	35,909	27,387
Repurchase of mining licences	-	481,814
Redress scheme	240,523	-
University superannuation expense	(941)	(106,100)
Other	49,138	38,812
	758,084	1,026,297

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

5. OTHER FINANCIAL ASSETS

	2018 \$000	2017 \$000
Current		
Financial assets at fair value	-	902,798
Other loans and deposits	3,700,000	3,450,000
	3,700,000	4,352,798
Non-current		
Financial assets at fair value	20,531,507	14,680,625
Other loans and deposits	-	1,400,000
	20,531,507	16,080,625
Total financial assets at fair value	24,231,507	20,433,423

Financial assets at fair value include Restart NSW Fund's investment in the NSW Infrastructure Future Fund, a unit trust investment facility managed by the NSW Treasury Corporation. Other loans and deposits are term deposits with maturities in 2018 greater than 3 months.

6. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Fair value for derivatives are shown after net-off of transactions with the same counter-party. Gains or losses arising from changes in the fair value of derivatives are recognised in surplus or deficit.

Fair values of forward contracts are determined by reference to the underlying value of the equity, applying a discounted cash flow method, and the forward price.

Fair value of the Crown Entity's derivative financial instruments

Current assets		
Forward contracts	-	47,851
Net amount receivable	-	47,851

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

These forward contracts contained underlying derivatives which were initially recognised at fair value on the date on which the derivative contract was entered into and were subsequently measured at fair value.

In November 2017, Reliance Rail successfully recapitalised and refinanced its debt. As part of Reliance's refinancing activities, the State was paid a consideration to extinguish its rights and obligations under the 2012 restructure agreements.

Crown Entity

**Notes to the financial statements
for the year ended 30 June 2018**

7. ADVANCES REPAYABLE TO THE CROWN

	2018	2017
	\$'000	\$'000
Current	226,077	219,280
Less: allowance for impairment	(15,515)	-
Net-Current	210,562	219,280
Non-current	834,410	823,399
Total advances	1,044,972	1,042,679

Movements in the allowance for impairment

Balance at 1 July	-	-
Add: new provisions	15,515	-
Less: amounts used	-	-
Balance at 30 June	15,515	-

Represented by:

NSW Land and Housing Corporation	373,950	389,344
Office of Environment and Heritage	40,691	40,691
Trustee of the Home Purchase Assistance Fund	106,641	113,833
NSW Rural Assistance Authority	240,609	193,739
Department of Education	140,500	140,500
Local Government Infrastructure	40,378	57,924
Co-operative advances	50,628	59,101
Ministry of Health	50,660	31,474
NSW Police Force	81	237
Australian Muesum	199	-
Department of Justice	570	701
Other	65	15,135
	1,044,972	1,042,679

The above advances repayable to the Crown have a face value of \$1,350 million as at 30 June 2018 (2017: \$1,372million) and stated interest rates of 0.0 – 6.0 per cent and mature in 1 - 24 years.

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

8. RECEIVABLES

	2018 \$'000	2017 \$'000
Current:		
Retained taxes, fees and fines	2,055,014	1,919,221
Less: allowance for impairment	<u>(303,327)</u>	<u>(305,306)</u>
Net - retained taxes, fees and fines	1,751,687	1,613,915
Dividends	862,881	513,639
Tax equivalents	125,408	44,080
Unspent appropriations	2,861	65,025
GST Receivable	717	24,794
Other	<u>208,178</u>	<u>376,827</u>
Total current receivables	2,951,732	2,638,280
Total receivables	<u>2,951,732</u>	<u>2,638,280</u>
Movements in the allowance for impairment		
Balance at 1 July	305,306	254,522
Add: new provisions	90,815	127,046
Less: amounts used	<u>(92,794)</u>	<u>(76,262)</u>
Balance at 30 June	<u>303,327</u>	<u>305,306</u>

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

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

The current receivables included assessments totalling \$84.2 million (2017: \$124.3 million) that were under objection or appeal.

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

9. 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.

	2018 \$'000	2017 \$'000
Current:		
Financial charges	283,862	346,125
Liability to Nominal Defendant Fund	-	3,333
Other	108,645	30,993
Total current payables	392,507	380,451
Total payables	392,507	380,451

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

10. 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.

Current	524,304	1,200,667
Non-current	28,450,878	27,737,082
Total borrowings	28,975,182	28,937,749
Analysed as:		
TCorp	28,345,014	28,279,304
Commonwealth financial agreements	184	189
Commonwealth specific purpose advances	582,126	610,398
Commonwealth other	47,858	47,858
Total borrowings at amortised cost	28,975,182	28,937,749

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 4.03 per cent (2017: 4.04 per cent). The weighted average life of the nominal debt portfolio is 7.65 (2017: 7.04) and for the indexed debt portfolio is 9.67 (2017: 10.18). 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 2018

10. BORROWING (continued)

Changes in liabilities arising from financing activities

	1 July 2017	Cashflows	Other *	30 June 2018
	\$'000	\$'000	\$'000	\$'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
Total liabilities from financing activities	28,937,749	565,743	(528,310)	28,975,182

* Other includes non-cash borrowing activities.

11. FINANCIAL INSTRUMENTS

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

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

Financial instrument categories

	Note	Category	Carrying Amount	
			2018	2017
			\$'000	\$'000
Financial assets				
Cash and cash equivalents	17	N/A	2,603,051	10,331,325
Other financial assets	5	At fair value through profit or loss (designated as such upon initial recognition)	20,531,507	15,583,423
Other financial assets	5	Loans and Receivables (at amortised cost)	3,700,000	4,850,000
Derivative financial instruments	6	At fair value through profit or loss (classified as held for trading)	-	47,851
Advances repayable to the Crown	7	Loans and Receivables (at amortised cost)	1,044,972	1,042,679
Receivables ¹	8	Loans and Receivables (at amortised cost)	1,071,059	890,466
Financial liabilities				
Payables	9	Financial liabilities (at amortised cost)	392,507	380,451
Bank overdrafts	17	N/A	7,050,719	10,917,091
Borrowings	10	Financial liabilities (at amortised cost)	28,975,182	28,937,749
Financial guarantees	20(b)	Financial liabilities (at amortised cost)	3,000	4,400

¹ 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 2018

11. FINANCIAL INSTRUMENTS (continued)

Risk management

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

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

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

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 profit 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 2017. The analysis assumes that all other variables remain constant.

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

11. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

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

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

	Carrying Amount \$'000	-1% Profit \$'000	Equity \$'000	+1% Profit \$'000	Equity \$'000
2018					
Financial assets					
Cash and cash equivalents	2,603,051	(26,031)	-	26,031	-
Financial liabilities					
Bank overdrafts	7,050,719	70,507	-	(70,507)	-
Borrowings managed by TCorp	28,345,014	1,956,485	-	(1,956,485)	-
2017					
Financial assets					
Cash and cash equivalents	10,331,325	(103,313)	-	103,313	-
Other financial assets ¹	902,779	(10,201)	-	10,201	-
Financial liabilities					
Bank overdrafts	10,917,091	109,171	-	(109,171)	-
Borrowings managed by TCorp	28,279,304	1,804,378	-	(1,804,378)	-

¹ Excludes the financial assets which are in the NSW Infrastructure Future Fund and the Social and Affordable Housing NSW 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	2018 (\$'000)
NSW Infrastructure Future Fund	Cash, Australian shares, International shares, emerging market equities, Australian bonds and investment grade credit	10 years and over	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	1,084,447

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

11. FINANCIAL INSTRUMENTS (continued)

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.

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 (%) ¹	Impact on net result (\$'000)
NSW Infrastructure Future Fund	+/-4%	777,882
Social and Affordable Housing Fund Investment Trust	+/-7%	75,911

¹ The 4% and 7% relates to the sensitivity for the NSW Infrastructure Future Fund and the Social and Affordable Housing Fund Investment Trust on a standalone basis based on the changes in unit prices since inception of those Funds in December 2016 and July 2017 respectively.

Credit risk

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

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.

Receivables and advances repayable to the Crown

Receivables include dividends from certain NSW government agencies. Statutory receivables such as taxes, fees and fines and income tax equivalents are excluded as they are not financial instruments.

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

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

11. FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

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

Financial assets

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

Credit risk exists for other financial assets at fair value and at amortised cost.

