

2019-20

Crown Entities' Financial Statements

Incorporating financial reports for:

Restart NSW Fund

Social and Affordable Housing Fund

Electricity Retained Interest Corporation Ausgrid (ERIC-A) Fund

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

NSW Generations (Debt Retirement) Fund

NSW Generations (Community Services & Facilities) Fund

Contents

| | |
|---|-----------|
| CROWN ENTITY 2019-20 FINANCIAL STATEMENTS | 3 |
| INDEPENDENT AUDITOR'S REPORT | 4 |
| STATEMENT BY THE SECRETARY | 7 |
| STATEMENT OF COMPREHENSIVE INCOME | 8 |
| STATEMENT OF FINANCIAL POSITION | 9 |
| STATEMENT OF CHANGES IN EQUITY | 10 |
| STATEMENT OF CASH FLOWS | 11 |
| NOTES TO THE FINANCIAL STATEMENTS | 12 |
| APPENDIX 1 | |
| Crown Entity - Expenditure on Consultants for the year ended 30 June 2020 | 83 |
| APPENDIX 2 | |
| Restart NSW Fund Financial Report for the year ended 30 June 2020 | 86 |
| APPENDIX 3 | |
| Social and Affordable Housing NSW Fund Financial Report for the year ended 30 June 2020 | 99 |
| APPENDIX 4 | |
| Electricity Retained Interest Corporation - Ausgrid (ERIC-A) Fund Financial Report for the year ended 30 June 2020 | 110 |
| APPENDIX 5 | |
| Electricity Retained Interest Corporation - Endeavour (ERIC-E) Fund Financial Report for the year ended 30 June 2020 | 120 |
| APPENDIX 6 | |
| NSW Generations (Debt Retirement) Fund Financial Report for the year ended 30 June 2020 | 130 |
| APPENDIX 7 | |
| NSW Generations (Community Services and Facilities) Fund Financial Report for the year ended 30 June 2020 | 141 |



Treasury

Crown Entity

Financial Statements
for the year ended 30 June 2020



INDEPENDENT AUDITOR'S REPORT

Crown Entity

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the Crown Entity, which comprise the Statement of Comprehensive Income for the year ended 30 June 2020, the Statement of Financial Position as at 30 June 2020, 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 2020, 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 (including Independence Standards)' (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

The Crown Entity's annual report for the year ended 30 June 2020 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Secretary is responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Statement by the Secretary.

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

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

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

I have nothing to report in this regard.

The Secretary's Responsibilities for the Financial Statements

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

In preparing the financial statements, the Secretary is responsible for assessing the Crown Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting.

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.

The scope of my audit does not include, nor provide assurance:

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



Margaret Crawford
Auditor-General for New South Wales

2 November 2020
SYDNEY

Crown Entity
Financial Statements
for the year ended 30 June 2020

STATEMENT BY THE SECRETARY

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

- (a) The accompanying financial statements exhibit a true and fair view of the financial position of the Crown Entity as at 30 June 2020 and the financial performance for the year then ended; and
- (b) The financial statements have been prepared in accordance with the provisions of *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

20/11 October 2020

Crown Entity

**Statement of Comprehensive Income
for the year ended 30 June 2020**

| | Notes | 2020 \$'000 | 2019 \$'000 |
|--|-------|----------------------------|----------------------------|
| Revenue | | | |
| Retained taxes, fees and fines | 3(a) | 31,653,770 | 32,631,781 |
| Commonwealth grants and contributions | 3(b) | 25,352,623 | 24,147,508 |
| Financial distributions | 3(c) | 1,346,717 | 1,925,443 |
| Investment income | 3(d) | 456,456 | 2,305,347 |
| Royalty on minerals | 3(e) | 1,682,283 | 2,092,570 |
| Other income | 3(f) | 484,075 | 785,731 |
| Total revenue | | <u>60,975,924</u> | <u>63,888,380</u> |
| Expenses | | | |
| Superannuation - defined benefit plans | 13(o) | 1,273,359 | 1,807,395 |
| Grants and subsidies | 4(a) | 7,454,068 | 6,433,448 |
| Finance costs | 4(b) | 1,545,187 | 1,478,766 |
| Appropriations | 4(e) | 70,365,555 | 61,850,599 |
| Employee related expenses | 4(c) | 1,355,373 | 2,394,701 |
| Other expenses | 4(d) | 440,118 | 858,690 |
| Total expenses | | <u>82,433,660</u> | <u>74,823,599</u> |
| Gains/(losses) from financial instruments | | (192,828) | (204,659) |
| Other gains/(losses) - impairment losses on statutory receivables | | (151,940) | 8,436 |
| Operating result | | <u>(21,802,504)</u> | <u>(11,131,442)</u> |
| Other comprehensive income | | | |
| <i>Items that will not be reclassified to surplus or deficit</i> | | | |
| Actuarial gains/(losses) on defined benefit plans | 13(p) | (444,183) | (13,221,607) |
| Total other comprehensive income for the year | | <u>(444,183)</u> | <u>(13,221,607)</u> |
| Total comprehensive result for the year | | <u>(22,246,687)</u> | <u>(24,353,049)</u> |

The accompanying notes form part of these financial statements.

Crown Entity

Statement of Financial Position as at 30 June 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|--|-------|----------------------|---------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 18 | 2,167,064 | 1,723,849 |
| Other financial assets | 5 | - | 900,000 |
| Derivative financial instruments | 11 | 3,745 | 3,081 |
| Advances repayable to the Crown | 6 | 196,478 | 215,943 |
| Receivables | 7 | 6,302,304 | 2,937,705 |
| Total current assets | | 8,669,591 | 5,780,578 |
| Non-current assets | | | |
| Other financial assets | 5 | 26,592,324 | 30,377,478 |
| Advances repayable to the Crown | 6 | 1,040,120 | 960,652 |
| Receivables | 7 | 25,000 | - |
| Total non-current assets | | 27,657,444 | 31,338,130 |
| Total assets | | 36,327,035 | 37,118,708 |
| Liabilities | | | |
| Current liabilities | | | |
| Payables | 8 | 523,866 | 419,562 |
| Contract liabilities | 9 | 123,068 | - |
| Bank overdraft | 18 | 10,049,405 | 10,831,499 |
| Borrowings | 10 | 1,464,655 | 480,081 |
| Derivative financial instruments | 11 | 18,280 | 10,658 |
| Unfunded superannuation | 13(b) | 95,260 | 1,729,271 |
| Employee benefits and other provisions | 14 | 10,034,688 | 9,455,992 |
| Provisions | 15 | 199,571 | 249,368 |
| Other liabilities | 21 | 413,618 | 280,332 |
| Total current liabilities | | 22,922,411 | 23,456,763 |
| Non-current liabilities | | | |
| Contract liabilities | 9 | 204,403 | - |
| Borrowings | 10 | 54,007,619 | 32,500,926 |
| Derivative financial instruments | 11 | 372,496 | 196,101 |
| Unfunded superannuation | 13(b) | 67,037,655 | 65,432,936 |
| Employee benefits and other provisions | 14 | 864,055 | 813,397 |
| Provisions | 15 | 1,829,978 | 1,944,929 |
| Other liabilities | 21 | 16,800 | 553,866 |
| Total non-current liabilities | | 124,333,006 | 101,442,155 |
| Total liabilities | | 147,255,417 | 124,898,918 |
| Net liabilities | | (110,928,382) | (87,780,210) |
| Equity | | | |
| Accumulated deficit | | (110,928,382) | (87,780,210) |
| Total equity | | (110,928,382) | (87,780,210) |

The accompanying notes form part of these financial statements.

Crown Entity

Statement of Changes in Equity for the year ended 30 June 2020

| | Notes | Accumulated deficit \$'000 | Total equity \$'000 |
|---|-------|----------------------------------|------------------------|
| Balance at 1 July 2019 | | (87,780,210) | (87,780,210) |
| Changes in accounting policy | | | |
| Adjustment to equity-initial application under AASB 15 | 2 | 399,441 | 399,441 |
| Adjustment to equity-initial application under AASB 1058 | 2 | 636,854 | 636,854 |
| | | <u>1,036,295</u> | <u>1,036,295</u> |
| Restated total equity at 1 July 2019 | | (86,743,915) | (86,743,915) |
| Deficit for the year | | (21,802,504) | (21,802,504) |
| Other comprehensive income | | | |
| Actuarial gains/(losses) on defined benefit plans | 13(p) | (444,183) | (444,183) |
| Total other comprehensive income | | (444,183) | (444,183) |
| Total comprehensive result for the year | | (22,246,687) | (22,246,687) |
| Transactions with owners in their capacity as owners | | | |
| Decrease/(Increase) in net liabilities from equity transfers | 24 | (1,937,780) | (1,937,780) |
| Total transactions with owners in their capacity as owners | | (1,937,780) | (1,937,780) |
| Balance at 30 June 2020 | | (110,928,382) | (110,928,382) |
| Balance at 1 July 2018 | | (70,814,554) | (70,814,554) |
| Deficit for the year | | (11,131,442) | (11,131,442) |
| Other comprehensive income | | | |
| Actuarial gains/(losses) on defined benefit plans | 13(p) | (13,221,607) | (13,221,607) |
| Total other comprehensive income | | (13,221,607) | (13,221,607) |
| Total comprehensive result for the year | | (24,353,049) | (24,353,049) |
| Transactions with owners in their capacity as owners | | | |
| Decrease/(Increase) in net liabilities from equity transfers | 24 | 7,387,393 | 7,387,393 |
| Total transactions with owners in their capacity as owners | | 7,387,393 | 7,387,393 |
| Balance at 30 June 2019 | | (87,780,210) | (87,780,210) |

The accompanying notes form part of these financial statements.

Crown Entity

**Statement of Cash Flows
for the year ended 30 June 2020**

| | Notes | 2020 \$'000 | 2019 \$'000 |
|---|-------|---------------------|---------------------|
| Cash flows from operating activities | | | |
| Payments | | | |
| Employee related | | (2,459,726) | (2,345,393) |
| Grants and subsidies | | (7,482,442) | (6,409,410) |
| Finance costs | | (1,384,693) | (1,231,133) |
| Appropriations | | (70,634,960) | (61,941,459) |
| Other | | (408,729) | (457,937) |
| Total payments | | (82,370,550) | (72,385,332) |
| Receipts | | | |
| Retained taxes, fees and fines | | 30,041,884 | 32,206,225 |
| Commonwealth grants | 22 | 24,732,237 | 24,141,044 |
| Investment income | | 1,593,123 | 1,319,354 |
| Financial distribution from other entities | | 1,154,170 | 2,046,412 |
| Other | | 2,073,677 | 2,867,441 |
| Total receipts | | 59,595,091 | 62,580,476 |
| Net cash flows from operating activities | 18(b) | (22,775,459) | (9,804,856) |
| Cash flows from investing activities | | | |
| Purchase of investments | | (2,127,356) | (15,012,880) |
| Advances made | | (151,670) | (235,032) |
| Proceeds from sales of investment | | 5,650,020 | 9,050,008 |
| Advance repayments received | | 118,023 | 115,475 |
| Net cash flows from investing activities | | 3,489,017 | (6,082,429) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings and advances | | 22,816,631 | 3,583,327 |
| Repayment of borrowings and advances | | (367,101) | (328,345) |
| Net cash flows from financing activities | | 22,449,530 | 3,254,982 |
| Net increase/(decrease) in cash | | 3,163,088 | (12,632,303) |
| Opening cash and cash equivalents | | (9,107,650) | (4,447,668) |
| Other cash transfer in as a result of restructuring | | (1,937,779) | 7,972,321 |
| Closing cash and cash equivalents | 18(a) | (7,882,341) | (9,107,650) |

The accompanying notes form part of these financial statements.

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

1. INFORMATION ON THE CROWN ENTITY

Reporting entity

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

Key financial assets and financial liabilities include:

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

The Crown Entity collects state taxation, Commonwealth contributions and financial distributions from certain New South Wales (NSW) government 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 22 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 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 for the year ended 30 June 2020 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 Crown Entity will have adequate resources to continue operations for the foreseeable future.

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

The Crown Entity does not expect COVID-19 to have a significant impact on its ability to operate. A number of initiatives have been implemented to ensure appropriate risk management practices are adopted over the Crown Entity's assets and liabilities. The risks are closely monitored by the NSW Treasury's Asset and Liability Committee (ALCO). The impact of COVID-19 has been considered and disclosed in the relevant notes of the financial statements (e.g. Note 3 Revenue and Note 10 Borrowings).

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

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

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

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

The financial statements have been prepared on the following basis:

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

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

Statement of compliance

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

Comparative information

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

The Crown Entity has applied AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* for the first time in 2019-20. The Crown Entity has adopted the modified retrospective option in these standards with the cumulative effect of initially applying AASB 15 and AASB 1058 recognised at the date of initial application. This means, the comparatives for the year ended 30 June 2019 were not restated.

New, revised or amending standards and interpretations

i. Issued but not yet effective

As mandated by NSW Treasury Circular TC20-01, the Crown Entity has not early adopted any new accounting standards, amendments and interpretations that have been issued but are not yet effective.

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

- AASB 17 *Insurance Contracts*
- AASB 1059 *Service Concession Arrangements: Grantors*
- AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059*
- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business*
- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*
- AASB 2019-2 *Amendments to Australian Accounting Standards – Implementation of AASB 1059*

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ii. Effective for the first time in 2019-20

The Crown Entity applied AASB15 *Revenue from Contracts with Customers* (AASB 15) and AASB 1058 *Income of Not-for-Profit Entities* (AASB 1058) for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are disclosed below.

The AASB 16 *Leases* (AASB 16) is effective for reporting periods commencing on or after 1 January 2019. For lessees, AASB 16 results in most leases being recognised on the Statement of Financial Position, as the distinction between operating and finance leases is largely removed. The Crown Entity is not party to any lease arrangements. Accordingly, there is no impact from the adoption of AASB 16.

Several other amendments and interpretations apply for the first time in 2019-20, but do not have an impact on the financial statements of the Crown Entity.

REVENUE

Until 30 June 2019, revenue was recognised in accordance with AASB 118 *Revenue* (AASB 118) and AASB 1004 *Contributions* (AASB 1004). From 1 July 2019, revenue is recognised in accordance with the requirements of AASB 15 or AASB 1058, dependent on whether there is an enforceable contract with a customer defined by AASB 15.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 supersedes AASB 118 and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. The Crown Entity applies a five-step model as established by AASB 15 to account for revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which the Crown Entity expects to be entitled in exchange for transferring goods or services to a customer.

The Crown Entity exercises judgement, taking into consideration all the relevant facts and circumstances when applying each step of the model to contracts with their customers.

In accordance with the transition provisions in AASB 15, the Crown Entity has adopted AASB 15 retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application, i.e. 1 July 2019. The Crown Entity has used the transitional practical expedient permitted by the standard to reflect the aggregate effect of all of the modifications that occur before 1 July 2018 when:

- identifying the satisfied and unsatisfied performance obligations
- determining the transaction price
- allocating the transaction price to the satisfied and unsatisfied performance obligations.

In applying AASB 15 for the first time, the Crown Entity has used the following practical expedients permitted by the standard;

- AASB 15 para 121, allocating the transaction price to the satisfied and unsatisfied performance obligations;
- AASB 15 para B16, allows entities to recognise revenue to which the entity has a right to invoice;
- AASB 15 para B43, determining the transaction price to contracts where the customer has material right to acquire future goods or services.

The impact of applying the above practical expedients is not expected to significantly affect the financial statements.

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impact on the Statement of Comprehensive Income (increase/(decrease)):

| | Notes | 30 June 2020 Adoption of AASB 15 \$'000 | 30 June 2020 Without adoption of AASB 15 \$'000 | 30 June 2020 Impact of AASB 15 \$'000 |
|---------------------------------------|-------|--|--|---|
| Revenue | | | | |
| Retained taxes, fees and fines | 3(a) | 31,653,770 | 31,662,895 | (9,125) |
| Commonwealth grants and contributions | 3(b) | 25,352,623 | 25,342,616 | 10,007 |
| Operating result | | 57,006,392 | 57,005,510 | 882 |

Impact on Statement of Financial Position (increase/(decrease)):

| | Notes | 30 June 2020 Adoption of AASB 15 \$'000 | 30 June 2020 Without adoption of AASB 15 \$'000 | 30 June 2020 Impact of AASB 15 \$'000 |
|--|-------|--|--|---|
| Assets | | | | |
| Non-current assets | | | | |
| Receivables | 7 | 25,000 | - | 25,000 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Contract liabilities | 9 | 123,068 | - | 123,068 |
| Other liabilities | 21 | 413,618 | 563,245 | (149,627) |
| Non-current liabilities | | | | |
| Contract liabilities | 9 | 204,403 | - | 204,402 |
| Other liabilities | 21 | 16,800 | 569,966 | (553,166) |
| Equity | | | | |
| Adjustment to equity-initial application under AASB 15 | | 399,441 | - | 399,441 |
| Accumulated deficit excludes adjustment to equity | | (111,327,823) | (111,328,704) | 881 |
| Total Equity | | (110,928,382) | (111,328,704) | 400,322 |

The adoption of AASB 15 did not have an impact on Other Comprehensive Income and the Statement of Cashflows for the financial year.

The nature of these adjustments is described below:

Up until 30 June 2019 where AASB 118 was applied, the Crown Entity accrued and recognised revenue from non-intellectual property (non-IP) licences, in accordance with the relevant agreements. For most arrangements, the licence revenue was initially deferred with revenue subsequently recognised over the agreement period. In addition, the Crown Entity recognised the Commonwealth grants as revenue under AASB 1004 when the cash was received.

Under AASB 15, the Crown Entity assessed the deferred licence revenue under contracts and determined that the single distinct performance obligation was the issuing of the licences. As such the non-IP licences revenue is recognised sooner under AASB 15 than AASB 118. The impact of these changes has discharged the deferred licence liabilities through adjustments to Equity on 1 July 2019 (first time adoption of the AASB 15), decreased retained taxes, fees and fines, and decreased Other Liabilities which is included in Contract Liabilities (note 9).

The Crown Entity also assess certain Commonwealth grants as contracts with customers. Revenue from grants with sufficiently specific performance obligations are recognised under AASB 15 as the performance obligations are satisfied. Performance obligations are satisfied by the transfer of promised goods or services. The impact of these changes is the deferral of Commonwealth grants through adjustments to Equity on 1 July 2019 (initial application), resulting in increases in Contract Liabilities (note 9).

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

AASB 1058 *Income of Not-for-Profit Entities*

AASB 1058 replaces most of the existing requirements in AASB 1004. The scope of AASB 1004 is now limited mainly to contributions by owners, administrative arrangements and liabilities of government departments assumed by other government entities.

AASB 1058 applies to income with a donation component, i.e. transactions where the consideration to acquire an asset is significantly less than fair value principally to enable a not-for-profit entity to further its objectives. AASB 1058 adopts a residual approach, meaning that the Crown Entity first applies other applicable Australian Accounting Standards to a transaction before recognising income.

The Crown Entity determines whether a transaction is accounted for as donation under AASB 1058 or a contract with customer under AASB 15.