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

	Total \$'000	Past due but not impaired \$'000			Considered impaired \$'000
		< 3 months overdue	3 - 6 months overdue	> 6 months overdue	
2018					
Advances repayable to the Crown	156,015	140,500	-	-	15,515
Receivables	371	371	-	-	-
2017					
Receivables	429	429	-	-	-

Concentration of credit risk

By credit rating	AAA	AA+	AA	AA-	A+	A	Other ratings ¹	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2018								
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
2017								
Cash and cash equivalents	-	-	-	10,328,149	-	-	3,176	10,331,325
Other financial assets	902,779	-	-	4,850,000	-	-	19	5,752,798
Advances	-	-	-	-	-	-	1,042,679	1,042,679
Receivables	-	-	-	195,490	-	-	694,976	890,466

By classification of counterparty	Governments	Banks	Other	Total
	\$'000	\$'000	\$'000	\$'000
2018				
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
2017				
Cash and cash equivalents	3,148	10,328,149	28	10,331,325
Other financial assets	902,779	4,850,000	19	5,752,798
Advances	983,578	-	59,101	1,042,679
Receivables	694,976	194,301	1,189	890,466

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

11. FINANCIAL INSTRUMENTS (continued)

Financial guarantees

The Crown Entity has a number of financial guarantees to which it is a party on behalf of other entities, agencies, departments and the Crown itself. The guarantees outstanding at 30 June 2018 have an estimated amortised total value of \$3.0 million (2017: \$4.4 million). The estimated value was calculated by independent valuers based on the probabilities of these guarantees being exercised.

These guarantees are grouped into two categories.

1. *GIO Guarantees*: The Crown provided a guarantee over GIO obligations for insurance policies entered into before its sale in 1992. The Crown's guarantee can only be called upon if the existing owners are unable to make payment. The likelihood of invoking the guarantee is measured by the level of the existing owners' equity to their guaranteed liabilities. It is regarded as extremely unlikely given this ratio has grown over time. The credit risk for these guarantees is \$290 million (2017: \$275 million).
2. *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 \$5,118 million (2017: \$5,341 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 (2017: \$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 \$6,000 million (2017: \$6,000 million). No amounts were drawn during the year (2017: Nil).

Under the *Public Authorities (Financial Arrangements) Act 1987*, the Crown Entity has approved financial accommodation of \$29,000 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.

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

11. FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)

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

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

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

	Weighted average effective interest rate %	Nominal amount ¹ \$'000	Interest rate exposure			Maturity dates		
			Fixed interest rate \$'000	Variable interest rate \$'000	Non-interest bearing \$'000	< 1 Year \$'000	1 - 5 Years \$'000	> 5 Years \$'000
2018								
Payables	-	392,507	-	-	392,507	392,507	-	-
Bank overdrafts	2.35	7,050,719	-	7,050,719	-	7,050,719	-	-
TCorp borrowings ¹	4.03	36,669,644	36,669,644	-	-	1,555,357	12,046,493	23,067,794
Cw/with financial agreements	2.87	184	184	-	-	184	-	-
Cw/with specific purpose advances ¹	4.40	909,555	909,555	-	-	53,997	218,919	636,639
Cw/with other	4.50	47,858	47,858	-	-	-	3,988	43,870
Financial guarantees ²	-	5,408,576	-	-	5,408,576	281,323	1,009,130	4,118,123
Total financial liabilities³		50,479,043	37,627,241	7,050,719	5,801,083	9,334,087	13,278,530	27,866,426
2017								
Payables	-	380,451	-	-	380,451	380,451	-	-
Bank overdrafts	2.37	10,917,091	-	10,917,091	-	10,917,091	-	-
TCorp borrowings ¹	4.04	37,052,736	37,052,736	-	-	1,480,506	13,836,435	21,735,795
Cw/with financial agreements	2.82	189	189	-	-	189	-	-
Cw/with specific purpose advances ¹	4.40	961,331	961,331	-	-	53,219	216,956	691,156
Cw/with other	4.50	47,858	47,858	-	-	-	-	47,858
Financial guarantees ²	-	5,616,819	-	-	5,616,819	278,643	1,002,970	4,335,206
Total financial liabilities³		54,976,475	38,062,114	10,917,091	5,997,270	13,110,099	15,056,361	26,810,015

¹ The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities. Therefore, the amounts disclosed above will not reconcile to the amounts shown in the Statement of Financial Position.

² 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 \$3.0 million (2017: \$4.4 million).

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

11. FINANCIAL INSTRUMENTS (continued)

Fair value

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	2018		2017	
		Fair value \$'000	Fair value level	Carrying amount \$'000	Fair value \$'000
Financial assets					
Co-operative advances	50,628	50,703	Level 2	59,101	59,179
Financial liabilities					
TCorp borrowings	28,345,014	30,362,679	Level 2	28,279,303	30,742,527

b) Fair value recognised in the statement of financial position

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

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

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

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2018				
Financial assets at fair value	-	20,509,465	22,042	20,531,507
	-	20,509,465	22,042	20,531,507
2017				
Financial assets at fair value	902,779	14,680,644	-	15,583,423
Derivative financial instruments	-	6,561	41,290	47,851
	902,779	14,687,205	41,290	15,631,274

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

11. FINANCIAL INSTRUMENTS (continued)

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.

Reconciliation of level 3 fair value measurements

	\$'000
Opening balance at 1 July 2017	41,290
Additions	22,042
Derecognition on termination	<u>(41,290)</u>
Closing balance at 30 June 2018	<u>22,042</u>
Opening balance at 1 July 2016	27,840
Total gains or losses	
- net result for the year (in gain from financial instrument)	<u>13,450</u>
Closing balance at 30 June 2017	<u>41,290</u>

There were no transfers between the levels during the year ended 30 June 2018 (2017: Nil).

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

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:

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

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

SAS Trustee Corporation (STC) engaged an independent actuary, Mercer Consulting, 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 2018 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 applying to employee benefits as at 30 June 2018.

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

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 actuarial investigation as at 30 June 2018 has been completed.

The 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 19 May 2010). 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 every three years. The latest actuarial investigations for the PCSS was performed as at 30 June 2017, and the latest actuarial investigation for the JPS was performed as at 1 January 2018. The investigation for PCSS has been completed whilst the investigation for JPS is being finalised.

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 2018**

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	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	SANCS	SSS	PSS	JPS	PCSS	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	2017-18
							\$'000
Accrued liability ¹	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)
Surplus/(deficit)	4,223,471	668,215	35,649,349	11,588,544	1,177,021	481,600	53,788,200
Future service liability ²	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
							53,788,200

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

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

Crown Entity

**Notes to the financial statements
for the year ended 30 June 2018**

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 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>	4,223,471	668,215	35,649,349	11,588,544	1,177,021	481,600	53,788,200

(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>Fair 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>	10,206,997	1,692,330	20,502,258	4,873,624	-	315,300	37,590,509

(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>	14,430,468	2,360,545	56,151,607	16,462,168	1,177,021	796,900	91,378,709

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

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 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 ¹	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%
Total	20,663,273	14,678,915	6,458,876	41,801,064	100.0%

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

- Level 1: quoted prices in active markets for identical assets or liabilities. The assets in this 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 2018

12. UNFUNDED SUPERANNUATION LIABILITY (continued)

The fair value of the Pooled Fund assets as at 30 June 2018 includes \$97.7 million (2017: \$354.0 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 (2017: \$250 million).
- Health Administration Corporation occupies part of a property 50 per cent owned by the Pooled Fund with a fair value of \$287 million (2017: \$261 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	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)	89,404,790	95,063,379	84,144,926

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

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)	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 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)	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 2018

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 review of the funding arrangements is being performed together with the triennial actuarial review as at 30 June 2018. It is expected the review will 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 NSW Treasury.

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

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

The following is a summary of the 30 June 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 ¹	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	1,541,281	341,876	8,579,999	2,578,516	812,131	99,700	13,953,503

¹ 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

(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	2.70% 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

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

12. UNFUNDED SUPERANNUATION LIABILITY (continued)

(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
Defined benefit cost	382,220	74,900	1,063,290	319,334	71,019	15,700	1,926,463

(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)
Total remeasurement in Other Comprehensive Income	(159,561)	(69,297)	(1,692,072)	(431,321)	7,853	(26,700)	(2,371,098)

Crown Entity

**Notes to the financial statements
for the year ended 30 June 2018**

12. UNFUNDED SUPERANNUATION LIABILITY (continued)

The following figures are 2017 comparatives

(a) Member numbers

	SASS	SANCS	SSS	PSS	JPS	PCSS
Contributors	18,599	23,238	3,608	1,031	124	25
Deferred benefits	9,914	11,016	931	44	-	2
Pensioners	3,221	-	46,597	6,594	233	281
Pensions fully commuted	-	-	13,888	-	-	-

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

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2016-17 \$'000
Accrued liability ¹	14,429,090	2,465,828	57,034,960	16,625,338	1,143,212	809,000	92,507,428
Fair value of the reserve account	(10,180,148)	(1,744,101)	(19,854,202)	(4,624,248)	-	(298,700)	(36,701,399)
	<u>4,248,942</u>	<u>721,727</u>	<u>37,180,758</u>	<u>12,001,090</u>	<u>1,143,212</u>	<u>510,300</u>	<u>55,806,029</u>
Future service liability ²	1,226,114	493,084	291,628	(13,873)	-	-	1,996,953
Net liability to be disclosed in the Statement of Financial Position	<u>4,248,942</u>	<u>721,727</u>	<u>37,180,758</u>	<u>12,001,090</u>	<u>1,143,212</u>	<u>510,300</u>	<u>55,806,029</u>
Current							1,568,520
Non-current							<u>54,237,509</u>
							<u>55,806,029</u>