In accordance with the transition provisions in AASB 1058, the Crown Entity has adopted AASB 1058 retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application, i.e. 1 July 2019. The effect of adopting AASB 1058 as follows:

Impact on the Statement of Comprehensive Income (increase/(decrease)):

| | Notes | 30 June 2020 Adoption of AASB 1058 \$'000 | 30 June 2020 Without adoption of AASB 1058 \$'000 | 30 June 2020 Impact of AASB 1058 \$'000 |
|---------------------------------------|-------|--|--|---|
| Revenue | | | | |
| Retained taxes, fees and fines | 3(a) | 31,653,770 | 31,387,833 | 265,937 |
| Commonwealth grants and contributions | 3(b) | 25,352,623 | 24,703,497 | 649,126 |
| Royalty on minerals | 3(e) | 1,682,283 | 1,722,778 | (40,495) |
| Operating result | | 58,688,676 | 57,814,108 | 874,568 |

Impact of Statement of Financial Position (increase/(decrease)):

| | Notes | 30 June 2020 Adoption of AASB 1058 \$'000 | 30 June 2020 Without adoption of AASB 1058 \$'000 | 30 June 2020 Impact of AASB 1058 \$'000 |
|--|-------|--|--|---|
| Assets | | | | |
| Current assets | | | | |
| Receivables | 7 | 6,302,304 | 4,496,186 | 1,806,118 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Other liabilities | 21 | 413,618 | 135,222 | 278,396 |
| Non-current liabilities | | | | |
| Other liabilities | 21 | 16,800 | 500 | 16,300 |
| Equity | | | | |
| Adjustment to equity-initial application under AASB 1058 | | 636,854 | - | 636,854 |
| Accumulated deficit excludes adjustment to equity | | (111,565,236) | (112,439,804) | 874,568 |
| Total Equity | | (110,928,382) | (112,439,804) | 1,511,422 |

The adoption of AASB 1058 did not have an impact on Other Comprehensive Income and the Statement of Cash Flows for the financial year.

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The nature of these adjustments is described below:

Up until 30 June 2019, where AASB 1004 was applicable, income from grants and contributions was recognised by the Crown Entity upon receipt. Under AASB 1058, the revenue from Commonwealth grants to acquire/construct a recognisable non-financial asset is recognised in line with the progress of satisfying the relevant performance obligations.

Therefore, grants to acquire or construct a recognisable non-financial asset are deferred under AASB 1058 from 1 July 2019 (initial application) with corresponding adjustments to Equity and increase in deferred income liabilities which is presented under Other liabilities (note 21). In 2019-20, the Crown Entity satisfied certain performance obligations resulting in the recognition of Commonwealth grants revenue and a decrease in Other liabilities (note 21).

Taxpayer-assessed revenues (e.g. payroll tax) was previously recognised under AASB 1004 when the funds were received. From 1 July 2019, AASB 9 requires statutory receivables, including taxation receivables, to be recognised when the underlying event that results in a right to receive income has occurred, unless it cannot be measured reliably until after the financial statements are authorised for issue. Taxation income is correspondingly recognised under AASB 9, as referenced by AASB 1058, when the taxable event occurs. Therefore taxpayer-assessed taxation income is now recognised earlier. From 1 July 2019 an adjustment to Equity is made to remove prior period revenue from the current financial year. At 30 June 2020 receivables increase (note 7) and taxpayer-assessed revenues are recognised up until the financial statements are authorised.

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 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 13.

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Appropriations

Parliamentary appropriations are recognised as income by recipient agencies once control over the assets comprising the appropriations is obtained. Control over appropriations is normally obtained upon the receipt of cash. 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. Lapsed appropriations drawn down become liabilities of the recipient entity payable to the Crown Entity. The Crown Entity accounts for lapsed appropriations drawn down 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.

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 based on the contractual cash flows and business model applicable to the financial assets held by the Crown Entity in accordance with the appropriate categories of AASB 9 as follows:

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

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

Financial assets at amortised cost

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

They are initially recognised at fair value, usually based on transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method less an allowance for any expected credit loss. When they are de-recognised or impaired, gains and losses are recognised in surplus or deficit.

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Financial assets at fair value through profit or loss

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

Impairment of financial assets

The Crown Entity assesses if a financial asset or group of financial assets is impaired by applying AASB 9's forward-looking expected credit loss (ECL) approach, except for those measured at fair value through profit and loss. The Crown Entity recognises a provision for impairment for statutory receivables and prepayments when there is objective evidence that the Crown Entity will not be able to collect all the amounts due.

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

De-recognition of financial assets

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

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

LIABILITIES

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

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

De-recognition of financial liabilities

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 13(h) and 13(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 2020

3. REVENUE

Until 30 June 2019, income is recognised in accordance with AASB 118 and AASB 1004. From 1 July 2019, income is recognised in accordance with the requirements of AASB 15 or AASB 1058, dependent on whether there is a contract with a customer defined by AASB 15. The details of the accounting policies for revenue are set out as below:

a) Retained taxes, fees and fines

| | 2020 \$'000 | 2019 \$'000 |
|---|-------------------|-------------------|
| Revenue from Contracts with Customers | | |
| Rendering of services - licences | 629,886 | - |
| | 629,886 | - |
| Non-Contractual Income Arising from Statutory Requirements | | |
| Payroll tax | 9,953,140 | 10,530,078 |
| Stamp duties | 8,824,183 | 9,250,702 |
| Land tax | 4,554,818 | 4,293,274 |
| Gambling and betting taxes | 2,209,925 | 2,607,887 |
| Motor vehicle taxes and fees | 2,308,368 | 2,832,897 |
| Fire and emergency service levy | 1,081,353 | 927,939 |
| Waste disposal levy | 748,637 | 763,333 |
| Fees and fines | 609,160 | 691,906 |
| Government guarantee fees | 322,315 | 299,244 |
| Other | 411,985 | 434,521 |
| | 31,023,884 | 32,631,781 |
| | 31,653,770 | 32,631,781 |

Application under AASB 15 and AASB 1058 (from 1 July 2019)

Revenue from contracts with customers-licences

Rendering of services – licences

From 1 July 2019, the Crown Entity has elected to adopt the practical expedient available in AASB 15 para Aus8.1 to not apply the requirements of AASB 15 and accompanying Application Guidance to short-term licences and licences for which the transaction price is of low value. These short-term and low value licences are non-IP licences. The Crown Entity recognises most of the revenue associated with the short-term non-IP licences and low-value non-IP licences on a straight-line basis over the licence term. The revenue is measured at the transaction price agreed under the contract, that is, based on the non-IP licence fees. No element of financing is deemed present as payments are due when service is provided.

Non-contractual income arising from statutory requirements

From 1 July 2019, taxation revenue, including taxpayer-assessed taxation (payroll tax and stamp duties), government-assessed taxation (land, gambling and betting tax) and motor vehicle taxes and fees are recognised under AASB 1058 when the underlying taxable event that results in a right to receive income has occurred, unless it cannot be measured reliably until after the financial statements are authorised for issue.

Stimulus measures implemented due to COVID-19 include the option to defer payroll tax payments to October 2020 for the periods March to June 2020. Lodgement of the annual reconciliation for these payments can also be deferred to 30 October 2020. Revenue recognised includes returns and payments received after the end of the financial year, up to the time the financial statements are signed.

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

3. REVENUE (continued)

a) Retained taxes, fees and fines (continued)

Gaming and racing stimulus measures include the deferral of Lotteries and Keno payments to 30 September 2020 and gaming machines (club and hotel) payments to 1 September 2020. Revenue recognised includes returns and payments received after the end of the financial year up to the time the financial statements are signed.

Fines issued by the courts are recognised as income under AASB 1058 when the fine is issued. Traffic infringement fines are recognised when the cash is received. Revenue from enforcement orders is regarded as being reliably measured when the order is issued.

Waste disposal levies are recognised as income under AASB 1058. Income is recognised upon control when the income can be reliably measured.

Fire and emergency services levy revenue (FESL) is recognised under AASB 1058 when the final assessments are issued, which is when the relevant Acts establish a right for revenue collection and the revenue can be reliably measured.

Government guarantee fee comprises of charges to Government businesses who borrow funds through the NSW Treasury Corporation (TCorp) at interest rates based on the credit rating of the State of New South Wales. The payment for the government guarantee fee is received in arrears, that is, the guarantee fee for the previous year is received in the following year. Revenue is recognised under AASB 1058 when the guarantee fee is invoiced by TCorp on behalf of NSW Treasury.

Application under AASB 118 and AASB 1004 (for comparative period ended 30 June 2019)

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

Government-assessed revenue (land, gaming and betting tax) is generally recognised when assessments are issued. 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 and stamp duties) 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 are recognised when issued.

b) Commonwealth grants and contributions

| | 2020 \$'000 | 2019 \$'000 |
|---|-------------------|-------------------|
| GST revenue | - | 17,850,636 |
| Specific purpose - recurrent | - | 3,562,501 |
| Commonwealth National Partnership payments - recurrent | - | 1,293,877 |
| Commonwealth National Partnership payments - capital | - | 1,383,917 |
| Revenue replacement | - | 56,577 |
| Commonwealth grants in contracts with sufficiently specific performance obligations (AASB 15) ¹ | 117,405 | - |
| Commonwealth capital grants to acquire/construct recognisable non-financial assets (AASB 1058) ² | 1,849,726 | - |
| Commonwealth grants without sufficiently specific performance obligations (AASB 1058) ³ | 23,385,492 | - |
| | 25,352,623 | 24,147,508 |

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

3. REVENUE (continued)

b) Commonwealth grants and contributions (continued)

| | 2020 \$'000 |
|---|-------------------|
| 1 Commonwealth grants in contracts with sufficiently specific performance obligations (AASB 15) | |
| Specific purpose-recurrent | 50,206 |
| Commonwealth National Partnership payments - recurrent | 67,199 |
| | 117,405 |
| 2 Commonwealth capital grants to acquire/construct recognisable non-financial assets (AASB 1058) | |
| Commonwealth National Partnership payments - recurrent | 7,130 |
| Commonwealth National Partnership payments - capital | 1,842,596 |
| | 1,849,726 |
| 3 Commonwealth grants without sufficiently specific performance obligations (AASB 1058) | |
| GST revenue | 18,065,830 |
| Specific purpose - recurrent | 3,615,062 |
| Commonwealth National Partnership payments - recurrent | 1,653,291 |
| Commonwealth National Partnership payments - capital | 46,117 |
| Revenue replacement | 5,192 |
| | 23,385,492 |

Application under AASB 15 and AASB 1058 (from 1 July 2019)

Revenue from Commonwealth grants in contracts with sufficiently specific performance obligations

Revenue from Commonwealth grants in contracts with sufficiently specific performance obligations are recognised under AASB 15 as the Crown Entity satisfies a performance obligation by transferring the promised goods or services. The revenue from Commonwealth grants in contracts with sufficiently specific performance obligations consists of the revenue from the National Specific Purpose payments and the National Partnership payments. The nature of the goods and services to be transferred under each contract is specified in the contract agreement and its schedules, and/or project plans. The Crown Entity typically satisfies its performance obligations when the promised goods or services are transferred to the customer or to a third party on behalf of the customer. The payments are typically due when the Crown Entity completes each milestone stipulated in the contract agreement and/or its schedules and submits the performance report for the completed milestone by the due dates to the Commonwealth.

Revenue from the majority of these grants are recognised based on the grant amount specified in the contract agreement, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. Revenue from each distinct performance obligation in the contract agreement is recognised over time based on the progress towards satisfaction of the performance obligation. No element of financing is deemed present as funding payments are usually received shortly after the relevant obligation is satisfied.

Commonwealth capital grants to acquire/construct recognisable non-financial assets

Income from Commonwealth capital grants to acquire or construct a recognisable non-financial asset to be controlled on behalf of the Crown Entity is recognised under AASB 1058 when the obligations under the transfer are satisfied. The Crown Entity satisfies the performance obligations under the transfer to construct assets over time as the non-financial assets are being constructed. The percentage of cost incurred is used to recognise income, because this most closely reflects the progress to completion. Grants to acquire or construct recognisable non-financial assets primarily relate to Commonwealth funding received for construction or upgrade of transport and road infrastructure assets.

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

3. REVENUE (continued)

b) Commonwealth grants and contributions (continued)

Commonwealth capital grants without sufficiently specific performance obligations

Income from Commonwealth grants without sufficiently specific performance obligations are recognised under AASB 1058 when the Crown Entity obtains control over the granted assets (e.g. cash).

GST revenue is general revenue assistance provided by the Commonwealth in accordance with the principle of horizontal fiscal equalisation under the *Intergovernmental Agreement in Federal Financial Relations* that may be spent for any purpose. The GST revenue is received on a monthly basis based on an estimated annual payment. The Commonwealth makes an adjustment to account for any difference between the estimated and actual GST revenue for the previous financial year in the first available payment following advice of the final outcome. There are no sufficiently specific performance obligations attached to the GST revenue and it does not involve transfer of any goods or services in return. GST revenue is recognised under AASB 1058 when the Crown Entity obtains control over the granted asset (i.e. cash).

Revenue from the National Specific Purpose payments and the National Partnership payments without sufficiently specific performance obligations is recognised under AASB 1058 when the Crown Entity obtains control over the granted assets (e.g. cash). The payments are typically due when the Crown Entity completes each milestone stipulated in the contract agreement and/or its schedules and submits the performance report for the completed milestone by the due dates to the Commonwealth. Revenue from these grants is recognised based on the grant amount specified in the contract agreement, and revenue is recognised once the Crown Entity obtains control over the grant amounts. No element of financing is deemed present as funding payments are usually received shortly after the relevant obligation is satisfied.

Application under AASB 118 and AASB 1004 (for comparative period ended 30 June 2019)

Commonwealth grants help NSW meet expenditure responsibilities. These consist of Specific Purpose and National Partnership payments, GST revenues and other General Revenue Assistance Payments. Under AASB 1004 income from grants is 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 23.

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

3. REVENUE (continued)

c) Financial distributions

| | 2020 \$'000 | 2019 \$'000 |
|------------------------|------------------|------------------|
| Dividends | 1,122,100 | 1,586,239 |
| Income tax equivalents | 224,617 | 339,204 |
| | 1,346,717 | 1,925,443 |

Dividends and income tax equivalents are received from the State's public trading enterprises and public financial enterprises. Dividend income is recognised under AASB 9 in the period when the Crown Entity's right to receive the payment has been established.

Income tax equivalents are recognised under AASB 1058 when the underlying taxable event that results in a right to receive income has occurred, unless it cannot be measured reliably until after the financial statements are authorised for issue.

d) Investment income

| | | |
|--|----------------|------------------|
| Interest income from financial assets at amortised cost | | |
| Advances | 76,631 | 67,654 |
| Private sector deposits | 66,549 | 116,943 |
| Net gain/(loss) from TCorpIM Funds measured at fair value through profit or loss | 313,276 | 2,120,750 |
| | 456,456 | 2,305,347 |

Investment income is recognised under AASB 9 *Financial Instruments*. The income includes interest income and distributions from investments, including fair value changes of unit prices, held in TCorp investment facilities. Interest income is calculated by applying the effective interest rate to the gross carrying value of a financial asset except for financial assets that subsequently become credit-impaired. For financial assets that become credit impaired, the effective interest rate is applied to the amortised cost of the financial asset (i.e. deducting the loss allowance for expected credit losses).

The Crown Entity calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate method discounts estimated future cash receipts through the expected life of the financial asset.

e) Royalty on minerals

| | | |
|---------------------|------------------|------------------|
| Royalty on minerals | 1,682,283 | 2,092,570 |
| | 1,682,283 | 2,092,570 |

From 1 July 2019, royalties from mining are recognised as income under AASB 1058 when the underlying taxable event that results in a right to receive income has occurred, unless it cannot be measured reliably until after the financial statements are authorised for issue.

For the comparative period ended 30 June 2019, the royalties from mining were recognised under AASB 118 when the payments and self-assessed returns were received.

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

3. REVENUE (continued)

f) Other income

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Contribution from other Government agencies | 89,488 | 413,752 |
| Revenue from Crown land assets | 70,558 | 51,504 |
| Confiscated Crime Proceeds | 27,899 | 75,536 |
| Crown share of Government agency asset sales | 75,859 | 11,281 |
| Repayment of contribution from NSW Self Insurance Corporation | - | 90,000 |
| Repayments of previous years appropriation | 19,809 | 6,595 |
| Long service leave contributions | 25,223 | 25,209 |
| Unclaimed monies | 44,058 | 43,623 |
| Defined benefit superannuation contributions | 20,099 | 24,320 |
| Write back of provisions | 85,955 | - |
| Other | 25,127 | 43,911 |
| | 484,075 | 785,731 |

From 1 July 2019, other income is recognised as income under AASB 1058 when the payments are received and when the amounts can be reliably measured. For 30 June 2019, other income was recognised under AASB 118 as income is received or receivable.

4. EXPENSES

a) Grants and subsidies

| | | |
|---|------------------|------------------|
| Infrastructure grants made by Restart | 3,833,927 | 4,673,276 |
| Grants to NSW Self Insurance Corporation | 2,014,143 | 1,265,102 |
| Grants to agencies for state contingencies | 1,251,492 | - |
| Grants to other Government agencies | 156,958 | 309,074 |
| Grants to agencies for redundancy payments | 107,354 | 72,511 |
| First home owners' grant | 67,592 | 85,764 |
| Grant to Liability Management Ministerial Corporation | 22,602 | 21,008 |
| Other | - | 6,713 |
| | 7,454,068 | 6,433,448 |

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.

Grants were paid to agencies from the Treasurer's state contingencies fund for various stimulus packages in response to the COVID-19 pandemic. The stimulus packages included funding for cleaning, health protection and services and the Working for NSW fund.

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

4. EXPENSES (continued)

b) Finance costs

| | 2020 \$'000 | 2019 \$'000 |
|---|------------------|------------------|
| Finance charges from: | | |
| TCorp | 1,402,412 | 1,258,327 |
| Commonwealth government | 63,412 | 65,605 |
| Other NSW Government agencies | 52,128 | 108,144 |
| Other | 18 | 7 |
| Unwinding of discounts and effect of changes in discount rate | 27,217 | 46,682 |
| | 1,545,187 | 1,478,766 |

Finance costs mainly refer to borrowing costs. The financial liabilities are recognised at amortised cost using the effective interest method. The discount or premium is treated as a finance cost and amortised over the life of the debt. Borrowing costs are expensed in the period in which they are incurred, in accordance with NSW 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 (LSL) liabilities. The Crown also takes on the defined benefit superannuation and LSL on-costs from agencies where their defined benefit and LSL liabilities are assumed by the Crown.

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

| | | |
|---|------------------|------------------|
| Long service leave expense | 1,352,789 | 2,367,196 |
| On-costs on long service leave and recreational leave | 2,584 | 27,505 |
| | 1,355,373 | 2,394,701 |

d) Other expenses

| | | |
|--|----------------|----------------|
| GST administration costs | 206,386 | 191,488 |
| Remissions and refunds | 54,120 | 52,338 |
| Bad and doubtful debts | 66,635 | 103,320 |
| Audit fees | | |
| Financial statements | 1,260 | 847 |
| Other engagement fees | 139 | 291 |
| Auditor General's reports to Parliament and performance audits | 10,223 | 9,861 |
| Consultants | 10,617 | 14,205 |
| Other contractors | 593 | 1,438 |
| Police superannuation scheme - medical claims cost | 15,175 | 14,587 |
| Land Remediation Provision | (9,593) | 6,120 |
| Land tax discounts | 37,319 | 38,765 |
| Redress scheme | 12,109 | 186,282 |
| University superannuation expense | (12,666) | 185,516 |
| Other | 47,801 | 53,631 |
| | 440,118 | 858,690 |

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

4. EXPENSES (continued)

e) Appropriations

| | 2020 \$'000 | 2019 \$'000 |
|----------------|-------------------|-------------------|
| Appropriations | 70,365,555 | 61,850,599 |
| | 70,365,555 | 61,850,599 |

Appropriation is paid from the Consolidated Fund during the financial year for services of the Government and is allocated to departments of the public service and various special offices. The amount that each agency receives is determined as part of the Budget process and represents a maximum amount that each of these agencies can draw down. The appropriation amounts disclosed are net of lapsed appropriations.

5. OTHER FINANCIAL ASSETS

Current

| | | |
|----------------------------|---|---------|
| Deposits at amortised cost | - | 900,000 |
|----------------------------|---|---------|

Non-current

TCorpIM Funds

| | | |
|--|------------|------------|
| NSW Infrastructure Future Fund | 13,845,391 | 18,276,586 |
| Social and Affordable Housing Fund | 1,484,498 | 1,216,919 |
| NSW Generations (Debt Retirement) Fund | 11,262,435 | 10,883,973 |

| | | |
|--|-------------------|-------------------|
| | 26,592,324 | 30,377,478 |
|--|-------------------|-------------------|

| | | |
|-------------------------------------|-------------------|-------------------|
| Total other financial assets | 26,592,324 | 31,277,478 |
|-------------------------------------|-------------------|-------------------|

Non-current financial assets at fair value are investments held in TCorpIM Funds which are unit trust investment facilities managed by the NSW Treasury Corporation (TCorp). These investments are restricted assets of the special deposit accounts namely Restart NSW Fund, Social and Affordable Housing NSW Fund (SAHF) and NSW Generations (Debt Retirement) Fund.

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

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

Impairment

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

6. ADVANCES REPAYABLE TO THE CROWN

| | 2020 \$'000 | 2019 \$'000 |
|--|------------------|------------------|
| Current | 196,478 | 215,943 |
| Less: allowance for expected credit losses | - | - |
| Net-Current | 196,478 | 215,943 |
| Non-current | 1,040,120 | 960,652 |
| Total advances at amortised cost | 1,236,598 | 1,176,595 |
| Represented by: | | |
| NSW Land and Housing Corporation | 463,115 | 478,432 |
| NSW Rural Assistance Authority | 437,720 | 323,331 |
| Department of Education | 140,500 | 140,500 |
| Department of Planning, Industry and Environment | 24,146 | 25,700 |
| Trustee of the Home Purchase Assistance Fund | 92,070 | 99,353 |
| Local Government Infrastructure | - | 22,536 |
| Co-operative advances | 31,888 | 41,554 |
| Ministry of Health | 46,718 | 44,548 |
| Australian Museum | 122 | 161 |
| Department of Communities and Justice | 294 | 434 |
| Other | 25 | 46 |
| | 1,236,598 | 1,176,595 |

Movements in the allowance for expected credit losses

| | | |
|---|----------|-----------|
| Balance at 1 July | - | 15,515 |
| Less: amounts written off during the year | - | (15,515) |
| Balance at 30 June | - | - |

The above advances repayable to the Crown have a face value of \$1,502 million as at 30 June 2020 (2019: \$1,469 million) and stated interest rates of 0.0 – 6.0 per cent and mature in 1 - 22 years.

Recognition and Measurement

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.

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

6. ADVANCES REPAYABLE TO THE CROWN (continued)

Impairment

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

The Crown Entity recognises the possible economic impacts brought on by the COVID-19 and natural disasters and determines that the ECLs for advances receivable are insignificant.

7. RECEIVABLES

| | 2020 \$'000 | 2019 \$'000 |
|--|------------------|------------------|
| Current: | | |
| Retained taxes, fees and fines | 5,262,647 | 2,204,920 |
| Less: allowance for impairment | (441,533) | (289,592) |
| Net - retained taxes, fees and fines | 4,821,114 | 1,915,328 |
| Tax equivalents | 17,830 | 51,166 |
| Unspent appropriations | 271,267 | 1,862 |
| GST Receivable | 4,375 | 3,541 |
| Dividends | 1,122,100 | 844,015 |
| Contributions from General Government agencies | 29,716 | 73,110 |
| Commonwealth grants | - | 38,747 |
| Other | 35,902 | 9,936 |
| Total current receivables | 6,302,305 | 2,937,705 |
| Non-current receivables | | |
| Contract receivables from contracts with customers | 25,000 | - |
| Total non-current receivables | 25,000 | - |
| Total receivables | 6,327,305 | 2,937,705 |
| Movements in the allowance for impairment | | |
| Balance at 1 July | 289,592 | 303,327 |
| Increase in allowance recognised in net result | 251,911 | 122,795 |
| Amount written off during the year | (99,970) | (136,530) |
| Balance at 30 June | 441,533 | 289,592 |

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

7. RECEIVABLES (continued)

Recognition and Measurement

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

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

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

The average credit period on the majority of Crown Entity's receivables, unless otherwise specified by legislation, is 30 days. No interest is being charged on payments which are delayed except for current receivables that are under objection or appeal. The current receivables included assessments totalling \$64.3 million (2019: \$88.6 million) that were under objection or appeal.

Impairment

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

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

An allowance for impairment is recognised under AASB 136 Impairment of Assets. Impairment losses on statutory receivables are recognised in 'other gains/(losses)'.

8. PAYABLES

Payables represent liabilities for goods and services received 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.

| | 2020 \$'000 | 2019 \$'000 |
|-------------------------------|----------------|----------------|
| Current: | | |
| Financial charges | 391,183 | 309,103 |
| Tax equivalents | 80,064 | 27,862 |
| Other | 52,619 | 82,597 |
| Total current payables | <u>523,866</u> | <u>419,562</u> |
| Total payables | <u>523,866</u> | <u>419,562</u> |

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

9. CONTRACT ASSETS AND LIABILITIES

| | 2020 \$'000 | 1 July 2019 adjusted for AASB 15 \$'000 |
|---|----------------|--|
| Current liability | | |
| Contract liabilities-grants | 15,975 | 12,623 |
| Contract liabilities-licences | 107,093 | 109,687 |
| | 123,068 | 122,310 |
| Non-current liability | | |
| Contract liabilities-grants | 5,824 | 19,183 |
| Contract liabilities-licences | 198,579 | 186,859 |
| | 204,403 | 206,042 |
| Total contract liabilities | 327,471 | 328,352 |
| Contract receivables-Non-current (included in Note 7) | 25,000 | 25,000 |
| | 25,000 | 25,000 |

Contract assets relate to the Crown Entity's right to consideration in exchange for goods or services transferred to customers or works completed, but not billed at the reporting date. The Crown Entity's right to consideration is dependent on anything other than the passage of time, the Crown Entity does not presently have any contract assets. The contract asset excludes receivables from contracts with customers.

Contract liabilities relate to consideration received in advance from customers in respect of the unamortised non-IP licences (e.g. driving licences) and Commonwealth grants in contracts with sufficiently specific performance obligations. The Crown Entity recognises contract liabilities for consideration received in respect of unsatisfied performance obligations.

Contract receivables mainly relate to the Crown Entity's receivable from the consideration in a non-IP license exclusivity deed. The Crown Entity recognises a receivable when it has an unconditional right to receive future cashflows.

Additional information on contract liabilities for the current reporting period is provided below:

| | 2020 \$'000 |
|---|----------------|
| Revenue recognised that was included in the Contract liability balance (adjusted for AASB 15) as at 1 July 2019 | 10,408 |
| Revenue recognised from performance obligations satisfied in previous periods | - |
| Transaction price allocated to the remaining performance obligations from contracts with customers | 84,043 |

The transaction price allocated to the remaining performance obligations relates to Commonwealth grants. 77% is expected to be recognised as revenue in 2020-21, 15% in 2021-22 and 8% after 2021-22.

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

10. BORROWINGS

All loans and borrowings are initially recognised at the fair value of the consideration received, less directly attributable transaction costs. Subsequently the Crown Entity estimates the fair value of Commonwealth specific purpose low interest loans by discounting the expected cash flows by the relevant Commonwealth bond rate. The effective interest method is used to measure interest-bearing loans and borrowings at amortised cost. Gains and losses are recognised in surplus or deficit when the liabilities are derecognised, as well as through the amortisation process.

Due to the economic impacts of the widespread bushfires and then the COVID-19 pandemic the Crown Entity had to considerably increase its borrowing profile to fund various relief and stimulus packages.

| | 2020 \$'000 | 2019 \$'000 |
|---|-------------------|-------------------|
| Current | 1,464,655 | 480,081 |
| Non-current | 54,007,619 | 32,500,926 |
| Total borrowings at amortised cost | 55,472,274 | 32,981,007 |
| Analysed as: | | |
| TCorp borrowings | 54,903,252 | 32,381,273 |
| Commonwealth financial agreements | 184 | 184 |
| Commonwealth specific purpose advances | 520,980 | 551,692 |
| Commonwealth other | 47,858 | 47,858 |
| Total borrowings at amortised cost | 55,472,274 | 32,981,007 |

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 2.61 per cent (2019: 3.67 per cent). The Crown Entity measures its exposure to interest rate risk in terms of cash flows or notional cash flows generated by financial instruments as discussed in Note 12. The borrowing limits are also detailed in Note 12.

Changes in liabilities arising from financing activities

| | 1 July 2019 \$'000 | Cashflows \$'000 | Other * \$'000 | 30 June 2020 \$'000 |
|--|-----------------------|---------------------|-------------------|------------------------|
| TCorp borrowings | 32,381,273 | 22,503,803 | 18,176 | 54,903,252 |
| Commonwealth financial agreements | 184 | - | - | 184 |
| Commonwealth specific purpose advances | 551,692 | (54,273) | 23,561 | 520,980 |
| Commonwealth other | 47,858 | - | - | 47,858 |
| Total liabilities from financing activities | 32,981,007 | 22,449,530 | 41,737 | 55,472,274 |

* Other includes non-cash borrowing movements

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

10. BORROWINGS (continued)

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

* Other includes non-cash borrowing activities.

11. DERIVATIVE FINANCIAL INSTRUMENTS

The Social and Affordable Housing Fund (SAHF), being a special deposit account held by the Crown Entity was established to boost the delivery of social and affordable housing across NSW. Refer to Note 20 for details.

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

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

Fair value of the Crown Entity's derivative financial instruments

| | 2020 \$'000 | 2019 \$'000 |
|-------------------------------|----------------|----------------|
| Current Asset | | |
| Futures | 3,745 | 3,081 |
| | 3,745 | 3,081 |
| Current liability | | |
| Futures | 18,280 | 10,658 |
| | 18,280 | 10,658 |
| Non-current liability | | |
| Swaps | 372,496 | 196,101 |
| | 372,496 | 196,101 |
| Net amount liabilities | 387,031 | 203,678 |

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS

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

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

Financial instrument categories

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

The Crown Entity has the following financial instrument classification:

Financial instrument categories

| | | | 2020 \$'000 | 2019 \$'000 |
|----------------------------------|-------|-----------------------------------|----------------|----------------|
| Financial assets | | | | |
| Cash and cash equivalents | 18(a) | N/A | 2,167,064 | 1,723,849 |
| Other financial assets | 5 | Fair value through profit or loss | 26,592,324 | 30,377,478 |
| Other financial assets | 5 | Amortised cost | - | 900,000 |
| Derivative financial instruments | 11 | Fair value through profit or loss | 3,745 | 3,081 |
| Advances repayable to the Crown | 6 | Amortised cost | 1,236,598 | 1,176,595 |
| Receivables ¹ | 7 | Amortised cost | 1,212,718 | 965,808 |
| Financial liabilities | | | | |
| Payables ¹ | 8 | Amortised cost | 443,802 | 391,700 |
| Bank overdrafts | 18(a) | N/A | 10,049,405 | 10,831,499 |
| Borrowings | 10 | Amortised cost | 55,472,274 | 32,981,007 |
| Derivative financial instruments | 11 | Fair value through profit or loss | 390,776 | 206,759 |
| Financial guarantees | 21(c) | Amortised cost | 700 | 1,005 |

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

Risk management

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

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

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

NSW 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 NSW Treasury Secretary around appropriate risk levels and preferences. ALCO is supported by NSW Treasury's Financial Risk Management (FRM) team, 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 net result and equity due to reasonably possible changes in risk variables are outlined in the information below. A reasonably possible change in each risk variable has been determined after considering 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 2019. The analysis assumes that all other variables remain constant.

Interest rate risk

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

The Crown Entity has entered into derivative contracts (interest rate swap contracts and short-term future contracts) to hedge against interest rate movements for the SAHF's variable interest-related funding obligations to DCJ, which has commitments to project payments. The details of the derivative financial instruments are set out in Note 11. As the derivative contracts are classified as fair value through profit and loss, a change in interest rates would result in gains or losses in the derivative contracts, which will affect the Crown Entity's operating result.

The following table provides the sensitivity analysis of interest rate risk affecting financial assets and liabilities on the operating result of the Crown Entity. There is no direct effect on equity. A reasonably possible change of +/- 1% is used.

| | Carrying Amount \$'000 | Net result \$'000 | -1% Equity \$'000 | Net result \$'000 | +1% Equity \$'000 |
|--------------------------------------|------------------------------|----------------------|-------------------------|----------------------|-------------------------|
| 2020 | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents | 2,167,064 | (21,671) | - | 21,671 | - |
| Financial liabilities | | | | | |
| Bank overdrafts | 10,049,405 | 100,494 | - | (100,494) | - |
| Borrowings managed by TCorp | 54,903,252 | 3,682,496 | - | (3,682,496) | - |
| Net derivative financial instruments | 387,031 | (74,055) | - | 74,055 | - |
| 2019 | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents | 1,723,849 | (17,238) | - | 17,238 | - |
| Financial liabilities | | | | | |
| Bank overdrafts | 10,831,499 | 108,315 | - | (108,315) | - |
| Borrowings managed by TCorp | 32,381,273 | 2,420,371 | - | (2,420,371) | - |
| Net derivative financial instruments | 203,678 | (50,571) | - | 50,571 | - |

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

Other price risk

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

Other price risk (continued)

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

| Facility | Investment Sectors | Investment Horizon | 2020 (\$'000) | 2019 (\$'000) |
|---|---|--------------------|------------------|------------------|
| NSW Infrastructure Future Fund | Cash, Australian shares, International shares, emerging market equities, Australian bonds and investment grade credit | 10 years and over | 13,845,391 | 18,276,586 |
| Social and Affordable Housing NSW Fund Investment Trust | Cash, Australian shares, International shares, emerging market equities, Australian bonds and investment grade credit | 10 years and over | 1,484,498 | 1,216,919 |
| NSW Generations (Debt Retirement) Fund Investment Trust | Cash, Australian shares, International shares, emerging market equities, Australian bonds and investment grade credit | 10 years and over | 11,262,435 | 10,883,973 |

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

These investments are designated at fair value through profit or loss and therefore any change in unit price impacts directly on surplus or deficit. In 2019-20, TCorp has adopted a new approach of applying a flat 10% sensitivity across all funds. 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 (%) | Impact on net result (\$'000) |
|---|--------------------------|-------------------------------|
| NSW Infrastructure Future Fund | +/-10% | 1,384,539 |
| Social and Affordable Housing NSW Fund Investment Trust | +/-10% | 148,449 |
| NSW Generations (Debt Retirement) Fund Investment Trust | +/-10% | 1,126,243 |

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

Credit risk

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

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. The Consolidated Fund's net debit balance is comprised of cash holdings as well as overdraft facilities held with the State's multi-bank service providers. This arrangement minimises the overall borrowing requirements of the State. The bank regards all of the individual accounts within the TBS as forming one account. The Crown Entity is paid interest on the overall credit balance of this 'one account'. Thus, the Consolidated Fund can borrow almost the total of other accounts in the TBS at the interest rate agencies would be paid for having cash on deposit, a significant saving on normal borrowing rates.

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

Other financial assets - Deposits

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

Advances repayable to the Crown

Advances are given to entities on terms set by parties within the NSW Government and which follow the Treasurer's directions. The risk mainly relates to advances to general government sector agencies that are funded from the Consolidated Fund. The Crown Entity does not receive any collateral for advances and receivables. The maximum credit risk on advances is the carrying value reported in the Statement of Financial Position. The Crown Entity has a significant concentration of credit risk with NSW public sector entities.

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

Receivables

Receivables include statutory receivables and non-statutory receivables. Statutory receivables such as taxes, fees and fines and income tax equivalents are not subject to ECL assessment. The Crown Entity assesses the impairment of statutory receivables when there is objective evidence that the impairment exists i.e. when the Crown Entity will not be able to collect all amounts that are due.

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

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

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 |
| 2020 | | | | | | | | |
| Cash and cash equivalents | 7,866 | - | - | 2,159,170 | - | - | 28 | 2,167,064 |
| Advances | - | - | - | - | - | - | 1,236,598 | 1,236,598 |
| Receivables | - | - | - | 1,499 | - | - | 1,211,219 | 1,212,718 |
| Derivative financial instruments | 3,745 | - | - | - | - | - | - | 3,745 |
| 2019 | | | | | | | | |
| Cash and cash equivalents | 6,524 | - | - | 1,717,301 | - | - | 24 | 1,723,849 |
| Other financial assets | 400,000 | - | - | 500,000 | - | - | - | 900,000 |
| Advances | - | - | - | - | - | - | 1,176,595 | 1,176,595 |
| Receivables | - | - | - | 3,054 | - | - | 962,754 | 965,808 |
| Derivative financial instruments | 3,081 | - | - | - | - | - | - | 3,081 |

| By classification of counterparty | Governments | Banks | Other | Total |
|-----------------------------------|-------------|-----------|--------|-----------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 2020 | | | | |
| Cash and cash equivalents | 7,866 | 2,159,170 | 28 | 2,167,064 |
| Advances | 1,204,710 | - | 31,888 | 1,236,598 |
| Receivables | 1,184,813 | 1,499 | 26,406 | 1,212,718 |
| Derivative financial instruments | 3,745 | - | - | 3,745 |
| 2019 | | | | |
| Cash and cash equivalents | 6,524 | 1,717,300 | 25 | 1,723,849 |
| Other financial assets | 400,000 | 500,000 | - | 900,000 |
| Advances | 1,135,042 | - | 41,553 | 1,176,595 |
| Receivables | 961,780 | 3,055 | 973 | 965,808 |
| Derivative financial instruments | 3,081 | - | - | 3,081 |

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.

Other Financial assets

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

12 FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

Financial guarantees

The Crown Entity has a number of financial guarantees to which it is a party on behalf of other entities, agencies and departments. The guarantees outstanding at 30 June 2020 have an estimated amortised total value of \$0.7 million (2019: \$1.0 million). The estimated value was calculated by independent valuers based on the probabilities of these guarantees being exercised.

These guarantees include.

- *Public Private Partnership Guarantees:* The Crown has guaranteed that various State agencies involved in public private partnerships will meet their obligations to pay for finance leases and services provided. These are long term agreements involving significant sums. It is very unlikely that the agencies would cease to pay the finance lease contracts on assets or meet payments for services they require for their operations. The credit risk for these activities is \$13,527 million (2019: \$11,626 million).
- *TCorp Local Council Lending Facility Guarantee:* The State Government has provided a deed of indemnity which allows TCorp to recover from the Crown for any local government defaults. TCorp conducts a review of the borrower's credit quality annually and there are currently no indications of financial distress in the portfolio. The credit risk for this indemnity is \$843 million (2019: \$645 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 aggregate amount of any debit balance subsisting in the State Set-Off Accounts to be drawn down to a maximum debit balance of \$50,000 million (2019: \$25,000 million). The limit can be utilised to the extent that the aggregated debit balance of the State Set-Off Accounts is fully offset by the aggregated credit balance. The State's overnight net position is always maintained in credit.

The Come and Go Facility is a short-term facility provided by TCorp to facilitate liquidity. The facility has a limit of \$3,000 million (2019: \$3,000 million). In 2019-20, there was no drawdown from the Facility (2019: \$1,100 million).