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

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

Crown Entity

**Notes to the financial statements
for the year ended 30 June 2018**

12. UNFUNDED SUPERANNUATION LIABILITY (continued)

2017 comparatives (continued)

(c) Reconciliation of the net defined benefit obligation

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	2016-17
							\$'000
<i>Present value at 1/7/16</i>	5,112,263	981,044	44,565,115	14,544,813	1,214,221	642,600	67,060,056
Transfers in/(out) through equity	(2,045)	(2,050)	78,874	-	-	-	74,779
Current service cost	314,687	66,634	168,689	48,489	50,783	3,200	652,482
Net interest	97,165	17,599	880,540	287,771	23,693	12,600	1,319,368
Actual return on Fund assets less interest income	(692,650)	(116,000)	(1,383,711)	(317,680)	-	(34,800)	(2,544,841)
Actuarial (gains)/losses arising from changes in demographic assumptions	8,874	158	(971)	-	-	-	8,061
Actuarial (gains)/losses arising from changes in financial assumptions	(523,630)	(82,768)	(5,618,574)	(2,068,044)	(105,323)	(90,000)	(8,488,339)
Actuarial (gains)/losses arising from liability experience	393,433	50,475	(875,416)	(326,298)	7,715	(6,500)	(756,591)
Employer contribution	(459,155)	(193,365)	(633,788)	(167,961)	(47,877)	(16,800)	(1,518,946)
<i>Present value at 30/6/17</i>	4,248,942	721,727	37,180,758	12,001,090	1,143,212	510,300	55,806,029

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

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	2016-17
							\$'000
<i>Present value at 1/7/16</i>	9,776,186	1,636,364	19,139,876	4,479,183	-	268,800	35,300,409
Transfers in/(out) through equity	45,054	5,308	153,211	-	-	-	203,573
Interest income	189,791	31,887	365,628	86,320	-	5,300	678,926
Actual return on Fund assets less interest income	692,650	116,000	1,383,711	317,680	-	34,800	2,544,841
Employer contributions	459,155	193,365	633,788	167,961	47,877	16,800	1,518,946
Contributions by participants	139,827	-	66,144	8,041	-	700	214,712
Benefits paid	(1,061,236)	(215,620)	(2,111,758)	(475,074)	(47,877)	(26,600)	(3,938,165)
Taxes, premiums & expenses	(61,279)	(23,203)	223,602	40,137	-	(1,100)	178,157
<i>Fair value at 30/6/17</i>	10,180,148	1,744,101	19,854,202	4,624,248	-	298,700	36,701,399

(e) Reconciliation of the defined benefit obligation

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	2016-17
							\$'000
<i>Present value at 1/7/16</i>	14,888,449	2,617,408	63,704,991	19,023,996	1,214,221	911,400	102,360,465
Transfers in/(out) through equity	43,009	3,258	232,085	-	-	-	278,352
Current service cost	314,687	66,634	168,689	48,489	50,783	3,200	652,482
Interest cost	286,956	49,486	1,246,168	374,091	23,693	17,900	1,998,294
Contributions by participants	139,827	-	66,144	8,041	-	700	214,712
Actuarial (gains)/losses arising from changes in demographic assumptions	8,874	158	(971)	-	-	-	8,061
Actuarial (gains)/losses arising from changes in financial assumptions	(523,630)	(82,768)	(5,618,574)	(2,068,044)	(105,323)	(90,000)	(8,488,339)
Actuarial (gains)/losses arising from liability experience	393,433	50,475	(875,416)	(326,298)	7,715	(6,500)	(756,591)
Benefits paid	(1,061,236)	(215,620)	(2,111,758)	(475,074)	(47,877)	(26,600)	(3,938,165)
Taxes, premiums & expenses	(61,279)	(23,203)	223,602	40,137	-	(1,100)	178,157
<i>Present value at 30/6/17</i>	14,429,090	2,465,828	57,034,960	16,625,338	1,143,212	809,000	92,507,428

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

12. UNFUNDED SUPERANNUATION LIABILITY (continued)

2017 comparatives (continued)

(f) Reconciliation of the effect of the asset ceiling

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2016-17 \$'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 ¹	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total 2016-17 \$'000	% of total
Short Term Securities	3,077,362	9,945	-	3,087,307	7.7%
Australian Fixed Interest	997	2,499,728	-	2,500,725	6.2%
International Fixed Interest	-	480,991	-	480,991	1.2%
Australian Equities	8,947,483	498,572	24	9,446,079	23.6%
International Equities	9,033,497	1,869,112	1,150,894	12,053,503	30.1%
Property	926,105	533,191	1,993,812	3,453,108	8.6%
Alternatives	390,899	5,068,137	3,607,020	9,066,056	22.6%
Total	22,376,343	10,959,676	6,751,750	40,087,769	100.0%

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

- Level 1: quoted prices in active markets for identical assets or liabilities. The assets in 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 2018

12. UNFUNDED SUPERANNUATION LIABILITY (continued)

2017 comparatives (continued)

The fair value of the Pooled Fund assets as at 30 June 2017 included \$354.0 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 \$250 million.
- Health Administration Corporation occupies part of a property 50 per cent owned by the Pooled Fund with a fair value of \$261 million.

(h) Significant actuarial assumptions at the reporting date

	Pooled Fund	PCSS	JPS
Discount rate	2.62% pa	2.61% pa	2.62% pa
Salary increase rate (excluding promotional increases)	2.50% 2017/2018 and 2018/2019; 3.50% 2019/2020 and 2020/2021; 3.00% pa 2021/2022 to 2025/2026; 3.50% pa thereafter		2.5% pa
Rate of CPI increase	2.00% 2017/2018; 2.25% 2018/2019; 2.50% pa thereafter	2.5% pa	N/A
Pensioner mortality	The pensioner mortality assumptions are as per the 2015 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 2014 triennial actuarial valuation	

(i) Sensitivity analysis

The total defined benefit obligation as at 30 June 2017 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 2017.

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

Pooled Fund	Base Case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate
	Discount rate	2.62%	1.62%
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above	as above
Defined benefit obligation (\$'000)	90,555,218	103,946,352	79,679,977
	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)	90,555,218	96,414,190	85,153,160

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

12. UNFUNDED SUPERANNUATION LIABILITY (continued)

2017 comparatives (continued)

Pooled Fund	Base Case	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
	Discount rate	as above	as above
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above rate plus 0.5%	as above rate less 0.5%
Defined benefit obligation (\$'000)	90,555,218	90,966,272	90,063,271

Defined benefit obligation (\$'000)	Base Case	Scenario G Lower mortality*	Scenario H Higher mortality**
	Defined benefit obligation (\$'000)	90,555,218	92,082,146

* Assumes the short-term pensioner mortality improvement factors for years 2017-2021 also apply for years after 2021.

** Assumes the long-term pensioner mortality improvement factors for years post 2021 also apply for years 2017 to 2021.

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	2.61%	1.61%	3.61%	2.62%	1.62%	3.62%
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)	809,000	962,000	690,000	1,143,212	1,311,034	998,197

	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)	809,000	879,000	746,000	1,143,212	1,241,183	1,055,142

	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)	809,000	779,000	842,000	1,143,212	1,098,808	1,190,376

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 2018

12. UNFUNDED SUPERANNUATION LIABILITY (continued)

2017 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 generally reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at 30 June 2015. Contribution rates are set after discussions between the employer, STC and NSW Treasury.

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

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

JPS is run as a pay-as-you 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 2017 financial position of the Fund calculated in accordance with AASB 1056 *Superannuation Entities*.

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2016-17 \$'000
Accrued benefits ¹	11,712,663	2,041,313	29,443,586	7,401,891	629,615	388,500	51,617,568
Net market value of Fund assets	(10,180,148)	(1,744,101)	(19,854,202)	(4,624,248)	-	(298,700)	(36,701,399)
Net deficit	<u>1,532,515</u>	<u>297,212</u>	<u>9,589,384</u>	<u>2,777,643</u>	<u>629,615</u>	<u>89,800</u>	<u>14,916,169</u>

¹ 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	N/A	N/A	N/A	N/A

(m) Economic assumptions

Weighted-Average Assumptions	Pooled Fund 30/06/17	JPS 30/06/17	PCSS 30/06/17
Expected rate of return on Fund assets backing current pension liabilities	7.4% pa	7.02% pa	7.8% 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% to 30 June 2019 then 3.2% pa thereafter	2.5% pa	2.5% pa for the first 2 years; 3.5% pa thereafter
Expected rate of CPI increase	2.2% pa	N/A	N/A

Crown Entity

**Notes to the financial statements
for the year ended 30 June 2018**

12. UNFUNDED SUPERANNUATION LIABILITY (continued)

2017 comparatives (continued)

(n) Expected contributions

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000
Expected employer contributions - financial year to 30 June 2018	231,900	55,600	914,900	299,700	48,720	17,700

The weighted average duration is:

- 13 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 2016-17 \$'000
Current service cost	314,687	66,634	168,689	48,489	50,783	3,200	652,482
Net interest	97,165	17,599	880,540	287,771	23,693	12,600	1,319,368
Defined benefit cost	411,852	84,233	1,049,229	336,260	74,476	15,800	1,971,850

(p) Other comprehensive income

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2016-17 \$'000
Actual return on Fund assets less interest income	(692,650)	(116,000)	(1,383,711)	(317,680)	-	(34,800)	(2,544,841)
Actuarial (gains)/losses arising from changes in demographic assumptions	8,874	158	(971)	-	-	-	8,061
Actuarial (gains)/losses arising from changes in financial assumptions	(523,630)	(82,768)	(5,618,574)	(2,068,044)	(105,323)	(90,000)	(8,488,339)
Actuarial (gains)/losses arising from liability experience	393,433	50,475	(875,416)	(326,298)	7,715	(6,500)	(756,591)
Total remeasurement in Other Comprehensive Income	(813,973)	(148,135)	(7,878,672)	(2,712,022)	(97,608)	(131,300)	(11,781,710)

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

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.

	2018 \$'000	2017 \$'000
Current	7,901,679	7,451,095
Non-current	679,243	640,050
Total employee benefits and other provisions	8,580,922	8,091,145

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. With discounting, the increase in the provision due to the recognition of the time value of money is expensed as a finance cost.

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 2018**

13. EMPLOYEE BENEFITS AND OTHER PROVISIONS (continued)

	2018	2017
	\$'000	\$'000
c) Long service leave		
Current		
General Government Sector agencies assumed by the Crown, excluding NSW Health	4,986,671	4,709,487
NSW Health	2,788,157	2,591,610
Crown long service leave pool	35,236	59,484
	7,810,064	7,360,581
Non-current		
General Government Sector agencies assumed by the Crown, excluding NSW Health	433,731	409,520
NSW Health	242,448	225,357
Crown long service leave pool	3,064	5,173
	679,243	640,050
d) Other leave benefits		
Current		
Other leave benefits	91,616	90,514
	91,616	90,514
Total employee benefits and other provisions	8,580,923	8,091,145

The expected payment within the next twelve months for General Government Sector agencies' long service leave is \$546 million (2017: \$581 million), for NSW Health is \$286 million (2017: \$274 million) and for the Crown long service leave pool is \$4.1 million (2017: \$11.0 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 2017	5,119,006	2,816,968	64,657	90,514	8,091,145
Add: increase/(decrease) in liability during the year	731,589	361,037	23,043	1,369	1,117,038
Add: interest costs	133,700	75,400	1,100	-	210,200
Add/(less): transfer in from other NSW government agency	(22,593)	-	(37,900)	-	(60,493)
Less: cash payments	(541,300)	(222,800)	(12,600)	(267)	(776,967)
Balance as at 30 June 2018	5,420,402	3,030,605	38,300	91,616	8,580,923
Balance as at 1 July 2016	5,255,876	2,818,928	97,442	99,484	8,271,730
Add: increase in liability during the year	269,230	146,440	(6,285)	(8,970)	400,415
Add: interest costs	105,000	57,200	1,700	-	163,900
Add: transfer in from other NSW government agency	24,000	-	(4,700)	-	19,300
Less: cash payments	(535,100)	(205,600)	(23,500)	-	(764,200)
Balance as at 30 June 2017	5,119,006	2,816,968	64,657	90,514	8,091,145

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

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.

	2018 \$'000	2017 \$'000
Current	228,346	153,561
Non-current	1,645,678	1,559,528
Total provisions	1,874,024	1,713,089
Balance as at 1 July	1,713,089	1,799,799
Less: payments	(120,621)	(95,229)
Less: write back	(1,318)	(44,884)
Add: new provisions	244,369	100,138
Actuarial (gains)/losses	(3,376)	(90,328)
Interest costs	41,881	43,593
Balance as at 30 June	1,874,024	1,713,089

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.

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

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 2018, 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.

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

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 2018, the net market value of fund assets was estimated to be \$8.5 million less (2017: \$7.4 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 estimates provided for the 2015 EISS triennial review, the actual fund shortfall as at 30 June 2015 was \$10.0 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 review is currently in progress and the formal result will be available in 2018-19.

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.

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

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 Plant¹
- Lane Cove Tunnel
- Mater Hospital
- Long Bay Prison and Forensic Hospital
- Suburban Rolling Stock
- VISY Mill: Tumut Timber Supply Agreement
- Orange Hospital Redevelopment
- Royal North Shore Hospital Redevelopment
- Sydney International Convention, Exhibition and Entertainment Precinct
- North West Rail Link – Operations, Trains and Systems
- Northern Beaches Hospital
- Sydney Light Rail
- WestConnex
- NorthConnex
- Newcastle Integrated Service Operator
- New Grafton Correctional Centre
- Sydney Growth Trains
- New Intercity Fleet
- Sydney Metro City & Southwest: Tunnel and Station Excavation Works

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

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

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.

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

15. CONTINGENT LIABILITIES (continued)

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).

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.

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

15. CONTINGENT LIABILITIES (continued)

Sale of Eraring Energy

- *General warranties* - under the Sale and Purchase Agreement, the State has potential liabilities under tax warranties given to Origin Energy. Claims under the tax warranties must be brought before 1 August 2018.
- *Pre-completion contamination liability* - the State 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.

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 \$65.5 billion (2017: \$64.9 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 \$84 million (2017: \$103.7 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 3.3 years. There is an interest rate exposure on a principal of \$207 million as at 30 June 2018 (2017: \$365 million).

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

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 \$15.7 million (2017: \$33.9 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 (2017: \$5.4 million).

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, \$2,179 million is restricted cash assets (2017: \$9,957 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.

Crown Entity

**Notes to the financial statements
for the year ended 30 June 2018**

17. CASH FLOW INFORMATION (continued)

(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:

	2018 \$'000	2017 \$'000
Cash at bank	2,603,051	10,331,325
Bank overdraft	<u>(7,050,719)</u>	<u>(10,917,091)</u>
Net cash and cash equivalents per Statement of Cash Flows	<u>(4,447,668)</u>	<u>(585,766)</u>

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

Net cash flows from operating activities	(3,619,484)	(956,000)
Non cash items added back		
Share of profit of an associate	-	145,340
Equity adjustments- prior period errors	247,899	117,723
Non cash finance costs	(283,004)	(167,283)
Administrative restructure - transfer in	28,566	101,565
Proceeds on asset disposals	33	15,136
Impairment loss on sale of investments	(122,462)	-
Dividends from investments	153,700	-
	<u>24,732</u>	<u>212,481</u>
Change in operating assets and liabilities		
Movement in working capital	155,664	(1,443)
Increase/(decrease) in other liabilities	(1,276,608)	(355,485)
Decrease/(increase) in other assets	184,046	51,328
	<u>(936,898)</u>	<u>(305,600)</u>
Movement for the year	<u>(912,166)</u>	<u>(93,119)</u>
Deficit for the year	<u>(4,531,650)</u>	<u>(1,049,119)</u>

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

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 1.7.2017	13	143	112
Add: receipts	-	-	-
Less: payments	-	-	-
Balance 30.6.2018	13	143	112
Balance 1.7.2016	64	143	112
Add: receipts	185	-	-
Less: payments	(236)	-	-
Balance 30.6.2017	13	143	112

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

State Rail Authority

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

Land Acquisition Fund

This trust account holds the funds vested 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.

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

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 leased electricity 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 leased electricity network infrastructure assets.

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

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.

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.

Accounts	NSW Policyholders	Crown Long Service	Structured Finance	Confiscated		Restart NSW
	Protection Fund	Leave Pool	Activities	Proceeds Account		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
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)
Balance 30.6.2018	104,345	11,199	556	127,203		1,607,394
Balance 1.7.2016	104,345	30,078	718	121,311		12,931,616
Plus receipts	-	16,981	126	15,317		13,114,320
Less payments	-	(28,199)	(218)	(32,710)		(17,620,264)
Balance 30.6.2017	104,345	18,860	626	103,918		8,425,672

Accounts	Social and		ERIC-A Fund	ERIC -E Fund
	Electricity Network	Affordable Housing		
	Residual Liabilities	NSW		
	\$'000	\$'000	\$'000	\$'000
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)
Balance 30.6.2018	193,565	132,612	668	955
Balance 1.7.2016	23,970	-	-	-
Plus receipts	175,600	1,120,000	99,292	1,000
Less payments	(18,480)	(29)	(98,387)	-
Balance 30.6.2017	181,090	1,119,971	905	1,000

Separate bank accounts are kept for Structured Finance Activities, Restart NSW, Electricity Networks Residual Liabilities, Social Affordable Housing Fund, ERIC-A Fund and ERIC-E Fund. The transactions for these accounts are recognised in the financial statements. Established in late June 2018, there were no transactions in the NGFs and SHLF as at the reporting date.