Under the *Government Sector Finance Act 2018*, the Crown Entity has approved financial accommodation of \$80,500 million for debt funding (2019: \$32,500 million). This amount is the overall funding to the Crown Entity which includes existing and new loans, including Waratah bond borrowings for Restart NSW Fund. The Crown Entity outsources the daily management of its borrowings to TCorp, which manages them in accordance with established modified duration targets and in discussions with NSW Treasury.

During the current year there were no defaults of loans payable (2019: Nil). 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 NSW

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

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.

Liquidity risk (continued)

| | 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 |
| 2020 | | | | | | | | |
| Payables | - | 443,802 | - | - | 443,802 | 443,802 | - | - |
| Bank overdrafts | 1.60 | 10,049,405 | - | 10,049,405 | - | 10,049,405 | - | - |
| TCorp borrowings ¹ | 2.61 | 64,957,776 | 64,957,776 | - | - | 2,329,034 | 21,750,178 | 40,878,564 |
| Cwlth financial agreements | 2.87 | 183 | 183 | - | - | 183 | - | - |
| Cwlth specific purpose advances ¹ | 4.41 | 801,466 | 801,466 | - | - | 54,573 | 210,694 | 536,199 |
| Cwlth other | 4.50 | 47,858 | 47,858 | - | - | - | 47,858 | - |
| Derivative financial instruments | - | 449,496 | - | 449,496 | - | 31,618 | 77,144 | 340,734 |
| Financial guarantees ² | - | 14,369,968 | - | - | 14,369,968 | 1,587,007 | 3,965,127 | 8,817,834 |
| Total financial liabilities³ | | 91,119,954 | 65,807,283 | 10,498,901 | 14,813,770 | 14,495,622 | 26,051,001 | 50,573,331 |
| 2019 | | | | | | | | |
| Payables | - | 391,700 | - | - | 391,700 | 391,701 | - | - |
| Bank overdrafts | 2.35 | 10,831,499 | - | 10,831,499 | - | 10,831,499 | - | - |
| TCorp borrowings ¹ | 3.67 | 40,805,263 | 40,805,263 | - | - | 1,604,527 | 11,499,600 | 27,701,136 |
| Cwlth financial agreements | 2.87 | 183 | 183 | - | - | 183 | - | - |
| Cwlth specific purpose advances ¹ | 4.41 | 855,739 | 855,739 | - | - | 54,273 | 215,231 | 586,235 |
| Cwlth other | 4.50 | 47,858 | 47,858 | - | - | - | 31,905 | 15,953 |
| Derivative financial instruments | - | 268,582 | - | 268,582 | - | 16,929 | 51,056 | 200,597 |
| Financial guarantees ² | - | 12,270,720 | - | - | 12,270,720 | 663,728 | 2,525,004 | 9,081,988 |
| Total financial liabilities³ | | 65,471,544 | 41,709,043 | 11,100,081 | 12,662,420 | 13,562,839 | 14,322,796 | 37,585,909 |

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 \$0.7 million (2019: \$1.0 million).

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

Fair value measurement

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

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

a) Fair value compared to carrying amount

| | 2020 | | | 2019 | |
|------------------------------|---------------------------|----------------------|------------------|---------------------------|----------------------|
| | Carrying amount \$'000 | Fair value \$'000 | Fair value level | Carrying amount \$'000 | Fair value \$'000 |
| Financial assets | | | | | |
| Co-operative advances | 31,888 | 31,893 | Level 2 | 41,553 | 41,607 |
| Financial liabilities | | | | | |
| TCorp borrowings | 54,903,252 | 60,032,582 | Level 2 | 32,381,273 | 36,504,255 |

Fair value measurement (continued)

b) Fair value recognised in the statement of financial position

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

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

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

| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|---|-------------------|-------------------|-------------------|-------------------|
| 2020 | | | | |
| Financial assets at fair value | | | | |
| Derivatives | 3,745 | - | - | 3,745 |
| TCorpIM funds | | | | |
| NSW Infrastructure Fund | - | 13,845,391 | - | 13,845,391 |
| Social and Affordable Housing Fund Investment Trust | - | 1,484,498 | - | 1,484,498 |
| NSW Generations (Debt Retirement) Fund Investment Trust | - | 11,262,435 | - | 11,262,435 |
| | 3,745 | 26,592,324 | - | 26,596,069 |
| Financial liabilities at fair value | | | | |
| Derivatives | 18,280 | 372,496 | - | 390,776 |
| | 18,280 | 372,496 | - | 390,776 |
| 2019 | | | | |
| Financial assets at fair value | | | | |
| Derivatives | 3,081 | - | - | 3,081 |
| TCorpIM funds | | | | |
| NSW Infrastructure Fund | - | 18,276,587 | - | 18,276,587 |
| Social and Affordable Housing Fund Investment Trust | - | 1,216,918 | - | 1,216,918 |
| NSW Generations (Debt Retirement) Fund Investment Trust | - | 10,883,973 | - | 10,883,973 |
| | 3,081 | 30,377,478 | - | 30,380,559 |
| Financial liabilities at fair value | | | | |
| Derivatives | 10,658 | 196,101 | - | 206,759 |
| | 10,658 | 196,101 | - | 206,759 |

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

12. 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

| | Total Level 3 \$'000 |
|--|-------------------------------------|
| Opening balance at 1 July 2018 | 22,042 |
| Transfers out of Level 3 | (22,042) |
| Closing balance at 30 June 2019 | <u>-</u> |

There was no transfer between the levels during the year ended 30 June 2020.

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

13. 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. |
| 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 |
| 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 |
| 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 |
| Judges Pension Scheme (JPS) | Compulsory for members of the judiciary | Benefit is defined in terms of final salary and is employer financed. | Indexed pension |

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

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

Actuaries calculated unfunded superannuation liabilities as at 30 June 2020 using:

- latest available scheme membership data
- demographic assumptions of the 2018 Triennial Valuation of the Pooled Fund schemes
- an additional allowance for staff reductions
- AASB 119 applies (for reporting purposes) and AASB 1056 (for funding purposes) to employee benefits as at 30 June 2020.

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

Regulatory framework

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

These schemes are administered by the SAS Trustee Corporation which is a body corporate constituted under the *Superannuation Administration Act 1996* and which reports to the STC Trustee Board. The schemes are exempt public sector superannuation schemes under the *Commonwealth Superannuation Industry (Supervision) Act 1993* (SIS). The SIS Legislation treats exempt public-sector superannuation funds as complying funds for concessional taxation and superannuation guarantee purposes.

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

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

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

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

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

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

The **Judges Pension Scheme (JPS)** is established and governed by *Judges' Pensions Act 1953 No 41* (as amended to 28 November 2018). It is essentially a pay-as-you-go pension scheme not a superannuation fund and as such, it does not have a Trustee Board.

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

Governance

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

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

13. 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.

Except for JPS, which has no assets, NSW public sector defined benefit Fund assets are invested with independent Fund managers and have a diversified asset mix. The funds 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 | 13,450 | 15,510 | 1,423 | 637 | 129 | 14 |
| Deferred benefits | 9,052 | 9,711 | 563 | 20 | - | 3 |
| Pensioners | 3,318 | - | 47,039 | 6,709 | 233 | 267 |
| Pensions fully commuted | - | - | 13,488 | - | - | - |

(b) Superannuation position for AASB 119 Employee Benefits

| | SASS \$'000 | SANCS \$'000 | SSS \$'000 | PSS \$'000 | JPS \$'000 | PCSS \$'000 | Total 2019-20 \$'000 |
|--|----------------|-----------------|---------------|---------------|---------------|----------------|----------------------------|
| Accrued liability ¹ | 14,846,888 | 2,316,098 | 63,945,138 | 20,195,971 | 1,590,320 | 1,008,700 | 103,903,115 |
| Fair value of the reserve account | (9,612,972) | (1,518,630) | (20,274,636) | (5,035,854) | 92 | (328,200) | (36,770,200) |
| Deficit/(surplus) | 5,233,916 | 797,468 | 43,670,502 | 15,160,117 | 1,590,412 | 680,500 | 67,132,915 |
| Future service liability ² | 708,225 | 348,553 | 120,935 | (15,221) | - | - | 1,162,492 |
| Net liability to be disclosed in the Statement of Financial Position | 5,233,916 | 797,468 | 43,670,502 | 15,160,117 | 1,590,412 | 680,500 | 67,132,915 |
| Current | | | | | | | 95,260 |
| Non-current | | | | | | | 67,037,655 |
| | | | | | | | <u>67,132,915</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 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 2020

13. 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 2019-20 \$'000 |
|--|------------------|-----------------|-------------------|-------------------|------------------|----------------|----------------------------|
| <i>Present value at 1/7/19</i> | 5,075,881 | 754,363 | 44,171,181 | 15,074,335 | 1,443,247 | 643,200 | 67,162,207 |
| Transfers in/(out) through equity | - | - | - | - | - | - | - |
| Current service cost | 220,980 | 49,003 | 65,816 | - | 60,100 | 2,500 | 398,399 |
| Net interest | 65,583 | 9,715 | 575,807 | 196,833 | 18,722 | 8,300 | 874,960 |
| Actual return on fund assets less interest income | (94,652) | (16,672) | (193,902) | (46,847) | - | 1,200 | (350,873) |
| Actuarial (gains)/losses arising from changes in demographic assumptions | - | - | - | - | - | - | - |
| Actuarial (gains)/losses arising from changes in financial assumptions | 108,522 | 19,654 | 269,406 | 454,393 | 92,756 | 44,300 | 989,031 |
| Actuarial (gains)/losses arising from liability experience | 72,651 | 18,167 | (118,926) | (193,089) | 26,722 | 500 | (193,975) |
| Employer contribution | (215,048) | (36,762) | (1,098,880) | (325,508) | (51,136) | (19,500) | (1,746,834) |
| <i>Present value at 30/6/20</i> | 5,233,917 | 797,468 | 43,670,502 | 15,160,117 | 1,590,411 | 680,500 | 67,132,915 |

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

| | SASS \$'000 | SANCS \$'000 | SSS \$'000 | PSS \$'000 | JPS \$'000 | PCSS \$'000 | Total 2019-20 \$'000 |
|---|------------------|------------------|-------------------|------------------|---------------|----------------|----------------------------|
| <i>Fair value at 1/7/19</i> | 9,906,493 | 1,663,344 | 21,014,846 | 5,113,050 | - | 336,400 | 38,034,133 |
| Interest income | 124,812 | 20,790 | 268,379 | 66,201 | - | 4,400 | 484,582 |
| Actual return on Fund assets less interest income | 94,652 | 16,672 | 193,902 | 46,847 | - | (1,200) | 350,873 |
| Employer contributions | 215,048 | 36,762 | 1,098,880 | 325,508 | 51,136 | 19,500 | 1,746,834 |
| Contributions by participants | 110,662 | - | 26,249 | 5,629 | - | 400 | 142,940 |
| Benefits paid | (784,710) | (208,685) | (2,271,572) | (505,880) | (51,228) | (28,600) | (3,850,675) |
| Taxes, premiums & expenses paid | (53,985) | (10,253) | (56,048) | (15,501) | - | (2,700) | (138,487) |
| <i>Fair value at 30/6/20</i> | 9,612,972 | 1,518,630 | 20,274,636 | 5,035,854 | (92) | 328,200 | 36,770,200 |

(e) Reconciliation of the defined benefit obligation

| | SASS \$'000 | SANCS \$'000 | SSS \$'000 | PSS \$'000 | JPS \$'000 | PCSS \$'000 | Total 2019-20 \$'000 |
|---|-------------------|------------------|-------------------|-------------------|------------------|------------------|----------------------------|
| <i>Present value at 1/7/19</i> | 14,982,374 | 2,417,707 | 65,186,027 | 20,187,385 | 1,443,247 | 979,600 | 105,196,340 |
| Current service cost | 220,980 | 49,003 | 65,816 | - | 60,100 | 2,500 | 398,399 |
| Interest cost | 190,395 | 30,505 | 844,186 | 263,034 | 18,722 | 12,700 | 1,359,542 |
| Contributions by participants | 110,662 | - | 26,249 | 5,629 | - | 400 | 142,940 |
| Actuarial (gains)/ losses arising from changes in demographic assumptions | - | - | - | - | - | - | - |
| Actuarial (gains)/losses arising from changes in financial assumptions | 108,522 | 19,654 | 269,406 | 454,393 | 92,756 | 44,300 | 989,031 |
| Actuarial (gains)/losses arising from liability experience | 72,651 | 18,167 | (118,926) | (193,089) | 26,722 | 500 | (193,975) |
| Benefits paid | (784,711) | (208,685) | (2,271,572) | (505,880) | (51,227) | (28,600) | (3,850,675) |
| Taxes, premiums & expenses paid | (53,985) | (10,253) | (56,048) | (15,501) | - | (2,700) | (138,487) |
| <i>Present value at 30/6/20</i> | 14,846,888 | 2,316,098 | 63,945,138 | 20,195,971 | 1,590,320 | 1,008,700 | 103,903,115 |

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

13. 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 2019-20 \$'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 | 2019-20 \$'000 | |
| Short Term Securities | 1,889,511 | 2,206,787 | - | 4,096,298 | 10.2% |
| Australian Fixed Interest | - | 1,066,448 | - | 1,066,448 | 2.7% |
| International Fixed Interest | 30,408 | 1,879,015 | - | 1,909,424 | 4.8% |
| Australian Equities | 6,901,927 | 392,284 | - | 7,294,211 | 18.1% |
| International Equities | 11,487,308 | 463,022 | - | 11,950,330 | 29.7% |
| Property | 644,805 | 16,266 | 2,691,395 | 3,352,466 | 8.3% |
| Alternatives | 23,408 | 4,337,075 | 6,162,350 | 10,522,833 | 26.2% |
| Total | 20,977,368 | 10,360,897 | 8,853,745 | 40,192,010 | 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 2020

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

The fair value of the Pooled Fund assets as at 30 June 2020 includes \$36.9 million (2019: \$99.5 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 \$340 million (2019: \$316 million).
- Health Administration Corporation occupies part of a property 50 per cent owned by the Pooled Fund with a fair value of \$343 million (2019: \$331 million).

(h) Significant actuarial assumptions at the reporting date

| | Pooled Fund | PCSS | JPS |
|--|--|---|---|
| Discount rate | 0.87% pa | | |
| Salary increase rate (excluding promotional increases) | 1.7% 2020/21; 3.2% pa thereafter | 0% 2020/21; 3.2% pa thereafter | 3.2% pa |
| Rate of CPI increase | 1.00% pa for 2019/20; 0.25% pa for 2020/21; 1.50% pa for 2021/22; 1.25% pa for 2022/23; 1.75% pa for 2023/24; 2.0% pa for 2024/25 and 2025/26; 2.25% pa to 2029/30; 2.50% pa thereafter. | N/A | N/A |
| Pensioner mortality | The pensioner mortality assumptions are as per the 2018 actuarial investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report available from the Trustee's website. The report shows the pension mortality rates for each age. | as per 2017 triennial actuarial valuation | as per 2018 triennial actuarial valuation |

(i) Sensitivity analysis

In light of the current environment due to Covid-19, there is increased volatility in terms of expected outcomes especially in the short to medium term. The information on sensitivities shown below provides a guide to how this could affect the defined benefit obligation.

The total defined benefit obligation as at 30 June 2020 under several scenarios is presented below. Except for JPS, the total defined benefit obligation disclosed is inclusive of the contribution tax provision which is calculated based on the asset level at 30 June 2020.

Pooled Fund

Scenarios A to F in the following table 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 -0.5% discount rate | Scenario B +0.5% discount rate |
|-------------------------------------|-------------|---|---|
| Discount rate | as above | as above -0.5% pa | as above +0.5% pa |
| Rate of CPI increase | as above | as above | as above |
| Salary inflation rate | as above | as above | as above |
| Defined benefit obligation (\$'000) | 101,304,097 | 108,740,280 | 94,645,686 |
| | 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) | 101,304,097 | 108,344,038 | 94,934,211 |

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

13. 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) | 101,304,097 | 101,644,086 | 100,974,938 |

| | Base Case | Scenario G Lower mortality* | Scenario H Higher mortality** |
|--|-------------|--------------------------------|----------------------------------|
| Defined benefit obligation (\$'000) | 101,304,097 | 103,230,591 | 100,108,439 |

* Assumes the short-term pensioner mortality improvement factors for years 2020-2023 also apply for years after 2023.

** Assumes the long-term pensioner mortality improvement factors for years post 2023 also apply for years 2020 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 -0.5% discount rate | Scenario B +0.5% discount rate | Base Case | Scenario A -0.5% discount rate | Scenario B +0.5% discount rate |
| Discount rate | 0.87% | 0.37% | 1.37% | 0.87% | 0.37% | 1.37% |
| 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) | 1,008,700 | 1,109,000 | 924,000 | 1,590,320 | 1,700,763 | 1,487,713 |

| | 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) | 1,008,700 | 1,103,000 | 925,000 | 1,590,320 | 1,720,929 | 1,472,926 |

| | 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) | 1,008,700 | 1,044,400 | 973,000 | 1,590,320 | 1,669,265 | 1,522,173 |

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 2020

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

The following is the sensitivity of the total defined benefit obligation to the economic assumptions in accordance with AASB 1056 *Superannuation Entities*.

| Pool Fund | Base Case | -0.5% discount rate | +0.5% discount rate |
|--------------------------|------------------|----------------------------|----------------------------|
| Discount rate | 7%/6.0% | 6.5%/5.5% | 7.5%/6.5% |
| Rate of CPI increase | 2.0% | as base case | as base case |
| Salary inflation rate | 3.2% | as base case | as base case |
| Accrued benefits(\$'000) | 50,288,515 | 52,229,450 | 48,493,362 |
| PCSF | Base Case | -0.5% discount rate | +0.5% discount rate |
| Discount rate | 6.20% | 5.70% | 6.70% |
| Rate of CPI increase | N/A | N/A | N/A |
| Salary inflation rate | as above | as above | as above |
| Accrued benefits(\$'000) | 435,400 | 460,400 | 412,400 |
| JPS | Base Case | -0.5% discount rate | +0.5% discount rate |
| Discount rate | 6.70% | 6.20% | 7.20% |
| Rate of CPI increase | N/A | N/A | N/A |
| Salary inflation rate | as above | as above | as above |
| Accrued benefits(\$'000) | 782,958 | 834,214 | 735,070 |

(j) Asset–Liability matching strategies

The Pooled Fund schemes' 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. Contribution rates are set after discussions between the employer, STC and NSW Treasury.

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

Funding positions for the Pooled Funds and PCSS are reviewed annually and funding arrangements may be adjusted as required after each annual review.

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

The following is a summary of the 30 June 2020 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 | 2019-20 \$'000 |
|---------------------------------|----------------|-----------------|---------------|---------------|---------------|----------------|-------------------|
| Accrued benefits ¹ | 11,431,880 | 1,856,058 | 29,378,041 | 7,622,535 | 782,958 | 435,400 | 51,506,872 |
| Net market value of Fund assets | (9,612,973) | (1,518,630) | (20,274,637) | (5,035,854) | 92 | (328,200) | (36,770,202) |
| Net deficit | 1,818,907 | 337,428 | 9,103,404 | 2,586,681 | 783,050 | 107,200 | 14,736,670 |

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.