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

20. OTHER LIABILITIES

	2018 \$'000	2017 \$'000
Current:		
Confiscated proceeds	127,203	103,918
Special deposit and trust accounts	267	267
Deferred income ^(a)	148,675	132,985
Financial guarantees ^(b)	1,300	1,900
Other	39,631	46,827
	317,076	285,897
Non-current:		
Deferred income ^(a)	665,486	641,160
Financial guarantees ^(b)	1,700	2,500
	667,186	643,660
Total other liabilities	984,262	929,557

(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

	2018 \$'000	2017 \$'000
Balance at beginning of the year	774,146	712,058
Add: licence fees deferred	183,327	183,595
Less: amortisation	(143,312)	(121,507)
Balance at the end of the year	814,161	774,146

(b) Financial guarantees

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

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

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

Movements in financial guarantees

	2018 \$'000	2017 \$'000
Balance at the beginning of the year	4,400	6,100
Less: amortisation	(1,400)	(1,700)
Balance at the end of the year	3,000	4,400
Current	1,300	1,900
Non-current	1,700	2,500
	3,000	4,400

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

20. OTHER LIABILITIES (continued)

(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 \$1.5 million (2017: \$2.2 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) Government Insurance Act 1927

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

Actuarial assessment of the GIO liabilities is:

	31 Dec 2017	31 Dec 2016
	\$'000	\$'000
General insurance	246,700	228,300
Life insurance	43,300	45,400
Inward reinsurance	300	1,200
	290,300	274,900

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

The guarantees have a current amortised value of \$1.5 million (2017: \$2.2 million).

(iii) Public private partnerships

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

The current outstanding guarantees relate to:

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

The guarantees have been valued at Nil (2017: 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 2018**

21. CONSOLIDATED FUND TRANSACTIONS

	2018 \$'000	2017 \$'000
Cash flows from operating activities		
Receipts		
Retained taxes, fees and fines	32,334,352	31,694,979
Commonwealth grants	24,888,769	24,717,923
Financial distributions	1,165,350	1,450,055
Other	2,248,931	2,239,627
Total receipts	<u>60,637,402</u>	<u>60,102,584</u>
Payments		
Appropriations paid to other agencies	(57,926,026)	(53,123,688)
Appropriations paid to Crown Finance Entity	(5,661,829)	(11,253,617)
Total payments	<u>(63,587,855)</u>	<u>(64,377,306)</u>
Net cash flows used in operating activities	(2,950,452)	(4,274,722)
Other cash flows		
Borrowing transferred	1,112,473	9,638,032
Investment income transferred	153,699	131,950
Interest receipts transferred	336,396	460,691
Advance repayments transferred	92,902	414,859
Other	4,410,524	162,642
	<u>6,105,994</u>	<u>10,808,172</u>
Net increase/(decrease) in cash and cash equivalents	3,155,542	6,533,450
Opening cash and cash equivalents	(10,841,369)	(16,697,779)
Cash transferred in as a result of restructuring	733,751	(706,461)
Return of capital	-	29,421
Closing cash and cash equivalents	<u>(6,952,076)</u>	<u>(10,841,369)</u>
Cash and cash equivalents		
Cash in transit	98,643	75,722
Bank overdraft	(7,050,719)	(10,917,091)
	<u>(6,952,076)</u>	<u>(10,841,369)</u>

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

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.

	2018 \$'000	2017 \$'000
Payments		
Non-Government schools - recurrent	(3,808,485)	(3,582,506)
Local Government - financial assistance	(533,295)	(770,729)
Local Government - roads	(215,208)	(309,618)
	(4,556,988)	(4,662,853)
Receipts		
Non-Government schools - recurrent	3,808,485	3,582,506
Local Government - financial assistance	533,295	770,729
Local Government - roads	215,208	309,618
	4,556,988	4,662,853

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:

	2017-18 \$'000
Transfers from sale of Government businesses	1,041
Capital injection into Hunter Water	(4,346)
Capital injection into Transport Asset Holding Entity	(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
	(568,401)

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

23. EQUITY TRANSFERS (continued)

	2016-17 \$'000
Transfers from sale of Government businesses	
Capital injection into Transport Asset Holding Entity	10,619,670
Investment in Sydney Motorway Corporation	(1,669,240)
Cash management policy reforms - return of cash surpluses	(915,084)
Net superannuation liabilities transferred in	(74,779)
Long Service Leave liabilities transferred in	(10,497)
Capital injection into Hunter Water	(8,493)
Return of Capital	29,421
Other net assets/(liabilities) transferred from administrative restructure	22,984
	<u>7,993,982</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 does not have any employees, key management personnel services were provided by NSW Treasury. There was no remuneration paid to any of the KMP by the Crown Entity during the period and no loans were made to any of the KMP 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 and on normal commercial terms and conditions. Expenditure paid by the Crown Entity with related parties was recovered at cost.

(i) *Transactions with KMP*

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.

(ii) *Transactions with other related entities*

The Crown Entity interacts extensively with other government agencies 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.

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

25. NON-CURRENT ASSET HELD-FOR-SALE

	2018 \$000	2017 \$000
Asset held-for-sale		
Investment in an associate held-for-sale	-	4,195,952
	<u>-</u>	<u>4,195,952</u>

Amounts recognised in other comprehensive income relating to asset held-for-sale

Net change in revaluation surplus of investment in an associate held-for-sale	-	387,592
	<u>-</u>	<u>387,592</u>

The Crown Entity held a 58 per cent share in Snowy Hydro Limited (SHL). As part of the 2017-18 Federal Budget announced in May 2017, the Commonwealth Government was open to acquiring a larger share or outright ownership of SHL. The Premier of NSW publicly announced that the State was interested in pursuing the transaction. As at 30 June 2017, this investment was classified as asset held-for-sale consistent with the classification requirements of AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

AASB 5 requires that the asset classified as held for sale to be recognised at the lower of its carrying amount and fair value less costs to sell. AASB 13 *Fair Value Measurement* defines the fair value to be the price (exit price) that would be received to sell the asset. As at 30 June 2017, the exit price was determined by discounting cash flow projections of SHL's operations out to June 2021. These projections were based on historical cash flow data from 2007 through to the current financial year. Estimate future cash flows were discounted using an appropriate market derived weighted average cost of capital calculated specific for SHL.

In 2017-18, the sale of SHL was finalised with net sale proceeds of \$4.07 billion received by the Crown Entity on 29 June 2018. The carrying amount of SHL was written down to the fair value less cost to sell with an impairment loss of \$122.5 million being recognised and classified as Other Gains or Losses in the Statement of Comprehensive Income.

26. RESTATEMENT/CORRECTIONS TO PRIOR YEARS

The Crown Entity's provision for university superannuation liabilities are measured in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. AASB 137 requires provisions to be measured at "the best estimate of the expenditure required to settle the present obligation at the end of the reporting period" using a discount rate "that reflect(s) current market assessments of the time value of money and the risks specific to the liability".

AASB 137 requires that 'discount rate (s) shall not reflect risks for which future cash flow estimates have been adjusted'. Major professional service firms have interpreted the "market assessment of time value of money" to equate to a 'risk free rate'. It is generally accepted that the reference source of risk-free rates should be Commonwealth government bond with a similar remaining term as the provision. Management has reassessed these discount rates and has determined the market yield on Commonwealth Bonds best meet the requirements of AASB 137. For consistency this has been applied to all provisions across the State.

Crown Entity

Notes to the financial statements for the year ended 30 June 2018

26. RESTATEMENT/CORRECTIONS TO PRIOR YEARS (continued)

The impact of this change is to increase provisions by \$247.9 million in 2017 and increase provisions by \$365.6 million in 2016. The interpretation of AASB 137 would have been applicable to previous financial years. Therefore, in accordance with *AASB 108 Accounting Policies, Changes In Accounting Estimates and Errors*, the liabilities at 30 June 2017 and 1 July 2016 have been corrected as follows:

	30 June 2017		
	Previously reported \$'000	Adjustment \$'000	Restated \$'000
Statement of Comprehensive Income			
<i>Expenses</i>			
- Finance costs	1,668,323	(11,623)	1,656,700
- Other expenses	1,132,397	(106,100)	1,026,297
<i>Total expense</i>	61,661,074	(117,723)	61,543,351
<i>Surplus/(deficit) for the year</i>	(1,166,842)	117,723	(1,049,119)

	30 June 2017			30 June 2016		
	Previously reported \$'000	Adjustment \$'000	Restated \$'000	Previously reported \$'000	Adjustment \$'000	Restated \$'000
Statement of Financial Position						
<i>Non-current liabilities</i>						
- Provisions	1,311,629	247,899	1,559,528	1,299,865	365,622	1,665,487
<i>Total non-current liabilities</i>	84,569,930	247,899	84,817,829	94,800,721	365,622	95,166,343
<i>Total liabilities</i>	106,527,212	247,899	106,775,111	122,609,965	365,622	122,975,587
<i>Net assets/(liabilities)</i>	(67,837,702)	(247,899)	(68,085,601)	(86,846,324)	(365,622)	(87,211,946)
- Accumulated deficit	(67,837,702)	(247,899)	(68,085,601)	(89,589,396)	(365,622)	(89,955,018)
<i>Total equity</i>	(67,837,702)	(247,899)	(68,085,601)	(86,846,324)	(365,622)	(87,211,946)

27. EVENTS AFTER THE REPORTING DATE

On 3 July 2018 Transport for NSW entered into an agreement that provides a guarantee of up to \$500.0 million against a borrowing facility provided by some of the private sector debt providers to ALTRAC Light Rail Consortium (ALTRAC), which is currently constructing the Sydney Light Rail. On 5 July 2018 the Treasurer executed a Deed of Guarantee on behalf of the NSW Government which guarantees Transport for NSW's financial and other obligations under the agreement it has with ALTRAC. As this guarantee is a contingent liability, there is no impact to the financial position of the Crown Entity.