Crown Entity

**Notes to the financial statements
for the year ended 30 June 2020**

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

(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 30/06/20 % | JPS 30/06/20 % | PCSS 30/06/20 % |
|--|---------------------------------------|-------------------------------|--------------------------------|
| Expected rate of return on Fund assets backing current pension liabilities | 7.0% pa | 6.7% pa | 6.2% pa |
| Expected rate of return on Fund assets backing other liabilities | 6.0% pa | N/A | N/A |
| Expected salary increase rate (excluding promotional salary increases) | 1.7% 2020/21; 3.2% pa thereafter | 3.20% pa | 0% 2020/21; 3.2% pa thereafter |
| Expected rate of CPI increase | 2.0% pa | N/A | N/A |

(n) Expected contributions

| | SASS \$'000 | SANCS \$'000 | SSS \$'000 | PSS \$'000 | JPS \$'000 | PCSS \$'000 |
|--|------------------------|-------------------------|-----------------------|-----------------------|-----------------------|------------------------|
| Expected employer contributions - financial year to 30 June 2021 | 13,034 | 1,813 | 4,180 | - | 52,099 | 11,550 |

The weighted average duration is:

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

(o) Profit or loss impact

| | SASS \$'000 | SANCS \$'000 | SSS \$'000 | PSS \$'000 | JPS \$'000 | PCSS \$'000 | Total 2019-20 \$'000 |
|-----------------------------|------------------------|-------------------------|-----------------------|-----------------------|-----------------------|------------------------|-------------------------------------|
| Current service cost | 220,980 | 49,003 | 65,816 | - | 60,100 | 2,500 | 398,399 |
| Net interest | 65,583 | 9,715 | 575,807 | 196,833 | 18,722 | 8,300 | 874,960 |
| Defined benefit cost | 286,563 | 58,718 | 641,623 | 196,833 | 78,822 | 10,800 | 1,273,359 |

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

(p) Other comprehensive income

| | SASS \$'000 | SANCS \$'000 | SSS \$'000 | PSS \$'000 | JPS \$'000 | PCSS \$'000 | Total 2019-20 \$'000 |
|--|----------------|-----------------|-----------------|----------------|----------------|----------------|----------------------------|
| Actual return on Fund assets less Interest income | (94,652) | (16,672) | (193,902) | (46,847) | - | 1,200 | (350,873) |
| Actuarial (gains)/losses arising from changes in financial assumptions | 108,522 | 19,654 | 269,406 | 454,393 | 92,756 | 44,300 | 989,031 |
| Actuarial (gains)/losses arising from liability experience | 72,651 | 18,167 | (118,926) | (193,089) | 26,722 | 500 | (193,975) |
| Total remeasurement in Other Comprehensive Income | 86,521 | 21,149 | (43,422) | 214,457 | 119,478 | 46,000 | 444,183 |

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

The following figures are 2019 comparatives

(a) Member numbers

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

(b) Superannuation position for AASB 119 Employee Benefits

| | SASS \$'000 | SANCS \$'000 | SSS \$'000 | PSS \$'000 | JPS \$'000 | PCSS \$'000 | Total 2018-19 \$'000 |
|--|----------------|-----------------|---------------|---------------|---------------|----------------|----------------------------|
| Accrued liability ¹ | 14,982,374 | 2,417,707 | 65,186,027 | 20,187,385 | 1,443,247 | 979,600 | 105,196,340 |
| Fair value of the reserve account | (9,906,493) | (1,663,344) | (21,014,846) | (5,113,050) | - | (336,400) | (38,034,133) |
| Deficit/(surplus) | 5,075,881 | 754,363 | 44,171,181 | 15,074,335 | 1,443,247 | 643,200 | 67,162,207 |
| Future service liability ² | 879,159 | 394,299 | 173,951 | (18,509) | - | - | 1,428,900 |
| Net liability to be disclosed in the Statement of Financial Position | 5,075,881 | 754,363 | 44,171,181 | 15,074,335 | 1,443,247 | 643,200 | 67,162,207 |
| Current | | | | | | | 1,729,271 |
| Non-current | | | | | | | 65,432,936 |
| | | | | | | | <u>67,162,207</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 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 2020**

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

2019 comparatives (continued)

(c) Reconciliation of the net defined benefit obligation

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

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

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

(e) Reconciliation of the defined benefit obligation

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

2019 comparatives (continued)

(f) Reconciliation of the effect of the asset ceiling

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

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

(g) Fair value of Fund assets

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

| Asset category ¹ | Level 1 | Level 2 | Level 3 | Total | % of total |
|------------------------------|-------------------|-------------------|------------------|-------------------|---------------|
| | \$'000 | \$'000 | \$'000 | 2018-19 \$'000 | |
| Short Term Securities | 2,135,561 | 1,906,555 | - | 4,042,116 | 9.6% |
| Australian Fixed Interest | 4,993 | 2,289,679 | - | 2,294,672 | 5.4% |
| International Fixed Interest | 6,827 | 1,952,396 | 8,871 | 1,968,094 | 4.7% |
| Australian Equities | 7,818,302 | 547,571 | 3,055 | 8,368,928 | 19.8% |
| International Equities | 8,795,299 | 2,592,132 | 8 | 11,387,439 | 27.0% |
| Property | 698,607 | 717,079 | 2,172,544 | 3,588,230 | 8.5% |
| Alternatives | 327,328 | 5,758,094 | 4,472,758 | 10,558,180 | 25.0% |
| Total | 19,786,917 | 15,763,506 | 6,657,236 | 42,207,659 | 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 2020

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

2019 comparatives (continued)

The fair value of the Pooled Fund assets as at 30 June 2019 included \$99.5 million in NSW Government bonds.

Of the direct properties owned by the Pooled Fund:

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

(h) Significant actuarial assumptions at the reporting date

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

(i) Sensitivity analysis

The total defined benefit obligation as at 30 June 2019 under several scenarios is presented below. Except for JPS, the total defined benefit obligation disclosed is inclusive of the contribution tax provision which is calculated based on the asset level at 30 June, 2019.

Pooled Fund

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

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

2019 comparatives (continued)

| | Base Case | Scenario E +0.5% salary increase rate | Scenario F -0.5% salary increase rate |
|--|-------------|---|---|
| Discount rate | as above | as above | as above |
| Rate of CPI increase | as above | as above | as above |
| Salary inflation rate | as above | as above plus 0.5%pa | as above rates less 0.5% pa |
| Defined benefit obligation (\$'000) | 102,773,494 | 103,063,041 | 102,304,236 |

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

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

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

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

Parliamentary Contributory Superannuation and Judges Pension Schemes

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

| | PCSS | | | JPS | | |
|--|-----------|---|---|-----------|---|---|
| | Base Case | Scenario A -1.0% discount rate | Scenario B +1.0% discount rate | Base Case | Scenario A -1.0% discount rate | Scenario B +1.0% discount rate |
| Discount rate | 1.32% | 0.32% | 2.32% | 1.32% | 0.32% | 2.32% |
| Rate of CPI increase | N/A | N/A | N/A | N/A | N/A | N/A |
| Salary inflation rate | as above | as above | as above | as above | as above | as above |
| Defined benefit obligation (\$'000) | 979,600 | 1,182,000 | 824,000 | 1,443,247 | 1,646,494 | 1,266,887 |
| | PCSS | | | JPS | | |
| | Base Case | Scenario C +0.5% salary increase rate | Scenario D -0.5% salary increase rate | Base Case | Scenario C +0.5% salary increase rate | Scenario D -0.5% salary increase rate |
| Discount rate | as above | as above | as above | as above | as above | as above |
| Rate of CPI increase | N/A | N/A | N/A | N/A | N/A | N/A |
| Salary inflation rate | as above | as above rates plus 0.5% pa | as above rates less 0.5% pa | as above | as above rates plus 0.5% pa | as above rates less 0.5% pa |
| Defined benefit obligation (\$'000) | 979,600 | 1,071,000 | 898,000 | 1,443,247 | 1,561,786 | 1,336,717 |
| | PCSS | | | JPS | | |
| | Base Case | Scenario E -10% pensioner mortality rates | Scenario F +10% pensioner mortality rates | Base Case | Scenario E -10% pensioner mortality rates | Scenario F +10% pensioner mortality rates |
| Defined benefit obligation (\$'000) | 979,600 | 1,013,200 | 946,000 | 1,443,247 | 1,514,900 | 1,384,410 |

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 2020

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

2019 comparatives (continued)

The following is the sensitivity of the total defined benefit obligation to the economic assumptions in accordance with AASB 1056 *Superannuation Entities*.

| Pool Fund | Base Case | -0.5% discount rate | +0.5% discount rate |
|--------------------------|------------|---------------------|---------------------|
| Discount rate | 7.4%/6.4% | 6.9%/5.9% | 7.9%/6.9% |
| Rate of CPI increase | 2.2% pa | as base case | as base case |
| Salary inflation rate | 3.2% pa | as base case | as base case |
| Accrued benefits(\$'000) | 50,115,380 | 52,057,399 | 48,320,452 |

| PCSF | Base Case | -0.5% discount rate | +0.5% discount rate |
|--------------------------|-----------|---------------------|---------------------|
| Discount rate | 6.70% | 6.20% | 7.20% |
| Rate of CPI increase | N/A | N/A | N/A |
| Salary inflation rate | as above | as above | as above |
| Accrued benefits(\$'000) | 426,300 | 450,300 | 404,300 |

| JPS | Base Case | -0.5% discount rate | +0.5% discount rate |
|--------------------------|-----------|---------------------|---------------------|
| Discount rate | 6.70% | 6.20% | 7.20% |
| Rate of CPI increase | N/A | N/A | N/A |
| Salary inflation rate | as above | as above | as above |
| Accrued benefits(\$'000) | 754,562 | 803,958 | 708,410 |

(j) Asset-Liability matching strategies

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

(k) Funding arrangements

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

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

Funding positions for the Pooled Funds and PCSS are reviewed annually and funding arrangements may be adjusted as required after each annual review.

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

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

2019 comparatives (continued)

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

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 |

(m) Economic assumptions

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

(n) Expected contributions

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

The weighted average duration is:

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

2019 comparatives (continued)

(o) Profit or loss impact

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

(p) Other comprehensive income

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

14. 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.

| | 2020 \$'000 | 2019 \$'000 |
|---|-------------------|-------------------|
| Current | 10,034,688 | 9,455,992 |
| Non-current | 864,055 | 813,397 |
| Total employee benefits and other provisions | 10,898,743 | 10,269,389 |

a) Long service leave

LSL is measured at the present value of future payments anticipated for the employee services as at the reporting date. An independent actuary calculates this using:

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

At the reporting date, estimated future cash outflows are discounted using the ten-year Commonwealth government bond rate as at 30 June.

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

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

All other liabilities are classified as non-current.

b) Consequential on-costs

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

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

14. EMPLOYEE BENEFITS AND OTHER PROVISIONS (continued)

| | 2020 \$'000 | 2019 \$'000 |
|--|-------------------|-------------------|
| c) Long service leave | | |
| Current | | |
| General Government Sector agencies assumed by the Crown, excluding NSW Health | 6,352,947 | 6,000,989 |
| NSW Health | 3,540,750 | 3,313,566 |
| Crown long service leave pool | 42,933 | 39,508 |
| | 9,936,630 | 9,354,063 |
| Non-current | | |
| General Government Sector agencies assumed by the Crown, excluding NSW Health | 552,431 | 521,825 |
| NSW Health | 307,891 | 288,136 |
| Crown long service leave pool | 3,733 | 3,435 |
| | 864,055 | 813,396 |
| d) Other leave benefits | | |
| Current | | |
| Other leave benefits | 98,058 | 101,930 |
| | 98,058 | 101,930 |
| Total employee benefits and other provisions | 10,898,743 | 10,269,389 |

The expected payment within the next twelve months for General Government Sector agencies' long service leave is \$561 million (2019: \$543 million), for NSW Health is \$301 million (2019: \$295 million) and for the Crown long service leave pool is \$4.0 million (2019: \$4.2 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 2019 | 6,522,814 | 3,601,702 | 42,944 | 101,929 | 10,269,389 |
| Add: increase/(decrease) in liability during the year | 786,364 | 432,739 | 7,222 | (3,851) | 1,222,474 |
| Add: interest costs | 87,200 | 48,800 | 600 | | 136,600 |
| Add/(less): transfer in from other NSW government agency | (3,200) | - | - | - | (3,200) |
| Less: cash payments | (487,800) | (234,600) | (4,100) | (20) | (726,520) |
| Balance as at 30 June 2020 | 6,905,378 | 3,848,641 | 46,666 | 98,058 | 10,898,743 |
| Balance as at 1 July 2018 | 5,420,402 | 3,030,605 | 38,300 | 91,615 | 8,580,922 |
| Add: increase in liability during the year | 1,422,812 | 728,297 | 7,244 | 10,314 | 2,168,667 |
| Add: interest costs | 144,700 | 81,900 | 1,000 | - | 227,600 |
| Add/(less): transfer in from other NSW government agency | 49,400 | - | - | - | 49,400 |
| Less: cash payments | (514,500) | (239,100) | (3,600) | - | (757,200) |
| Balance as at 30 June 2019 | 6,522,814 | 3,601,702 | 42,944 | 101,929 | 10,269,389 |

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

15. 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.

| | 2020 \$'000 | 2019 \$'000 |
|---|------------------|------------------|
| Current | 199,571 | 249,368 |
| Non-current | 1,829,978 | 1,944,929 |
| Total provisions | 2,029,549 | 2,194,297 |
| | | |
| Balance as at 1 July | 2,194,297 | 1,874,024 |
| Less: payments | (98,264) | (100,492) |
| Add/(less): Increase/(decrease) in provisions during the year | (81,033) | 9,019 |
| Actuarial (gains)/losses | (12,666) | 365,064 |
| Interest costs | 27,215 | 46,682 |
| Balance as at 30 June | 2,029,549 | 2,194,297 |

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 2020

15. PROVISIONS (continued)

As part of the 2014-15 sale of Delta Electricity's western assets to EnergyAustralia, the State agreed to bear part of EnergyAustralia's cost of decommissioning, demolishing and rehabilitating (DDR) Wallerawang power station. In September 2020, the State entered into a new DDR arrangement under which all obligations with EnergyAustralia are settled and remaining DDR activity will be undertaken by the State and by a new counterparty. The provision continues to reflect the State's best estimate of its obligations.

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

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 2020, the amount of funds held by the NSW Policy Holder Protection Fund was in excess of the outstanding claims liabilities. Pursuant to the *Insurance Protection Tax Act 2001*, these excess amounts must be refunded to the insurers.

f) *Commonwealth Redress Scheme*

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

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

16. 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 2020, the net market value of fund assets was estimated to be \$3.8 million less (2019: \$6.7 million less) than the estimated value of liabilities (accrued benefits under AASB 1056).

The unfunded liability is different from both the actual fund shortfall and the investment return shortfall.

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

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

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

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

Defined superannuation benefit guarantee

The State bears the risk of the employer's superannuation guarantee contributions being insufficient to fund the defined employee benefits (in respect of past and future service liabilities) for certain ex-public sector employees following State's decision to sell the businesses. These businesses include Delta West, Earing 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 2020

16. 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: Operations, Trains & Systems
- Regional Rail

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 2020

16. CONTINGENT LIABILITIES (continued)

NSW Energy Industry Reform

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

The SOCs covered in this indemnity are:

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

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

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

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

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

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

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

Sale of Delta Electricity's Western Assets

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

Sale of Colongra Power Station

- *Pre-completion contamination liability* - the State retains the liability for remediating pre-existing contamination at Colongra power station site to minimum legal standards. The State has also indemnified Snowy Hydro in relation to the cost to remediate land at the Colongra site if contamination occurs post-completion as a result of the adjacent Munmorah power station site (currently owned by Generator Property Management Pty Ltd).

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

16. CONTINGENT LIABILITIES (continued)

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

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

Sale of Macquarie Generation

- *Pre-completion contamination liability* - the State retains the liability for remediating pre-existing contamination at Bayswater and Liddell power station sites to minimum legal standards. The State's obligations end (in respect of each station) 18 months after decommissioning, demolition and remediation of each power station site. Both stations are still operating at the reporting date.
- *Defined benefit superannuation guarantee* – The State has provided a guarantee to the SAS Trustee Corporation to make good any reserve shortfall in relation to the transferring defined benefits employees if the private sector employer becomes insolvent.
- *Barnard river scheme native title indemnity* – The State has indemnified AGL for costs related to any native title claims affecting a parcel of Crown land related to the Barnard River Scheme.

Sale of Vales Point power station

- *Defined benefit superannuation guarantee* - The State has provided a guarantee to the SAS Trustee Corporation to make good any reserve shortfall in relation to the transferring defined benefits employees if the private sector employer becomes insolvent.
- *Pre-completion contamination liability* - the State retains the liability for remediating pre-existing contamination at Vales Point power station to minimum legal standards. The State will also retain the costs for remediating ash dam contamination (migration of contamination in water from ash dams) and legacy contamination (contamination associated with identified asbestos landfill sites) to the minimum legal standards.
- *Vales Point Hand Back Deed* - where an option is exercised under the Hand Back Deed, the State will be responsible for the demolition and remediation of Vales Point and the Site Land.

Sale of Eraring Energy

- *Pre-completion contamination liability* - the State retains the liability for remediating pre-existing contamination at Eraring and Shoalhaven power station sites to minimum legal standards. The State's obligations end (in respect of each station) three 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.

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

16. CONTINGENT LIABILITIES (continued)

Partial sale of Westconnex

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

NSW Treasury Corporation (TCorp)

Guarantees issued by TCorp

The State Government guaranteed the securities, borrowings and derivative liabilities issued by TCorp with a market value of \$99.3 billion (2019: \$74.1 billion) under the Government Sector Finance Act 2018.

The State Government has also guaranteed TCorp's loan facility to NSW Local councils in connection with the "Fit For The Future" reform program. As at 30 June 2020 these loans were valued at \$842.6 million (2019: \$644.8 million).

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 \$65.4 million (2019: \$74.7 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 one year. There is an interest rate exposure on a principal of \$46 million as at 30 June 2020 (2019: \$106 million).

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

The Crown Entity has a capital commitment with respect to Equity Commitment Deeds signed by the Treasurer, under which the State will make available cash to RR IPL when Capital Call Notices are issued by the WCX Group to RR IPL. As at the reporting date, the uncalled amount is \$655 million (2019: \$746 million).

17. 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 \$4.1 million (2019: \$7.0 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 (2019: nil).

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

18. 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 three months or less.

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

Of the cash and cash equivalents, \$1,750 million is restricted cash assets (2019: \$1,274 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 19 and 20 details these transactions.

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

(a) Reconciliation of cash and cash equivalents

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

| | 2020 \$'000 | 2019 \$'000 |
|--|---------------------------|---------------------------|
| Cash at bank | 2,167,064 | 1,723,849 |
| Bank overdraft ¹ | <u>(10,049,405)</u> | <u>(10,831,499)</u> |
| Net cash and cash equivalents per Statement of Cash Flows | <u>(7,882,341)</u> | <u>(9,107,650)</u> |

¹ The Consolidated Fund's net debit balance is comprised of cash holdings as well as overdraft facilities held with the State's multi-bank service providers.

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

| | | |
|---|----------------------------|----------------------------|
| Net cash flows from operating activities | (22,775,459) | (9,804,856) |
| Non cash items added back | | |
| Equity adjustments- initial application of accounting standards | (1,036,295) | - |
| Non cash finance costs | (222,781) | (307,270) |
| Administrative restructure - transfer in | - | 16,961 |
| | <u>(1,259,076)</u> | <u>(290,309)</u> |
| Change in operating assets and liabilities | | |
| Movement in working capital | 3,284,878 | (121,458) |
| Increase/(decrease) in other liabilities | 110,290 | (1,997,340) |
| Decrease/(increase) in other assets | (1,163,137) | 1,082,521 |
| | <u>2,232,031</u> | <u>(1,036,277)</u> |
| Movement for the year | <u>972,955</u> | <u>(1,326,586)</u> |
| Deficit for the year | <u>(21,802,504)</u> | <u>(11,131,442)</u> |

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

19. 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 | State Rail Authority | Land Acquisition Fund - compensation | Funeral Fees |
|--------------------------|----------------------|--|--------------|
| | wind-up \$'000 | deposits \$'000 | \$'000 |
| Balance 1.7.2019 | 13 | 143 | 112 |
| Add: receipts | - | - | - |
| Less: payments | - | - | - |
| Balance 30.6.2020 | 13 | 143 | 112 |
| Balance 1.7.2018 | 13 | 143 | 112 |
| Add: receipts | - | - | - |
| Less: payments | - | - | - |
| Balance 30.6.2019 | 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 2020

20. SPECIAL DEPOSIT ACCOUNTS

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

NSW Policyholders Protection Fund

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

Crown long service leave pool

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

Structured finance activities

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

Confiscated proceeds account

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

Restart NSW

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

Electricity Networks Residual Liabilities Fund

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

Social and Affordable Housing NSW Fund

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

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

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

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

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

Snowy Hydro Legacy Fund (SHLF)

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

20. SPECIAL DEPOSIT ACCOUNTS (continued)

NSW Generations Funds (NGFs)

NSW Generations (Debt Retirement) Fund

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

NSW Generations (Community Services and Facilities) Fund

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

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

| Accounts | NSW Policyholders Protection Fund \$'000 | Crown Long Service Leave Pool \$'000 | Structured Finance Activities \$'000 | Confiscated Proceeds Account \$'000 | Restart NSW \$'000 |
|--------------------------|--|--|--|---|-----------------------|
| Balance 1.7.2019 | 104,345 | 16,325 | 595 | 81,706 | 707,270 |
| Plus receipts | - | 8,168 | 4 | 39,699 | 4,835,031 |
| Less payments | - | (4,071) | - | (27,994) | (4,338,596) |
| Balance 30.6.2020 | 104,345 | 20,422 | 599 | 93,411 | 1,203,705 |
| Balance 1.7.2018 | 104,345 | 11,199 | 556 | 127,203 | 1,607,394 |
| Plus receipts | - | 8,775 | 40 | 35,427 | 4,745,928 |
| Less payments | - | (3,649) | (1) | (80,924) | (5,646,052) |
| Balance 30.6.2019 | 104,345 | 16,325 | 595 | 81,706 | 707,270 |

| Accounts | Social and | | Snowy Hydro Legacy | | |
|--------------------------|---|-------------------------------------|-----------------------|------------------------|----------------|
| | Electricity Network Residual Liabilities \$'000 | Affordable Housing NSW \$'000 | ERIC-A Fund \$'000 | ERIC -E Fund \$'000 | Fund \$'000 |
| Balance 1.7.2019 | 196,450 | 100,172 | 756 | 702 | 30,858 |
| Plus receipts | 1,329 | 178,553 | 704 | 91,344 | 42,224 |
| Less payments | - | (268,787) | (876) | (91,336) | (9,764) |
| Balance 30.6.2020 | 197,779 | 9,938 | 584 | 710 | 63,318 |
| Balance 1.7.2018 | 193,565 | 132,612 | 668 | 955 | - |
| Plus receipts | 3,628 | 2,878 | 145,834 | 38,505 | 40,000 |
| Less payments | (743) | (35,318) | (145,746) | (38,758) | (9,142) |
| Balance 30.6.2019 | 196,450 | 100,172 | 756 | 702 | 30,858 |

| Accounts | NSW Generations | |
|--------------------------|--|--|
| | NSW Generations (Debt Retirement) Fund \$'000 | (Community Services and Facilities) Fund \$'000 |
| Balance 1.7.2019 | 6,755 | 27,745 |
| Plus receipts | 414,517 | 27,896 |
| Less payments | (403,830) | (18,088) |
| Balance 30.6.2020 | 17,442 | 37,553 |
| Balance 1.7.2018 | - | - |
| Plus receipts | 9,988,075 | 28,123 |
| Less payments | (9,981,320) | (378) |
| Balance 30.6.2019 | 6,755 | 27,745 |

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

21. OTHER LIABILITIES

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Current: | | |
| Confiscated proceeds | 93,411 | 81,706 |
| Trust accounts | 267 | 267 |
| Deferred income ^(a) | - | 149,627 |
| Financial guarantees ^(c) | 200 | 305 |
| Obligation related to Commonwealth grants ^(b) | 278,396 | - |
| Other | 41,344 | 48,427 |
| | 413,618 | 280,332 |
| Non-current: | | |
| Deferred income ^(a) | - | 553,166 |
| Financial guarantees ^(c) | 500 | 700 |
| Obligation related to Commonwealth grants ^(b) | 16,300 | - |
| | 16,800 | 553,866 |
| Total other liabilities | 430,418 | 834,198 |

(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. In 2019-20, some deferred licence fees liabilities were recognised as revenue and some were reclassified as Contract Liabilities (note 9) in accordance with AASB 15.

Movements in deferred income

| | | |
|---|-----------|----------------|
| Balance at beginning of the year | 702,793 | 814,161 |
| Add: licence fees deferred | - | 126,625 |
| Less: amortisation | - | (142,993) |
| Less: income recognition | - | (95,000) |
| Less: income recognition through adjustments to Equity on 1 July 2019 | (406,245) | - |
| Less: transfer to contract liabilities | (296,548) | - |
| Balance at the end of the year | - | 702,793 |

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

21. OTHER LIABILITIES (continued)

(b) Obligation related to Commonwealth grants

Obligation related to Commonwealth grants represent the Commonwealth capital funding with the obligation to acquire or construct sufficiently specific non-financial assets. The obligation primarily relates to construction or upgrade of transport and road infrastructure assets. The Crown Entity satisfies the obligation to acquire or construct the non-financial assets over time as the non-financial assets are being constructed.

Movements in obligation to related Commonwealth grants

| | 2020 \$'000 |
|--|----------------|
| Opening balance arising from obligation related to Commonwealth grants arising from transfers to acquire/construct non-financial assets recognised upon initial application of AASB 1058 | 943,823 |
| Add: receipt of cash in 2019-20 | 1,196,086 |
| Deduct: income recognised in 2019-20 | (1,845,213) |
| Closing balance of liabilities arising from obligation related to Commonwealth grants at the end of the year | 294,696 |

(c) Financial guarantees

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value, being the premium received. Subsequent to initial recognition, the Crown's Entity's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation, and an expected credit loss provision.

Movements in financial guarantees

| | 2020 \$'000 | 2019 \$'000 |
|---------------------------------------|----------------|----------------|
| Balance at the beginning of the year | 1,005 | 3,000 |
| Less: amortisation | (305) | (1,995) |
| Balance at the end of the year | 700 | 1,005 |
| Current | 200 | 305 |
| Non-current | 500 | 700 |
| | 700 | 1,005 |

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

21. 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 \$0.7 million (2019: \$1.0 million).

The likelihood of these guarantees being called upon is very low due to the arrangements in place as part of the leases to ensure the payments are made. TCorp regularly monitors risk exposure on behalf of the Crown.

(ii) Public private partnerships

The Crown has provided a number of guarantees to public private partnerships projects. These guarantees which includes payment guarantees, give lenders a similar assurance as if they were lending to a Crown agency.

The current outstanding guarantees relate to:

- Eastern Creek Alternative Waste Treatment Plant
- Mater Hospital
- Long Bay Prison and Forensic Hospital
- Suburban Rolling Stock
- Orange Hospital Redevelopment
- Royal North Shore Hospital Redevelopment
- Macarthur Water Filtration Plant
- Regional Rail
- Sydney Metro City & Southwest: Operations Trains & Systems
- 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

(iii) TCorp Local Council Lending Facility Guarantee

The State Government has provided a deed of indemnity which allows TCorp to recover from the Crown for any local government defaults in connection with the "Fit For The Future" reform program.

The guarantees have been valued at Nil (2019: 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 2020**

22. CONSOLIDATED FUND TRANSACTIONS

| | 2020 | 2019 |
|---|----------------------------|----------------------------|
| | \$'000 | \$'000 |
| Cash flows from operating activities | | |
| Receipts | | |
| Retained taxes, fees and fines | 30,060,108 | 32,228,256 |
| Commonwealth grants | 24,732,237 | 24,141,044 |
| Financial distributions | 1,154,170 | 2,046,412 |
| Other | 2,034,141 | 2,696,121 |
| Total receipts | <u>57,980,655</u> | <u>61,111,833</u> |
| Payments | | |
| Appropriations paid to other agencies | (70,634,960) | (61,941,459) |
| Appropriations paid to Crown Finance Entity | (10,596,142) | (18,959,743) |
| Total payments | <u>(81,231,102)</u> | <u>(80,901,202)</u> |
| Net cash flows used in operating activities | (23,250,446) | (19,789,369) |
| Other cash flows | | |
| Borrowing transferred | 23,656,631 | 6,303,326 |
| Interest receipts transferred | 116,809 | 317,552 |
| Advance repayments transferred | 104,392 | 102,812 |
| Other | 123,624 | 9,007,211 |
| | <u>24,001,456</u> | <u>15,730,901</u> |
| Net increase/(decrease) in cash and cash equivalents | 751,010 | (4,058,468) |
| Opening cash and cash equivalents | (10,679,191) | (6,952,076) |
| Return of capital | - | 331,353 |
| Closing cash and cash equivalents | <u>(9,928,181)</u> | <u>(10,679,191)</u> |
| Cash and cash equivalents | | |
| Cash in transit | 121,224 | 152,308 |
| Bank overdraft | (10,049,405) | (10,831,499) |
| | <u>(9,928,181)</u> | <u>(10,679,191)</u> |

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

23. 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.

| | 2020 \$'000 | 2019 \$'000 |
|---|--------------------|--------------------|
| Payments | | |
| Non-Government schools - recurrent | (4,704,108) | (4,067,475) |
| Local Government - financial assistance | (567,111) | (554,453) |
| Local Government - roads | (228,428) | (223,263) |
| | (5,499,647) | (4,845,191) |
| Receipts | | |
| Non-Government schools - recurrent | 4,704,108 | 4,067,475 |
| Local Government - financial assistance | 567,111 | 554,453 |
| Local Government - roads | 228,428 | 223,263 |
| | 5,499,647 | 4,845,191 |

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

24. 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:

| | 2019-20 \$'000 |
|--|---------------------|
| Capital injection into Roads Retained Interest Pty Limited | (91,563) |
| Capital injection into RailCorp | (1,918,007) |
| Capital injection into Forestry Corporation of NSW | (46,000) |
| Distributions from Roads Retained Interest Pty Ltd | 117,790 |
| | (1,937,780) |

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

24. EQUITY TRANSFERS (continued)

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

25. RELATED PARTY DISCLOSURES

(a) Ultimate parent

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

(b) Key management personnel remuneration

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

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

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

(c) Transactions with related parties

Terms and conditions of transactions with related parties

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2020

25. RELATED PARTY DISCLOSURES (continued)

Transactions with jointly controlled related entities

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

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

26. EVENTS AFTER THE REPORTING DATE

Defined benefit superannuation

In July 2020 the Treasurer contacted SAS Trustee Corporation (STC) to inform that the COVID-19 pandemic has placed unprecedented pressure on the State's finances over the medium-term. The Government is currently determining how best to respond to the financial impact of COVID-19, including reviewing the timing of contributions required to achieve full funding.

The Crown Entity and its actuary are working with STC and its actuary in order to agree on the timing of the contributions required, and in the meantime, the current rates of contributions commencing 1 July 2020 have been placed in abeyance while the review is being completed.

The NSW Government remains committed to maintaining an ongoing funding plan that will ensure all benefits continue to be paid when they fall due.

NSW Industrial Relations Commission wage decision

On 1st October 2020 the NSW Industrial Relations Commission (IRC) made the determination to award a 0.3% wage increase in FY2020-21 for employees on certain awards. This matter was being considered by the IRC prior to 30 June 2020. The impact of the IRC decision is a decrease of \$214 million in the defined benefit superannuation liability and a decrease of \$136 million in the long service leave liability as at 30 June 2020. The impact has been appropriately reflected in the financial statements and the relevant notes to the financial statements.

End of audited financial statements



Treasury

Appendix 1

Crown Entity – Expenditure on Consultants

Financial Report
for the year ended 30 June 2020

| Consultants costing \$50,000 or more | | | |
|--------------------------------------|---|------------------|---|
| | Project | CALAIS | Formal Project Name |
| Finance & Accounting/Tax | | | |
| KPMG | Finance & Accounting advisory services for Disability & Customer Care Service Transfer | 585,140 | Disability & Customer Care Service Transfer |
| Deloitte | Finance & Accounting advisory services for The Star Casino Duty Renegotiation | 383,470 | The Star Casino Duty Renegotiation |
| KPMG | Finance & Accounting advisory services for Forestry Transaction | 300,000 | Forestry Transaction |
| KPMG | Finance & Accounting advisory services for Crown | 100,000 | Crown Reporting Reform |
| KPMG | Finance & Accounting advisory services for Residual Asset Transactions | 195,314 | Residual Asset Transactions - Sydney Desalination Plant |
| KPMG | Banking Transition | 57,450 | Banking transition |
| | Total | 1,621,374 | |
| Legal Services | | | |
| Baker & McKenzie | Legal Advisory services for Disability & Customer Care Service Transfer | 461,300 | Disability & Customer Care Service Transfer |
| Allens | Legal Advisory services for Wallerawang decommissioning for Residual Asset Transactions | 941,649 | Residual Asset Transactions - Generation Assets |
| Minter Ellison | Legal Advisory services (Ports) for Residual Asset Transactions | 2,064,729 | Residual Asset Transactions - Ports |
| Piper Alderman (S. M Adams & Others) | Star Casino Duty Renegotiation | 273,120 | The Star Casino Duty Renegotiation |
| Minter Ellison | Legal Advisory for Forestry project | 181,198 | Forestry Transaction |
| Baker & McKenzie | Legal Advisory for Supported Disability Accommodation | 181,222 | Supported Disability Accommodation |
| Minter Ellison | Legal Advisory for Crown regarding Newcastle Port issues | 206,980 | |
| Herbert Smith Freehills | Legal Advisory for Banking Transition | 151,642 | Banking transition |
| | Total | 4,461,840 | |

| | Project | CALAIS | Formal Project Name |
|---|---|-------------------|---|
| Management Services | | | |
| Ironstone Capital Advisory Pty Limited | Transaction Advisory services for Disability & Customer Care Service Transfer | 955,000 | Disability & Customer Care Service Transfer |
| Iron Mountain | Management advisory services for Residual Asset Transactions | 83,149 | Data management recovery - DCS |
| AECOM | Management advisory services for Residual Asset Transactions | 125,783 | Residual Asset Transactions - Generation Assets |
| Environmental Resources Management (ERM) | Management Advisory services for Residual Asset Transactions | 59,554 | Residual Asset Transactions - Generation Assets |
| Heathwest | Technical advice for West Connex | 89,100 | WestConnex Stage 3: Transaction Preparation and Execution |
| KPMG | Advisory Services for Transport Assets Holding Entity | 283,890 | Project delivery and fiscal management strategy |
| Ansarada | Management advisory services for Forestry Transaction | 50,625 | Forestry Transaction |
| Margules Groome | Management advisory services for Forestry Transaction | 496,126 | Forestry Transaction |
| Ansarada | Management advisory services | 98,750 | WestConnex-Project |
| Ironstone Capital Advisory Pty Limited | Management advisory services for Supported Disability Accommodation | 562,000 | Supported Disability Accommodation |
| Korn Ferry | Advisory Services for Transport Assets Holding Entity | 50,000 | |
| Elevance Pty Ltd | Advisory services on Banking Transition | 75,900 | Banking and Payment Transformation |
| Blackford Advisory | Advisory services on Banking Transition | 423,000 | Strategic Governance Model |
| Faitro Pty Ltd | Advisory services on Banking Transition | 278,400 | Citi Purchasing Card transition |
| Talenza Pty Ltd | Advisory services on Banking Transition | 59,116 | Banking transition |
| AVB Business Consultant | Advisory services on Banking Transition | 224,350 | Banking transition |
| Dunmore Consulting | Advisory services on Banking Transition | 71,000 | Banking transition |
| | Total | 3,985,744 | |
| | Sub Total | 10,068,958 | |
| Consultants costing less than \$50,000 | | | |
| Management Services | 16 projects totalling | 448,903 | |
| Finance & Accounting/Tax | 4 project totalling | 60,829 | |
| Legal Services | 1 project totalling | 38,123 | |
| | Sub Total | 547,855 | |
| Total Expenditure on Consultants | | 10,616,813 | |

Note: The amount above is exclusive of GST and is accounted on Accrual basis



Treasury

Appendix 2

Restart NSW Fund IAR

Financial Report
for the year ended 30 June 2020



INDEPENDENT AUDITOR'S REPORT

Restart NSW Fund

To Members of the New South Wales Parliament

Opinions

Opinion on the audit of the financial report

I have audited the accompanying special purpose financial report (the financial report) of the Restart NSW Fund (the Fund), which comprises the Statement by the Treasurer, the Statement of the Fund's Activities for the year ended 30 June 2020, the Statement of the Fund's Position as at 30 June 2020 and notes to the financial report. The financial report has been prepared by the Treasurer using the basis of accounting described in Note 2 to the financial report for the purpose of fulfilling the Treasurer's annual reporting obligations under section 9 of the *Restart NSW Fund Act 2011* (the Act).

In my opinion, in all material respects, the financial report presents fairly, the Fund's position as at 30 June 2020 and its activities for the year then ended, in accordance with the basis of accounting described in Note 2 to the financial report.

Opinion on whether payments complied with the Act

I have undertaken an audit to provide reasonable assurance on whether payments from the Fund have, in all material respects, been made in accordance with the Act for the year ended 30 June 2020.

In my opinion, in all material respects, payments from the Fund have been made in accordance with the Act for the year ended 30 June 2020.

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

Basis for Opinions

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

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

The Treasurer's Responsibilities for the Financial Report

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

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

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

Auditor's Responsibilities

Audit of the financial report

My objectives are to:

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

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

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

The scope of my audit does not include, nor provide assurance:

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

Audit of whether payments complied with the Act

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

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

Inherent Limitations

Because of the inherent limitations of any compliance procedure, together with the Fund's internal control structure it is possible that fraud, error or non-compliance with the Act may occur and not be detected.

An audit for the year ended 30 June 2020 does not provide assurance on whether compliance with the Act will continue in the future.

Use of Report

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



Margaret Crawford
Auditor-General for New South Wales

5 November 2020
SYDNEY

Restart NSW Fund
Financial Report
for the year ended 30 June 2020

STATEMENT BY THE TREASURER

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

- (a) The accompanying financial report provides details of the transactions of the Restart NSW Fund for the year ended 30 June 2020; and
- (b) The financial report has been prepared as a special purpose financial report and related notes in accordance with the basis of accounting described in Note 2.

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



The Hon. Dominic Perrottet MP
Treasurer

30 October 2020

Restart NSW Fund

Statement of the Fund's Activities and Position for the year ended 30 June 2020

| | Note | 2020 \$'000 | 2019 \$'000 |
|---|------|---------------------------|---------------------------|
| Receipts | | | |
| Reservation for Sydney Metro West | 3 | - | 2,336,500 |
| Proceeds from issue of bonds by the Crown Finance Entity | 3 | 60,000 | 80,000 |
| Interest earned | 3 | 22,869 | 52,021 |
| Other authorised transfers | 3 | 2,162 | 4,358 |
| Contributions from other Government agencies | 3 | - | 23,049 |
| Total receipts | | <u>85,031</u> | <u>2,495,928</u> |
| Payments | | | |
| Infrastructure projects | 4 | 4,338,587 | 5,646,002 |
| Administrative expenses | 4 | 9 | 50 |
| Total payments | | <u>4,338,596</u> | <u>5,646,052</u> |
| Net receipts/(payments) | | <u>(4,253,565)</u> | <u>(3,150,124)</u> |
| Statement of Fund's Position as at 30 June | | | |
| Opening balance of the Fund | | 18,983,856 | 21,054,454 |
| Net receipts/(payments) | | (4,253,565) | (3,150,124) |
| Income/(loss) from investments | 5 | 318,805 | 1,079,526 |
| Closing balance of the Fund | | <u>15,049,096</u> | <u>18,983,856</u> |
| Balance of Fund held in | | | |
| Cash and cash equivalents | | 1,203,705 | 707,270 |
| Investment in NSW Infrastructure Future Fund investment trust | 5 | 13,845,391 | 18,276,586 |
| | | <u>15,049,096</u> | <u>18,983,856</u> |

The accompanying notes form part of the financial report.