End of audited financial statements



Treasury

Appendix 1

**Crown Entity 2017-2018
Expenditure on Consultants**

Consultants costing \$50,000 or more

Finance & Accounting/Tax	Project	CALAIS
Goldman Sachs	Financial Advisory Services for West Connex	15,135,107
PWC	Tax & Accounting Advisory Services for West Connex	4,932,855
AquAsia	Financial Advisory services for Reliance Rail	849,949
Deutsche	Financial & Accounting advisory services for Electricity Networks Transaction	1,440,110
KPMG	Finance & Accounting advisory services for Pillar 3 and Disability & Customer Care Service Transfer	1,416,782
KPMG Australia	Finance & Accounting advisory services for Disability & Customer Care Service Transfer	337,154
Ernst & Young	Tax & Accounting Advisory Services for Disability & Customer Care Service Transfer and Electricity Networks Transaction	968,660
UBS	Financial Advisory Services for Snowy Hydro and Electricity Networks Transaction	1,440,110
		26,520,727.24

Legal Services	Project	
Allens	Legal Advisory services for West Connex	10,295,528
Allens	Legal Advisory services for Wallerawang decommissioning for Residual Asset Transactions	554,804
Baker & McKenzie	Legal Advisory services (Gen Assets) for Residual Asset Transactions	143,073
Minter Ellison	Legal Advisory services (Ports) for Residual Asset Transactions	65,809
Baker & McKenzie	Legal Advisory services for Disability & Customer Care Service Transfer	1,231,021
Gilbert & Tobin	Legal advisory services for Land & property Information	61,737
		12,351,972

Management Services	Project	
Ansarada Pty Ltd	Online Data service for West Connex	211,500
Aurecon	Management advisory services for Residual Asset Transactions	86,012
Environmental Resources Management (ERM)	Management Advisory services for West Connex	1,416,298
Environmental Resources Management (ERM)	Management Advisory services for Residual Asset Transactions	67,318

Jacobs	Management advisory services for Residual Asset Transactions	91,243
MBB Group Pty Ltd	Technical Advisory management services for West Connex	438,670
Newgate Communications Aust Pty Ltd	Communications and Issues Management advice for Land & Property Information	647,082
O'Connor Marsden	Probity advice for West Connex	319,061
Sydney Motorway Corporation Pty Ltd	Equity Sale, Traffic Consulting & Economic modelling advice for West Connex	13,345,370
Atworthy	Management advisory services for Sydney Desalination Plant	71,223
Turner & Townsend	Technical advice for West Connex	4,578,045
Ironstone Capital Advisory Pty Limited	Transaction Advisory services for Disability & Customer Care Service Transfer	3,884,725
		25,156,547
Sub Total		\$64,029,246

Consultants costing less than \$50,000

Management Services	12 projects totalling	280,576
Legal	2 projects totalling	32,350
Sub Total		\$312,926

Total Expenditure on Consultants \$64,342,172



Treasury

Appendix 2

Restart NSW Fund
Financial Report
for the year ended 30 June 2018



INDEPENDENT AUDITOR'S REPORT

Restart NSW Fund

To Members of the New South Wales Parliament

Opinion

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 2018, the Statement of the Fund's position as at 30 June 2018, notes to the financial report and a Statement by Department Head. The financial report has been prepared by the Secretary using the basis of accounting described in Note 2 to the financial report to help the Treasurer fulfil the annual reporting obligations under the *Restart NSW Fund Act 2011* (the Act).

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

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 Report' section of my report.

I am independent of the Fund 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.

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 is prepared to help the Treasurer fulfil the annual reporting obligations under the Act. As a result, the financial report may not be suitable for another purpose.

The Secretary's Responsibilities for the Financial Report

The Secretary 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, and for such internal control as the Secretary determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error. The Secretary has determined that the accounting policies described in Note 2 meet the needs of the Treasurer for the purpose of fulfilling the financial reporting obligations under the Act.

In preparing the financial report, the Secretary 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 unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

- obtain reasonable assurance about whether the financial report 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 further description of my responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf.

The description forms part of my auditor's report.

My opinion does not provide assurance:

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



Margaret Crawford
Auditor-General of NSW

25 October 2018
SYDNEY

Restart NSW Fund
Financial Report
for the year ended 30 June 2018

STATEMENT BY DEPARTMENT HEAD

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 2018; 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.


Michael Pratt AM
Secretary

22 October 2018

Restart NSW Fund

Statement of the Fund's Activities for the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Receipts			
Windfall tax revenue	3	-	1,483,772
Proceeds from issue of bonds by the State	3	14,846	62,250
Interest earned	3	240,830	236,174
Other authorised transfers	3	97,957	11,326,680
Contributions from other Government agencies	3	187,390	5,444
Total receipts		<u>541,023</u>	<u>13,114,320</u>
Payments			
Infrastructure projects	4	3,593,110	3,120,254
Administrative expenses	4	16	10
Other	4	16,175	-
Total payments		<u>3,609,301</u>	<u>3,120,264</u>
Net receipts		<u>(3,068,278)</u>	<u>9,994,056</u>
 Statement of the Fund's position as at 30 June 2018			
Add opening balance of the Fund		23,106,297	12,931,616
Income/(loss) from investments	5	1,016,435	180,625
Closing balance of the Fund		<u>21,054,454</u>	<u>23,106,297</u>
 Balance of Fund held in			
Cash and cash equivalents		1,607,394	8,425,672
Investment in NSW Infrastructure Future Fund	5	19,447,060	14,680,625
		<u>21,054,454</u>	<u>23,106,297</u>

The accompanying notes form part of the financial report.

Restart NSW Fund

Notes to the Financial Report for the year ended 30 June 2018

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

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

Section 5 of the Act establishes the Fund as a Special Deposit Account. Section 4 of the *Public Finance and Audit Act 1983* defines a Special Deposit Account 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 "financial year" being from 1 July to 30 June.

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

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,
- b) money borrowed for the purposes of the Fund, including by the issue of special bonds to the people of the State and others,
- c) the proceeds of the investment of money in the Fund,
- d) all money directed or authorised to be paid into the Fund by or under this or any other Act or law,
- 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.

Restart NSW Fund

Notes to the Financial Report for the year ended 30 June 2018

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,
- b) any money required to meet administrative expenses related to the Fund,
- 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 measurement focus in the financial statement 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 2018

3. RECEIPTS

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

	2018	2017
	\$'000	\$'000
Section 7(1)(a) receipts - windfall tax		
Windfall tax revenue	-	1,483,772
Section 7(1)(b) receipts - issue of bonds		
Proceeds from Waratah bonds	14,846	62,250
Section 7(1)(c) receipts - interest earned		
Interest earned	240,830	236,174
Section 7(1)(d) receipts - other monies authorised to be paid into the Fund		
Proceeds from the long term lease of Ausgrid	-	5,072,526
Proceeds from the long term lease of Endeavour Energy	8,190	2,604,760
Proceeds from the issuance of Land and Property Information titling and registry licence	1,041	2,621,915
Assets recycling incentives received from Commonwealth	-	1,007,900
Proceeds from the sale of Pillar Administration	-	15,260
Proceeds from the sale of Brown Mountain assets	-	4,310
Proceeds from the sale of assets-Cobbora Holding	88,685	-
GST received	41	9
	97,957	11,326,680
Section 7(1)(e) receipts - contributions from other Government agencies		
Contribution from Property NSW - sale proceeds of Government properties	187,390	5,444
Total Receipts	541,023	13,114,320

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

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 2018 (2017: \$126.6 million).