Restart NSW Fund

Notes to the Financial Report for the year ended 30 June 2020

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 of NSW, and for that purpose:

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

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

Section 5 of the Act establishes the Fund as a Special Deposit Account (SDA). Section 4.15 of the *Government Sector Finance Act 2018* defines an SDA to consist of all accounts of money that the Treasurer is, under statutory authority, required to hold otherwise than for or on account of the Consolidated Fund, and all accounts of money that are directed or authorised to be paid to the SDA by or under legislation.

The Treasurer is responsible for the Act and the Fund. The Fund is an SDA of the Crown Entity.

The financial report for the Fund is a Special Purpose Financial Report with the "financial year" being from 1 July to 30 June.

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

Key Activities

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

Funding Sources for Restart NSW Fund

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

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

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

Restart NSW Fund

Notes to the Financial Report for the year ended 30 June 2020

1. INFORMATION ON THE RESTART NSW FUND (continued)

Payments out of the Fund

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

The Fund's financial report is presented in Australian dollars and all amounts are rounded to the nearest one thousand dollars (\$'000).

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 the 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 2020

3. RECEIPTS

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

| | 2020 | 2019 |
|--|---------------|------------------|
| | \$'000 | \$'000 |
| Section 7(1)(a) receipts - appropriation | | |
| Restart NSW Reservation for Sydney Metro West | - | 2,336,500 |
| Section 7(1)(b) receipts - issue of bonds | | |
| Proceeds from Waratah bonds | 60,000 | 80,000 |
| Section 7(1)(c) receipts - interest earned | | |
| Interest earned | 22,869 | 52,021 |
| Section 7(1)(d) receipts - other monies authorised to be paid into the Fund | | |
| Proceeds from sale of land at Enfield Intermodal Logistics Centre | - | 429 |
| GST received | 2,162 | 3,929 |
| | 2,162 | 4,358 |
| Section 7(1)(e) receipts - contributions from other Government agencies | | |
| Contribution from Property NSW - sale proceeds of Government properties | - | 23,049 |
| Total Receipts | 85,031 | 2,495,928 |

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 its cash in the Treasury Banking System. Interest is paid monthly by the Crown Entity and the interest receivable by the Fund and not yet received was nil as at 30 June 2020 (2019: Nil).

Restart NSW Fund

Notes to the Financial Report for the year ended 30 June 2020

4. PAYMENTS

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

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Section 8(a) payments - infrastructure projects | | |
| <i>Restart NSW (excluding Rebuilding NSW)</i> | | |
| Additional support Tourism Infrastructure | 8,611 | 12,743 |
| Batemans Bay Bridge Replacement | 78,281 | 64,609 |
| Bridges for the Bush Program | 21,499 | 8,192 |
| Cobbora Transition Fund | 280 | 2,770 |
| Dubbo Base Hospital Redevelopment | 34,423 | - |
| Fixing Country Roads | 992 | 1,546 |
| Grafton Bridge | 16,765 | 9,376 |
| Housing Acceleration Fund (HAF 4) | 35,119 | 30,589 |
| Housing Acceleration Fund (HAF 5) | 9,058 | 1,794 |
| Hunter Infrastructure and Investment Fund | 7,981 | 4,140 |
| Illawarra Infrastructure Fund | 13,537 | 8,803 |
| Lismore Hospital Redevelopment | 31,806 | - |
| Maitland Hospital Development | 34,000 | - |
| Newcastle Inner Bypass (Rankin Park to Jesmond) | - | 3,167 |
| North-South Metro Rail Link | 32,464 | 15,000 |
| NSW Cycling Infrastructure Initiative | 1,556 | 534 |
| Parramatta Light Rail | (11,999) | 152,042 |
| Port Eden Wharf | 3,000 | - |
| Queanbeyan Ring Road | 3,028 | 2,969 |
| Redevelopment of Circular Quay | 8,662 | 12,500 |
| Regional Freight Pinch Point Program and Safety Program | 28,522 | 39,767 |
| Regional Growth: Economic Activation Fund - Connecting Country Communities | 5,252 | 5,108 |
| Regional Growth: Economic Activation Fund - Doppler Radar Network | 14,688 | - |
| Regional Growth: Economic Activation Fund - First Class Food and Fibre | 2,371 | - |
| Regional Growth: Economic Activation Fund - Growing Local Economy | 35,539 | 6,845 |
| Regional Growth: Economic Activation Fund - Other Significant Infrastructure | - | 12,329 |
| Regional Growth: Economic Activation Fund - Resources for Regions | 12,152 | 2,524 |
| Regional Health Infrastructure Program | 11,462 | 12,084 |
| Regional Tourism Infrastructure Program | 12,673 | 29,799 |
| Resources for Regions Program | 9,204 | 30,426 |
| Royal Flying Doctor Service Multipurpose Facility | 317 | 1,973 |
| South Western Sydney Housing Acceleration Fund (HAF3) | 38,119 | 13,089 |
| Sydney Airport Area Road Upgrades (WestConnex Gateway planning) | - | 30,002 |
| Sydney Metro West | 185,521 | - |
| Water Security for Regions Program | 69,297 | 61,084 |
| Western Sydney Centre of Innovation in Plant Sciences | 5,626 | 941 |
| Western Sydney roads for Sydney's Second Airport | 61,778 | 140,033 |
| | 821,584 | 716,778 |

Restart NSW Fund

Notes to the Financial Report for the year ended 30 June 2020

5. PAYMENTS (continued)

| | 2020 \$'000 | 2019 \$'000 |
|--|------------------|------------------|
| <i>Rebuilding NSW</i> | | |
| Bridges for the Bush Program | 48,405 | 56,504 |
| Bus Priority Infrastructure (including B-Line) | 580 | 84,306 |
| Corridor Identification and Reservation | 8,879 | 10,914 |
| Culture and Arts | 155,387 | 32,482 |
| Fixing Country Rail | 32,464 | 17,562 |
| Fixing Country Roads | 87,712 | 47,775 |
| Future Focused Schools | 147,538 | 204,238 |
| Gateway to the South | 47,378 | 82,818 |
| Hospitals Growth Program | 93,900 | - |
| Parramatta Light Rail | 300,688 | 101,306 |
| Pinch Points and Clearways | 70,234 | 76,923 |
| Primary and Integrated Care Strategy | 21,228 | 13,840 |
| Regional Growth - Environment and Tourism fund | 29,568 | 14,609 |
| Regional Growth Roads | 289,730 | 260,975 |
| Regional Multipurpose Services (MPS) Health Facilities | 67,637 | 58,320 |
| Regional Road Freight Corridor | 284,802 | 285,402 |
| Regional School Renewal Program | 966 | 58,976 |
| Safe & Secure Water Program | 35,204 | 8,869 |
| Smart Motorways | 40,967 | 197,530 |
| Sports Stadia | 3,690 | 147,894 |
| Sydney Metro City and Southwest | 1,220,597 | 1,794,870 |
| Traffic Management Upgrades | 26,097 | 49,741 |
| Western Harbour Tunnel and F6 | 54,945 | 388,586 |
| | 3,068,596 | 3,994,440 |
| <i>Equity contributions</i> | | |
| Equity contribution to Rail Corporation | 448,407 | 934,784 |
| | 448,407 | 934,784 |
| Total Section 8(a) payments | 4,338,587 | 5,646,002 |
| Section 8(b) payments - administrative expenses | | |
| Bank charges | - | 2 |
| Auditor's remuneration | 9 | 10 |
| GST payments | - | 38 |
| | 9 | 50 |
| Total payments | 4,338,596 | 5,646,052 |

Section 9(2) payments – percentage of the total amount of payments for infrastructure projects in rural and regional areas outside the metropolitan areas of Sydney, Newcastle and Wollongong

| | | |
|--|------------|------------|
| Total amount of payments on infrastructure projects since inception of the Fund | 20,336,244 | 15,997,658 |
| Total amount of payments made from the Fund for infrastructure projects in rural and regional areas since inception of the Fund | 4,407,395 | 3,026,185 |
| Cumulative % of total payments from the Fund for infrastructure projects in rural and regional areas since inception of the Fund | 21.67% | 18.92% |

Restart NSW Fund
Notes to the Financial Report
for the year ended 30 June 2020

5. INVESTMENT IN NSW INFRASTRUCTURE FUTURE FUND

| | 2020 \$'000 | 2019 \$'000 |
|--|-------------------|-------------------|
| Opening balance | 18,276,586 | 19,447,060 |
| (Less)/add: Investments - cash transferred (out)/in (to)/from the operating bank account | (4,750,000) | (2,250,000) |
| Add/(Less): Net income/(loss) from investments: | | |
| Distribution reinvested | 849,751 | 682,762 |
| Unrealised (loss)/gain on other financial assets | (599,449) | 336,090 |
| Realised (loss)/gain on other financial assets | 68,503 | 60,674 |
| Closing balance | 13,845,391 | 18,276,586 |

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

Asset allocation and investment instructions of NIFF are governed by the Investment Services Agreement (ISA) signed by the Treasurer and TCorp in December 2016, benchmark and guidelines further revised in June 2019.

Asset allocation

Actual NIFF asset allocation as at the reporting date:

| Asset class | Strategic Asset Allocation (%) | Actual Asset Allocation (%) | Value (\$'000) |
|----------------------|---|--|-----------------------|
| Cash | 55.0 | 54.7 | 7,573,429 |
| Australian Shares | 8.0 | 7.9 | 1,093,786 |
| International Shares | 18.5 | 18.3 | 2,533,707 |
| Emerging Market Debt | 3.0 | 3.1 | 429,207 |
| Alternatives | 4.0 | 3.8 | 526,125 |
| Bank Loans | 3.5 | 4.0 | 553,816 |
| Australian Bonds | 8.0 | 8.2 | 1,135,322 |
| Total | 100.0 | 100.0 | 13,845,391 |

Restart NSW Fund

Notes to the Financial Report for the year ended 30 June 2020

5. INVESTMENT IN NSW INFRASTRUCTURE FUTURE FUND (continued)

Performance returns

NIFF investment return objective is to achieve CPI + 2.0% over the life of the trust. The fund performance against the benchmark is as below:

| | YTD (%) | Since inception (%) |
|--|---------------|---------------------|
| Net return (<i>after fees</i>) | 1.84 | 5.02 |
| Strategic Asset Allocation (SAA) benchmark | 1.90 | 4.81 |
| Net relative to SAA benchmark | (0.06) | 0.21 |

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 \$12.04 million (2019: \$7.07 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 (SAHF) Fund

Financial Report
for the year ended 30 June 2020



INDEPENDENT AUDITOR'S REPORT

Social and Affordable Housing NSW Fund

To Members of the New South Wales Parliament

Opinions

Opinion on the audit of the financial report

I have audited the accompanying special purpose financial report (the financial report) of the Social and Affordable Housing NSW Fund (the Fund), which comprises the Statement by the Treasurer, the Statement of the Fund's Activities for the year ended 30 June 2020, the Statement of the Fund's Position as at 30 June 2020 and notes to the financial report. The financial report has been prepared by the Treasurer using the basis of accounting described in Note 2 to the financial report for the purpose of fulfilling the Treasurer's annual reporting obligations under section 12 of the *Social and Affordable Housing NSW Fund Act 2016* (the Act).

In my opinion, in all material respects, the financial report presents fairly, the Fund's position as at 30 June 2020 and its activities for the year then ended, in accordance with the basis of accounting described in Note 2 to the financial report.

Qualified opinion on whether payments complied with the Act

I have undertaken an audit to provide reasonable assurance on whether payments from the Fund have, in all material respects, been made in accordance with the Act for the year ended 30 June 2020.

In my opinion, except for the matter described in the Basis for Opinions paragraph, payments from the Fund have, in all material respects, been made in accordance with the Act for the year ended 30 June 2020.

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

Basis for Opinions

My opinion on the audit of the financial report is unqualified, but I qualified my opinion on whether payments made from the Fund were in accordance with the Act. Section 6 of the Act requires the Treasurer to control and manage the Fund. The Treasurer can delegate these functions under section 13 of the Act. During 2019–20, one instance was identified where a payment of \$197,155 was made from the Fund under section 8(1) without the Treasurer's delegation under section 13 of the Act. The payment required delegation of that function.

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

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

The Treasurer's Responsibilities for the Financial Report

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

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

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

Auditor's Responsibilities

Audit of the financial report

My objectives are to:

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

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

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

The scope of my audit does not include, nor provide assurance:

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

Audit of whether payments complied with the Act

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

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

Inherent Limitations

Because of the inherent limitations of any compliance procedure, together with the Fund's internal control structure it is possible that fraud, error or non-compliance with the Act may occur and not be detected.

An audit for the year ended 30 June 2020 does not provide assurance on whether compliance with the Act will continue in the future.

Use of Report

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



Margaret Crawford
Auditor-General for New South Wales

5 November 2020
SYDNEY

Social and Affordable Housing NSW Fund

**Financial Report
for the year ended 30 June 2020**

STATEMENT BY THE TREASURER

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

- (a) The accompanying financial report provides details of the transactions of the Social and Affordable Housing NSW Fund for the year ended 30 June 2020; and
- (b) The financial report has been prepared as a special purpose financial report and related notes in accordance with the basis of accounting described in Note 2.

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



**The Hon. Dominic Perrottet MP
Treasurer**

3. October 2020

Social and Affordable Housing NSW Fund

Statement of the Fund's Activities and Position for the year ended 30 June 2020

| | Note | 2020 \$'000 | 2019 \$'000 |
|---|------|-------------------------|-------------------------|
| Receipts | | | |
| Government contribution | 3 | 178,000 | - |
| Interest earned | 3 | 552 | 2,876 |
| GST received | 3 | 1 | 2 |
| Total receipts | | <u>178,553</u> | <u>2,878</u> |
| Payments | | | |
| Grant expenses | 4 | 10,691 | 2,896 |
| Administrative expenses | 4 | 23 | 10 |
| Financial management expenses | 4 | 10,073 | 412 |
| Total payments | | <u>20,787</u> | <u>3,318</u> |
| Net receipts | | <u>157,766</u> | <u>(440)</u> |
| Statement of Fund's Position as at 30 June | | | |
| Opening balance of the Fund | | 1,317,091 | 1,217,059 |
| Net receipts/(payments) | | 157,766 | (440) |
| (Loss)/income from investments | 5 | 19,579 | 100,472 |
| Closing balance of the Fund | | <u>1,494,436</u> | <u>1,317,091</u> |
| Balance of Fund held in | | | |
| Cash and cash equivalents | | 9,938 | 100,172 |
| Investment in Social and Affordable Housing NSW Fund investment trust | 5 | 1,484,498 | 1,216,919 |
| | | <u>1,494,436</u> | <u>1,317,091</u> |

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 2020

1. INFORMATION ON THE SOCIAL AND AFFORDABLE HOUSING NSW FUND

Reporting entity

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

Section 4 of the Act establishes the Fund as a Special Deposit Account (SDA). Section 4.15 of the *Government Sector Finance Act 2018* defines an SDA to consist of:

- a) all accounts of money that the Treasurer is, under statutory authority, required to hold otherwise than for or on account of the Consolidated Fund, and
- b) all accounts of money that are directed or authorised to be paid to the SDA by or under legislation.

The Treasurer is responsible for the funding and investment operations of the Fund and the Department of Communities and Justice (DCJ) is responsible for procurement and commissioning functions of the Fund.

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

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

Key Activities

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

Funding Sources for Social and Affordable Housing NSW Fund

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

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

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

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

Social and Affordable Housing NSW Fund

Notes to the Financial Report for the year ended 30 June 2020

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

Payments out of the Fund

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

The Fund's financial report is presented in Australian dollars and all amounts are rounded to the nearest one thousand dollars (\$000).

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 2020

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 administrated 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.

| | 2020 \$'000 | 2019 \$'000 |
|---------------------------------|----------------|----------------|
| Section 7(1)(a) receipts | | |
| Government contribution | 178,000 | - |
| Section 7(1)(c) receipts | | |
| Interest earned | 552 | 2,876 |
| Section 7(1)(h) receipts | | |
| GST received | 1 | 2 |
| Total Receipts | <u>178,553</u> | <u>2,878</u> |

4. PAYMENTS

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

| | | |
|--|---------------|--------------|
| Section 8(1)(a) payments - grant expenses | | |
| Grants to DCJ for project, program or initiative | 9,385 | 2,896 |
| Grants to DCJ for employee related expenses related to program project or initiative | 1,306 | |
| Section 8(1)(b) payments - administrative expenses | | |
| Auditor's remuneration | 23 | 10 |
| Section 8(1)(e) payments - financial management expenses | | |
| Financial risk management costs | 10,073 | 412 |
| Total payments | <u>20,787</u> | <u>3,318</u> |

Social and Affordable Housing NSW Fund

Notes to the Financial Report for the year ended 30 June 2020

5. INVESTMENT IN SOCIAL AND AFFORDABLE HOUSING NSW FUND

| | 2020 | 2019 |
|--|------------------|------------------|
| | \$'000 | \$'000 |
| Opening balance | 1,216,919 | 1,084,447 |
| Add: Investments - cash transferred in from the operating bank account | 248,060 | 32,000 |
| Add/(Less): Net income/(loss) from investments | | |
| Distribution reinvested | 69,012 | 47,584 |
| Unrealised gain/(loss) on other financial assets | (49,493) | 52,888 |
| Closing balance | 1,484,498 | 1,216,919 |

The Fund is authorised to invest in accordance with Section 9 of the Act. Implemented since 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. The ISA was last reviewed in June 2019.

Asset allocation

Actual SAHF asset allocation as at the reporting date:

| Asset class | Strategic Asset Allocation (%) | Actual Asset Allocation (%) | Value (\$'000) |
|-------------------------|-----------------------------------|--------------------------------|------------------|
| Cash | 10.0 | 10.2 | 151,419 |
| Australian Bonds | 17.0 | 16.4 | 243,458 |
| Inflation Linked Bonds | 5.0 | 5.0 | 74,225 |
| Australian Shares | 12.0 | 12.7 | 188,531 |
| International Shares | 28.0 | 28.4 | 421,597 |
| Emerging Market Shares | 6.0 | 6.2 | 92,039 |
| Alternatives | 3.0 | 2.8 | 41,566 |
| Emerging Market Debt | 4.0 | 4.0 | 59,380 |
| Bank Loans | 5.0 | 5.2 | 77,194 |
| High Yield | 2.0 | 1.9 | 28,205 |
| Unlisted Property | 5.0 | 3.5 | 51,957 |
| Unlisted Infrastructure | 3.0 | 3.7 | 54,926 |
| Total | 100.0 | 100.0 | 1,484,498 |

Social and Affordable Housing NSW Fund

Notes to the Financial Report for the year ended 30 June 2020

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

Performance returns

SAHF investment return objective is to achieve CPI + 2.75% over rolling 10-year periods. The fund performance against the benchmark is as below:

| | YTD (%) | Since inception (%) |
|--|---------------|---------------------|
| Net return (<i>after fees</i>) | 1.85 | 6.88 |
| Strategic Asset Allocation (SAA) benchmark | 2.32 | 7.28 |
| Net relative to SAA benchmark | (0.47) | (0.40) |

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 2020, 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 \$0.099 million (2019: \$1.00 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 2020



INDEPENDENT AUDITOR'S REPORT

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

To Members of the New South Wales Parliament

Opinions

Opinion on the audit of the financial report

I have audited the accompanying special purpose financial report (the financial report) of the Electricity Retained Interest Corporation – Ausgrid (ERIC-A) Fund (the Fund), which comprises the Statement by the Treasurer, the Statement of the Fund's Activities for the year ended 30 June 2020, the Statement of the Fund's Position as at 30 June 2020 and notes to the financial report. The financial report has been prepared by the Treasurer using the basis of accounting described in Note 2 to the financial report for the purpose of fulfilling the Treasurer's annual reporting obligations under section 35 of the *Electricity Retained Interest Corporations Act 2015* (the Act).