Restart NSW Fund

Notes to the Financial Report for the year ended 30 June 2018

4. PAYMENTS

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

	2018 \$'000	2017 \$'000
Section 8(a) payments - infrastructure projects		
<i>Restart NSW (excluding Rebuilding NSW)</i>		
Bells Line of Road Corridor Improvement Program	-	7,715
Bridges for the Bush Program	12,859	4,776
Cobbora Transition Fund	3,517	2,378
Easing Sydney's Congestion (Pinch Points)	1	44,678
Fixing Country Roads	2,774	10,111
Grafton Bridge	94,311	43,048
Housing Acceleration Fund (HAF 4)	19,166	-
Hunter Infrastructure and Investment Fund-4876	17,377	12,708
Illawarra Infrastructure Fund	18,479	19,870
Newcastle Inner Bypass (Rankin Park to Jesmond)	3,884	2,949
Northern Beaches Hospital Roads	117,065	122,935
NorthConnex (M1 to M2 connection)	38,090	-
Pacific Highway	1,322	17,709
Parramatta Light Rail	118,787	111,397
Princes Highway	-	37,999
Queanbeyan Ring Road	6,504	-
Regional Freight Pinch Point Program and Safety Program	44,060	25,441
Regional Growth: Economic Activation Fund - Connecting Country Communities	9,104	-
Regional Growth: Economic Activation Fund - Other Significant Infrastructure	2,500	-
Regional Health Infrastructure Program	13,280	11,850
Regional Tourism Infrastructure Program	32,272	13,189
Resources for Regions Program	46,993	46,373
Royal Flying Doctor Service Multipurpose Facility	210	-
South Western Sydney Housing Acceleration Fund (HA 3)	556	-
Sydney Airport Area Road Upgrades (previously WestConnex Gateway (planning))	29,339	17,658
Sydney Motorways Network Planning	1	-
Taronga Zoo Visitor Plan	14,834	4,841
Water Security for Regions Program	42,886	21,804
WestConnex Enabling Works		
WestConnex Gateway (planning)	-	11,050
Western NSW Freight Productivity Improvement Program	5,983	14,344
Western Sydney roads for Sydney's Second Airport	119,577	27,621
	815,731	632,444

Restart NSW Fund

Notes to the Financial Report for the year ended 30 June 2018

4. PAYMENTS (continued)

	2018 \$'000	2017 \$'000
<i>Rebuilding NSW</i>		
Bridges for the Bush Program	6,604	1,945
Bus Priority Infrastructure (including B-Line)	205,613	-
Corridor Identification and Reservation	3,132	-
Culture and Arts	30,012	-
Fixing Country Rail	456	-
Fixing Country Roads	18,568	7,732
Future Focused Schools	59,161	
Gateway to the South Pinch Points	23,911	23,599
Pinch Points and Clearways	58,056	32,570
Regional Growth - Environment and Tourism fund	4,950	6,267
Regional Growth Roads	51,603	51,679
Regional Multipurpose Services (MPS) Health Facilities	45,051	5,290
Regional Road Freight Corridor	116,476	84,070
Regional School Renewal Program	52,344	-
Safe and Secure Water Program (previously Regional Water Security and Supply Fund)	269	-
Smart Motorways	115,223	30,825
Sports Stadia	145,855	46,316
Sydney Metro City and Southwest	1,484,735	1,746,797
Traffic Management Upgrades	9,900	6,970
WestConnex Northern/Southern Extensions and Western Harbour Tunnel	26,357	6,854
	2,458,276	2,050,914
<i>Equity contributions</i>		
Investment in shares in Sydney Motorway Corporation for WestConnex	-	175,000
Equity contribution to Rail Corporation	319,103	261,896
	319,103	436,896
Total Section 8(a) payments	3,593,110	3,120,254
Section 8(b) payments - administrative expenses		
Bank charges	2	1
Auditor's remuneration	14	9
	16	10
Section 8(c) payments -other		
Share of long term lease transaction costs	16,175	-
	16,175	-
Total payments	3,609,301	3,120,264
<u>Section 9 (2) payments- percentage of the total amount of payments made to rural and regional areas</u>		
Total amount of payments on infrastructure projects since inception of the Fund	10,351,656	6,758,546
Total amount of payments to rural and regional areas since inception of the Fund	1,916,827	1,296,258
Cumulative % of total payments from the Fund made to rural and regional areas	19%	19%

Restart NSW Fund

Notes to the Financial Report for the year ended 30 June 2018

5. INVESTMENT IN NSW INFRASTRUCTURE FUTURE FUND

	2018 \$'000	2017 \$'000
Opening balance	14,680,625	-
Add: Investments - cash transferred in from the operating bank account	3,750,000	14,500,000
Add/(less) net income/(loss) from investments		
Distribution reinvested	849,651	336,266
Unrealised gain/(loss) on other financial assets	166,784	(155,641)
	<u>1,016,435</u>	<u>180,625</u>
Closing balance	<u>19,447,060</u>	<u>14,680,625</u>

The Fund is authorised to invest in accordance with Section 10 of the Act. Implemented during 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.

Asset allocation

Actual NIFF asset allocation as at the reporting date:

Asset class	Strategic Asset Allocation (%)	Actual Asset Allocation (%)	Value (\$'000)
Cash	56.0	56.9	11,065,377
Australian Shares	12.0	12.0	2,333,647
International Shares	17.5	17.8	3,461,577
Emerging Market Debt	3.0	2.9	563,965
Bank Loans	3.5	3.4	661,200
Australian Nominal Bonds	8.0	7.0	1,361,294
Total	100.0	100.0	19,447,060

Restart NSW Fund

Notes to the Financial Report for the year ended 30 June 2018

5. INVESTMENT IN NSW INFRASTRUCTURE FUTURE FUND (continued)

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>)	5.97	6.54
SAA benchmark	5.90	6.09
Net relative to SAA benchmark	0.07	0.45

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 \$16.0 million (2017: \$84.3 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 2018



INDEPENDENT AUDITOR'S REPORT

Social and Affordable Housing NSW Fund

To Members of the New South Wales Parliament

Opinion

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 2018, the Statement of the Fund's position as at 30 June 2018, notes to the financial report and a Statement by Department Head. The financial report has been prepared by the Secretary using the basis of accounting described in Note 2 to the financial report to help the Treasurer fulfil the annual reporting obligations under the *Social and Affordable Housing NSW Fund Act 2016* (the Act).

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

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 Report' section of my report.

I am independent of the Fund 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.

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 is prepared to help the Treasurer fulfil the annual reporting obligations under the Act. As a result, the financial report may not be suitable for another purpose.

The Secretary's Responsibilities for the Financial Report

The Secretary 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, and for such internal control as the Secretary determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error. The Secretary has determined that the accounting policies described in Note 2 meet the needs of the Treasurer for the purpose of fulfilling the financial reporting obligations under the Act.

In preparing the financial report, the Secretary 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 unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

- obtain reasonable assurance about whether the financial report 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 further description of my responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf.

The description forms part of my auditor's report.

My opinion does not provide assurance that the Fund:

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



Margaret Crawford
Auditor-General of NSW

25 October 2018
SYDNEY

Social and Affordable Housing NSW Fund

**Financial Report
for the year ended 30 June 2018**

STATEMENT BY DEPARTMENT HEAD

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 2018; 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.



**Michael Pratt AM
Secretary**

22 October 2018

Social and Affordable Housing NSW Fund

Statement of the Fund's Activities for the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Receipts			
Government contribution	3	-	1,120,000
Interest earned	3	12,259	-
GST received	3	3	-
Total receipts		12,262	1,120,000
Payments			
Other expenses	4	550	29
Administrative expenses	4	35	-
Financial management expenses	4	36	-
Total payments		621	29
Net receipts		11,641	1,119,971
Statement of the Fund's position as at 30 June 2018			
Add opening balance of the Fund		1,119,971	-
Income/(loss) from investments	5	85,447	-
Closing balance of the Fund		1,217,059	1,119,971
Balance of Fund held in			
Cash and cash equivalents		132,612	1,119,971
Investment in Social and Affordable Housing NSW Fund Investment Trust	5	1,084,447	-
		1,217,059	1,119,971

The accompanying notes form part of the financial report.

Social and Affordable Housing NSW Fund

Notes to the Financial Report for the year ended 30 June 2018

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. Section 4 of the *Public Finance and Audit Act 1983* defines a Special Deposit Account 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 financial report was authorised for issue by the Secretary of NSW Treasury on the date the accompanying Statement by the Secretary 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.

Social and Affordable Housing NSW Fund

Notes to the Financial Report for the year ended 30 June 2018

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 measurement 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 2018

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.

	2018 \$'000	2017 \$'000
Section 7(1)(a) receipts		
Government contribution	-	1,120,000
Section 7(1)(c) receipts		
Interest earned	12,259	-
Section 7(1)(h) receipts		
GST received	3	-
Total Receipts	<u>12,262</u>	<u>1,120,000</u>

4. PAYMENTS

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

Section 8(1)(a) payments		
Other expenses	550	29
Section 8(1)(b) payments - administrative expenses		
Auditor's remuneration	13	-
Other operating expenses	22	-
	<u>35</u>	<u>-</u>
Section 8(1)(e)- payments - financial management expenses		
Financial management expenses	<u>36</u>	<u>-</u>
Total payments	<u>621</u>	<u>29</u>

Social and Affordable Housing NSW Fund

Notes to the Financial Report for the year ended 30 June 2018

5. INVESTMENT IN SOCIAL AND AFFORDABLE HOUSING NSW FUND

	2018	2017
	\$'000	\$'000
Opening balance	-	-
Add: Investments - cash transferred in from the operating bank account	999,000	-
Add/(less) net income/(loss) from investments		
Distribution reinvested	68,740	-
Unrealised gain/(loss) on other financial assets	16,707	-
	85,447	-
Closing balance	1,084,447	-

The Fund is authorised to invest in accordance with Section 9 of the Act. Implemented during 2017-18, SAHF 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.

Asset allocation

Actual SAHF asset allocation as at the reporting date:

Asset class	Strategic Asset Allocation (%)	Actual Asset Allocation (%)	Value (\$'000)
Cash	2	3.7	40,125
Australian Bonds	15.0	12.7	137,725
Inflation Linked Bonds	8.5	9.3	100,854
Australian Shares	19.5	19.3	209,298
International Shares	28.5	28.8	312,321
Emerging Market Shares	5.5	5.2	56,391
Listed Property	3.5	3.2	34,702
Multi-Asset Class	3.5	3.4	36,871
Global Credit	1.0	1.0	10,844
Emerging Market Debt	4.5	4.3	46,631
Bank Loan	5.5	6.1	66,151
High Yield	2.0	1.0	10,844
Unlisted Infrastructure	1.0	2.0	21,690
Total	100.0	100.0	1,084,447

Social and Affordable Housing NSW Fund

Notes to the Financial Report for the year ended 30 June 2018

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>)	8.97	8.97
SAA benchmark	8.77	8.77
Net relative to SAA benchmark	0.20	0.20

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 2018, 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 \$1.33 million (2017: \$11.12 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 2018



INDEPENDENT AUDITOR'S REPORT

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

To Members of the New South Wales Parliament

Opinion

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 2018, the Statement of the Fund's position as at 30 June 2018, notes to the financial report and a Statement by Department Head. The financial report has been prepared by the Secretary using the basis of accounting described in Note 2 to the financial report to help the Treasurer fulfil the annual reporting obligations under the *Electricity Retained Interest Corporations Act 2015* (the Act).

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

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 Report' section of my report.

I am independent of the Fund 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.

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 is prepared to help the Treasurer fulfil the annual reporting obligations under the Act. As a result, the financial report may not be suitable for another purpose.

The Secretary's Responsibilities for the Financial Report

The Secretary 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, and for such internal control as the Secretary determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error. The Secretary has determined that the accounting policies described in Note 2 meet the needs of the Treasurer for the purpose of fulfilling the financial reporting obligations under the Act.

In preparing the financial report, the Secretary 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 unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

- obtain reasonable assurance about whether the financial report 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 further description of my responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf.

The description forms part of my auditor's report.

My opinion does not provide assurance that the Fund:

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



Margaret Crawford
Auditor-General of NSW

25 October 2018
SYDNEY

ERIC–A Fund
Financial Report
For the year ended 30 June 2018

STATEMENT BY DEPARTMENT HEAD

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 2018; 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.


Michael Pratt AM
Secretary

22 October 2018

ERIC–A Fund

Statement of the Fund's Activities for the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Receipts			
Grants	3	-	1,000
Distributions	3	195,628	98,292
Interest earned	3	120	-
Total receipts		195,748	99,292
Payments			
Board remuneration	4	355	219
Administrative expenses	4	588	78
Funds transferred to NSW Consolidated Fund	4	195,042	98,090
Total payments		195,985	98,387
Net (payments)/receipts		(237)	905
Statement of the Fund's position as at 30 June 2018			
Add opening balance of the Fund		905	-
Closing balance of the Fund		668	905

The accompanying notes form part of the financial report.

ERIC–A Fund

Notes to the Financial Report for the year ended 30 June 2018

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 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 Special Deposit Account 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 financial report was authorised for issue by the Secretary of NSW Treasury on the date the accompanying Statement by the Secretary 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.

ERIC–A Fund

Notes to the Financial Report for the year ended 30 June 2018

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. Revenues are realised and recorded when received in cash. Expenditures are recorded when cash is actually paid.

The measurement 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 2018

3. RECEIPTS

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

	2018 \$'000	2017 \$'000
Section 33 (a) receipts- financial returns		
Distributions from network partnership arrangement	195,628	98,292
Section 33 (b) receipts- interest earned	120	-
Section 33 (d) receipts- grants	-	1,000
Total receipts	195,748	99,292

4. PAYMENTS

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

Section 34 (a) payments- funds transferred to NSW Consolidated Fund	195,042	98,090
Section 34 (c) payments - administrative expenses of the Corporation		
ASIC fees	3	3
Auditor's remuneration	88	32
Other	497	43
Total administrative expenses	588	78
Section 34 (d) payments- board remuneration of the Corporation		
Salaries & wages	224	148
Superannuation	31	20
PAYG	100	51
Total board remuneration	355	219
Total payments	195,985	98,387

ERIC–A Fund

Notes to the Financial Report for the year ended 30 June 2018

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 2018, 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 \$6,680 (2017: \$9,050).

6. EVENTS AFTER THE REPORTING DATE

There are no events after reporting date requiring disclosure.

End of audited financial report



Treasury

Appendix 5

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

Financial Report
for the year ended 30 June 2018



INDEPENDENT AUDITOR'S REPORT

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

To Members of the New South Wales Parliament

Opinion

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 2018, the Statement of the Fund's position as at 30 June 2018, notes to the financial report and a Statement by Department Head. The financial report has been prepared by the Secretary using the basis of accounting described in Note 2 to the financial report to help the Treasurer fulfil the annual reporting obligations under the *Electricity Retained Interest Corporations Act 2015* (the Act).

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

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 Report' section of my report.

I am independent of the Fund 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 provision of non-audit services.

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

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 is prepared to help the Treasurer fulfil the annual reporting obligations under the Act. As a result, the financial report may not be suitable for another purpose.

The Secretary's Responsibilities for the Financial Report

The Secretary 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, and for such internal control as the Secretary determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error. The Secretary has determined that the accounting policies described in Note 2 meet the needs of the Treasurer for the purpose of fulfilling the financial reporting obligations under the Act.

In preparing the financial report, the Secretary 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 unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

- obtain reasonable assurance about whether the financial report 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 further description of my responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf.

The description forms part of my auditor's report.

My opinion does not provide assurance:

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



Margaret Crawford
Auditor-General of NSW

25 October 2018
SYDNEY

ERIC-E Fund
Financial Report
for the year ended 30 June 2018

STATEMENT BY DEPARTMENT HEAD

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 2018; 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.


Michael Pratt AM
Secretary

22 October 2018

ERIC-E Fund

Statement of the Fund's Activities for the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Receipts			
Distributions	3	78,715	-
Interest earned	3	106	-
Grants received	3	-	1,000
Total receipts		78,821	1,000
Payments			
Funds transferred to NSW Consolidated Fund	4	77,897	-
Administrative expenses	4	592	-
Board remuneration	4	377	-
Total payments		78,866	-
Net (payments)/receipts		(45)	1,000
Statement of the Fund's position as at 30 June 2018			
Add opening balance of the Fund - Cash		1,000	-
Closing balance of the Fund - Cash		955	1,000

The accompanying notes form part of the financial report.

ERIC-E Fund

Notes to the Financial Report for the year ended 30 June 2018

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 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 Special Deposit Account 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 financial report was authorised for issue by the Secretary of NSW Treasury on the date the accompanying Statement by the Secretary 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.

ERIC-E Fund

Notes to the Financial Report for the year ended 30 June 2018

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 measurement 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.

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 2018

3. RECEIPTS

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

	2018 \$'000	2017 \$'000
Section 33 (a) receipts - financial returns		
Distributions from network partnership arrangements	78,715	-
Section 33 (b) receipts- interest earned	106	-
Section 33 (d) receipts- grants	-	1,000
Total receipts	78,821	1,000

4. PAYMENTS

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

Section 34 (a) payments- funds transferred to NSW Consolidated Fund	77,897	-
Section 34 (c) payments- administrative expenses of the Corporation		
ASIC fees	2	-
Auditor's remuneration	75	-
Other	515	-
Total administrative expenses	592	-
Section 34 (d) payments- board remuneration of the Corporation		
Salaries & wages	239	-
Superannuation	33	-
Payroll tax & PAYG	105	-
Total board remuneration	377	-
Total payments	78,866	-

ERIC-E Fund

Notes to the Financial Report for the year ended 30 June 2018

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 \$9,550 (2017: \$10,000).

6. EVENTS AFTER THE REPORTING DATE

There are no events after reporting date requiring disclosure.

End of audited financial report