In my opinion, in all material respects, the financial report presents fairly, the Fund's position as at 30 June 2020 and its activities for the year then ended, in accordance with the basis of accounting described in Note 2 to the financial report.

Opinion on whether payments complied with the Act

I have undertaken an audit to provide reasonable assurance on whether payments from the Fund have, in all material respects, been made in accordance with the Act for the year ended 30 June 2020.

In my opinion, in all material respects, payments from the Fund have been made in accordance with the Act for the year ended 30 June 2020.

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

Basis for Opinions

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

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

The Treasurer's Responsibilities for the Financial Report

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

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

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

Auditor's Responsibilities

Audit of the financial report

My objectives are to:

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

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

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

The scope of my audit does not include, nor provide assurance:

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

Audit of whether payments complied with the Act

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

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

Inherent Limitations

Because of the inherent limitations of any compliance procedure, together with the Fund's internal control structure it is possible that fraud, error or non-compliance with the Act may occur and not be detected.

An audit for the year ended 30 June 2020 does not provide assurance on whether compliance with the Act will continue in the future.

Use of Report

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



Margaret Crawford
Auditor-General for New South Wales

5 November 2020
SYDNEY

ERIC–A Fund
Financial Report
for the year ended 30 June 2020

STATEMENT BY THE TREASURER

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

- (a) The accompanying financial report provides details of the transactions of the Electricity Retained Interest Corporation – Ausgrid Fund for the year ended 30 June 2020; and
- (b) The financial report has been prepared as a special purpose financial report and related notes in accordance with the basis of accounting described in Note 2.

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



The Hon. Dominic Perrottet MP
Treasurer

30 October 2020

ERIC–A Fund

Statement of the Fund's Activities and Position for the year ended 30 June 2020

| | Note | 2020 \$'000 | 2019 \$'000 |
|--|------|----------------|----------------|
| Receipts | | | |
| Financial returns | 3 | - | 145,678 |
| Interest earned | 3 | 4 | 156 |
| Money appropriated by Parliament into the Fund | 3 | 700 | - |
| Total receipts | | 704 | 145,834 |
| Payments | | | |
| Funds transferred to NSW Consolidated Fund | 4 | - | 144,654 |
| Costs of operation of the Corporation | 4 | 765 | 1,035 |
| Administrative expenses of the Corporation | 4 | 111 | 57 |
| Total payments | | 876 | 145,746 |
| Net receipts/(payments) | | (172) | 88 |
| The Fund's position as at 30 June | | | |
| Opening balance of the Fund - Cash | | 756 | 668 |
| Net receipts/(payments) | | (172) | 88 |
| Closing balance of the Fund | | 584 | 756 |

The accompanying notes form part of the financial report.

ERIC–A Fund
Notes to the Financial Report
for the year ended 30 June 2020

1. INFORMATION ON THE ERIC-A FUND

Reporting entity

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

Section 4.15 of the *Government Sector Finance Act 2018* defines an SDA to consist of:

- a) all accounts of money that the Treasurer is, under statutory authority, required to hold otherwise than for or on account of the Consolidated Fund, and
- b) all accounts of money that are directed or authorised to be paid to the SDA by or under legislation.

The Fund is controlled by the State and Section 32(2) of the Act gives the Electricity Retained Interest Corporation - Ausgrid (the Corporation) responsibility for the administration of the Fund on behalf of the State.

The Corporation oversees the State of New South Wales' (the State) retained interest as a lessee of network infrastructure assets of Ausgrid for the purpose of protecting its value to the State.

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

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

Key Activities

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

Payments into the Fund

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

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

ERIC-A Fund
Notes to the Financial Report
for the year ended 30 June 2020

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 section 5.3 (Payment of tax-equivalents to Treasurer) of the *Government Sector Finance Act 2018*, and
- c) such amounts as the Treasurer authorises for expenditure by the Corporation or a subsidiary of the Corporation in the exercise of the functions of the Corporation, and
- d) such amounts as the Treasurer directs for payment of the costs of operation of the Corporation and any subsidiary of the Corporation, including remuneration, allowances, accommodation and other associated costs of the Board, General Manager and staff of the Corporation or a subsidiary of the Corporation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

The Fund's financial report is presented in Australian dollars and all amounts are rounded to the nearest one thousand dollars (\$000).

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 2020

3. RECEIPTS

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

| | 2020 | 2019 |
|--|-------------------|-----------------------|
| | \$'000 | \$'000 |
| Section 33 (a) receipts - financial returns | | |
| Distributions from network partnership arrangement | - | 145,678 |
| Section 33 (b) receipts - interest earned | 4 | 156 |
| Section 33 (d) receipts | | |
| Money appropriated by Parliament into the Fund | 700 | - |
| Total receipts | <u>704</u> | <u>145,834</u> |

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 | - | 144,654 |
| Section 34 (c) payments - administrative expenses of the Corporation | | |
| Professional service fees | 111 | 57 |
| Total administrative expenses | <u>111</u> | <u>57</u> |
| Section 34 (d) payments - costs of operation of the Corporation | | |
| ASIC fees | 4 | 4 |
| Auditor's remuneration | 78 | 90 |
| External recruitment fees | 22 | - |
| Travel & Treasury admin cost | 277 | 525 |
| Committee fees | 17 | 18 |
| Salaries & wages | 225 | 225 |
| Superannuation | 30 | 30 |
| PAYG | 94 | 94 |
| Miscellaneous expense | 18 | 49 |
| Total costs of operation | <u>765</u> | <u>1,035</u> |
| Total payments | <u>876</u> | <u>145,746</u> |

ERIC–A Fund
Notes to the Financial Report
for the year ended 30 June 2020

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 2020, 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 \$5,827 (2019: \$7,554).

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 2020



INDEPENDENT AUDITOR'S REPORT

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

To Members of the New South Wales Parliament

Opinions

Opinion on the audit of the financial report

I have audited the accompanying special purpose financial report (the financial report) of the Electricity Retained Interest Corporation – Endeavour (ERIC-E) Fund (the Fund), which comprises the Statement by the Treasurer, the Statement of the Fund's Activities for the year ended 30 June 2020, the Statement of the Fund's Position as at 30 June 2020 and notes to the financial report. The financial report has been prepared by the Treasurer using the basis of accounting described in Note 2 to the financial report for the purpose of fulfilling the Treasurer's annual reporting obligations under section 35 of the *Electricity Retained Interest Corporations Act 2015* (the Act).

In my opinion, in all material respects, the financial report presents fairly, the Fund's position as at 30 June 2020 and its activities for the year then ended, in accordance with the basis of accounting described in Note 2 to the financial report.

Opinion on whether payments complied with the Act

I have undertaken an audit to provide reasonable assurance on whether payments from the Fund have, in all material respects, been made in accordance with the Act for the year ended 30 June 2020.

In my opinion, in all material respects, payments from the Fund have been made in accordance with the Act for the year ended 30 June 2020.

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

Basis for Opinions

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

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

The Treasurer's Responsibilities for the Financial Report

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

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

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

Auditor's Responsibilities

Audit of the financial report

My objectives are to:

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

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

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

The scope of my audit does not include, nor provide assurance:

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

Audit of whether payments complied with the Act

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

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

Inherent Limitations

Because of the inherent limitations of any compliance procedure, together with the Fund's internal control structure it is possible that fraud, error or non-compliance with the Act may occur and not be detected.

An audit for the year ended 30 June 2020 does not provide assurance on whether compliance with the Act will continue in the future.

Use of Report

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



Margaret Crawford
Auditor-General for New South Wales

5 November 2020
SYDNEY

ERIC-E Fund
Financial Report
for the year ended 30 June 2020

STATEMENT BY THE TREASURER

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

- (a) The accompanying financial report provides details of the transactions of the Electricity Retained Interest Corporation – Endeavour Fund for the year ended 30 June 2020; and
- (b) The financial report has been prepared as a special purpose financial report and related notes in accordance with the basis of accounting described in Note 2.

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



The Hon. Dominic Perrottet MP
Treasurer

 October 2020

ERIC-E Fund

Statement of the Fund's Activities and Position for the year ended 30 June 2020

| | Note | 2020 \$'000 | 2019 \$'000 |
|--|------|----------------|----------------|
| Receipts | | | |
| Financial returns | 3 | 91,249 | 38,454 |
| Interest earned | 3 | 95 | 51 |
| Total receipts | | 91,344 | 38,505 |
| Payments | | | |
| Funds transferred to NSW Consolidated Fund | 4 | 90,016 | 37,176 |
| Administrative expenses of the Corporation | 4 | 100 | 79 |
| Costs of operation of the Corporation | 4 | 1,220 | 1,503 |
| Total payments | | 91,336 | 38,758 |
| Net receipts/(payments) | | 8 | (253) |
| The Fund's Position as at 30 June | | | |
| Opening balance of the Fund - Cash | | 702 | 955 |
| Net receipts/(payments) | | 8 | (253) |
| Closing balance of the Fund | | 710 | 702 |

The accompanying notes form part of the financial report.

ERIC-E Fund

Notes to the Financial Report for the year ended 30 June 2020

1. INFORMATION ON THE ERIC-E FUND

Reporting entity

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

Section 4.15 of the *Government Sector Finance Act 2018* defines an SDA to consist of:

- a) all accounts of money that the Treasurer is, under statutory authority, required to hold otherwise than for or on account of the Consolidated Fund, and
- b) all accounts of money that are directed or authorised to be paid to the SDA by or under legislation.

The Fund is controlled by the State and Section 32(2) of the Act gives the Electricity Retained Interest Corporation - Endeavour (the Corporation) responsibility for the administration of the Fund on behalf of the State.

The Corporation oversees the State of New South Wales' (the State) retained interest as a lessee of network infrastructure assets of Endeavour Energy for the purpose of protecting its value to the State.

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

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

Key Activities

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

Payments into the Fund

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

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

ERIC-E Fund

Notes to the Financial Report for the year ended 30 June 2020

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
- a) such amounts (if any) as the Corporation is required to pay the Treasurer under section 5.3 (Payment of tax-equivalents to Treasurer) of the *Government Sector Finance Act 2018*, and
- b) 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
- c) such amounts as the Treasurer directs for payment of the costs of operation of the Corporation and any subsidiary of the Corporation, including remuneration, allowances, accommodation and other associated costs of the Board, General Manager and staff of the Corporation or a subsidiary of the Corporation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

The Fund's financial report is presented in Australian dollars and all amounts are rounded to the nearest one thousand dollars (\$000).

Statement of compliance

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

Value of the Fund

The total balance of the Fund consists of cash only.

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

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

ERIC-E Fund

Notes to the Financial Report for the year ended 30 June 2020

3. RECEIPTS

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

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Section 33 (a) receipts - financial returns | | |
| Distributions from network partnership arrangements | 91,249 | 38,454 |
| Section 33 (b) receipts - interest earned | 95 | 51 |
| Total receipts | 91,344 | 38,505 |

4. PAYMENTS

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

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Section 34 (a) payments - funds transferred to NSW Consolidated Fund | 90,016 | 37,176 |
| Section 34 (c) payments - administrative expenses of the Corporation | | |
| Professional service fees | 100 | 79 |
| Total administrative expenses | 100 | 79 |
| Section 34 (d) payments - costs of operation of the Corporation | | |
| ASIC fees | 4 | 4 |
| Auditor's remuneration | 79 | 87 |
| Travel & Treasury admin support | 277 | 526 |
| Miscellaneous expenses | 13 | 25 |
| GST remittance | 498 | 504 |
| Salaries & wages | 225 | 233 |
| Superannuation | 30 | 30 |
| Payroll tax & PAYG | 94 | 94 |
| Total costs of operation | 1,220 | 1,503 |
| Total payments | 91,336 | 38,758 |

5. FINANCIAL INSTRUMENTS

The Fund's only financial instrument is cash held in the Treasury Banking System which is subject to interest rate risk. As at the reporting date, a rise or fall of 1 per cent in interest rate over the course of the year would result in an increase or decrease in the interest earned of approximately \$7,100 (2019: \$7,023).

ERIC-E Fund

**Notes to the Financial Report
for the year ended 30 June 2020**

6. EVENTS AFTER THE REPORTING DATE

There are no events after reporting date requiring disclosure.

End of audited financial report



Treasury

Appendix 6

NSW Generations (Debt Retirement) Fund

Financial Report
for the year ended 30 June 2020



INDEPENDENT AUDITOR'S REPORT

NSW Generations (Debt Retirement) Fund

To Members of the New South Wales Parliament

Opinions

Opinion on the audit of the financial report

I have audited the accompanying special purpose financial report (the financial report) of the NSW Generations (Debt Retirement) Fund (the Fund), which comprises the Statement by the Treasurer, the Statement of the Fund's Activities for the year ended 30 June 2020, the Statement of the Fund's Position as at 30 June 2020 and notes to the financial report. The financial report has been prepared by the Treasurer using the basis of accounting described in Note 2 to the financial report for the purpose of fulfilling the Treasurer's annual reporting obligations under section 7 of the *NSW Generations Funds Act 2018* (the Act).

In my opinion, in all material respects, the financial report presents fairly, the Fund's position as at 30 June 2020 and its activities for the year ended 30 June 2020, in accordance with the basis of accounting described in Note 2 to the financial report.

Opinion on whether payments complied with the Act

I have undertaken an audit to provide reasonable assurance on whether payments from the Fund have, in all material respects, been made in accordance with the Act for the year ended 30 June 2020.

In my opinion, in all material respects, payments from the Fund have been made in accordance with the Act for the year ended 30 June 2020.

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

Basis for Opinions

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

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

The Fund's annual report for the year ended 30 June 2020 includes other information in addition to the financial report and my Independent Auditor's Report thereon. The Treasurer is responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprises the NSW Generations (Community Services and Facilities) Fund Financial Report.

My opinion on the financial report does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by section 7(3) of the Act, I have separately expressed an opinion on the NSW Generations (Community Services and Facilities) Fund Financial Report.

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

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

I have nothing to report in this regard.

The Treasurer's Responsibilities for the Financial Report

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

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

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

Auditor's Responsibilities

Audit of the financial report

My objectives are to:

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

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

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

The scope of my audit does not include, nor provide assurance:

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

Audit of whether payments complied with the Act

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

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

Inherent Limitations

Because of the inherent limitations of any compliance procedure, together with the Fund's internal control structure it is possible that fraud, error or non-compliance with the Act may occur and not be detected.

An audit for the year ended 30 June 2020 does not provide assurance on whether compliance with the Act will continue in the future.

Use of Report

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



Margaret Crawford
Auditor-General for New South Wales

5 November 2020
SYDNEY

NSW Generations (Debt Retirement) Fund

**Financial Report
for the year ended 30 June 2020**

STATEMENT BY THE TREASURER

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

- (a) The accompanying financial report provides details of the transactions of the NSW Generations (Debt Retirement) Fund for the year ended 30 June 2020; and
- (b) The financial report has been prepared as a special purpose financial report and related notes in accordance with the basis of accounting described in Note 2.

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



**The Hon. Dominic Perrottet MP
Treasurer**

30 October 2020

NSW Generations (Debt Retirement) Fund

Statement of the Fund's Activities and Position for the year ended 30 June 2020

| | Note | 2020 \$'000 | 2019 \$'000 |
|---|------|--------------------------|--------------------------|
| Receipts | | | |
| Government contribution | 3 | - | 8,900,000 |
| Distributions | 3 | 117,790 | 1,080,972 |
| Interest earned | 3 | 727 | 7,102 |
| GST received | 3 | - | 1 |
| Windfall tax revenue | 3 | 296,000 | - |
| Total receipts | | <u>414,517</u> | <u>9,988,075</u> |
| Payments | | | |
| Administrative expenses | 4 | 11 | - |
| Total payments | | <u>11</u> | <u>-</u> |
| Net receipts | | <u>414,506</u> | <u>9,988,075</u> |
| Statement of the Fund's Position as at 30 June | | | |
| Opening balance of the Fund | | 10,890,728 | - |
| Net receipts | | 414,506 | 9,988,075 |
| (Loss)/income from investments | 5 | (25,357) | 902,653 |
| Closing balance of the Fund | | <u>11,279,877</u> | <u>10,890,728</u> |
| | | | |
| Balance of Fund held in | | | |
| Cash and cash equivalents | | 17,442 | 6,755 |
| Investment in NSW Generations (Debt Retirement) | 5 | | |
| Fund Investment Trust | | 11,262,435 | 10,883,973 |
| | | <u>11,279,877</u> | <u>10,890,728</u> |

The accompanying notes form part of the financial report.

NSW Generations (Debt Retirement) Fund

Notes to the Financial Report for the year ended 30 June 2020

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

Reporting entity

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

Section 4 of the Act establishes the Fund as a Special Deposit Account (SDA). Section 4.15 of the *Government Sector Finance Act 2018* defines an SDA to consist of:

- a) all accounts of money that the Treasurer is, under statutory authority, required to hold otherwise than for or on account of the Consolidated Fund, and
- b) all accounts of money that are directed or authorised to be paid to the SDA by or under legislation.

The Treasurer is responsible for the Act and the Fund.

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

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

Key Activities

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

Funding Sources for the NSW Generations (Debt Retirement) Fund

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

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

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

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

NSW Generations (Debt Retirement) Fund

Notes to the Financial Report for the year ended 30 June 2020

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

Payments out of the Fund

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

The Fund's financial report is presented in Australian dollars and all amounts are rounded to the nearest one thousand dollars (\$'000).

Statement of compliance

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

Value of the Fund

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

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

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

NSW Generations (Debt Retirement) Fund

Notes to the Financial Report for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3. RECEIPTS

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

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|------------------|
| Section 9(1)(b) receipts | | |
| Government contribution | - | 8,900,000 |
| Section 9(1)(d) receipts | | |
| Distributions from State's investment in WestConnex | 117,790 | 1,080,972 |
| Section 9(1)(f) receipts | | |
| Interest earned | 727 | 7,102 |
| Section 9(1)(g) receipts | | |
| GST received | - | 1 |
| Section 9(2) receipts | | |
| Windfall tax revenue | 296,000 | - |
| Total receipts | 414,517 | 9,988,075 |

4. PAYMENTS

| | | |
|--|-----------|---|
| Section 10(b) payments | | |
| Administrative expenses - auditor's remuneration | 11 | - |
| | 11 | - |
| Total payments | 11 | - |

NSW Generations (Debt Retirement) Fund

Notes to the Financial Report for the year ended 30 June 2020

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

| | 2020 \$'000 | 2019 \$'000 |
|--|-------------------|-------------------|
| Opening balance | 10,883,973 | - |
| Add: Investments - cash transferred in from the operating bank account | 403,820 | 9,981,320 |
| Add/(Less): Net income/(loss) from investments: | | |
| Distribution reinvested | 556,714 | 268,910 |
| Unrealised (loss)/gain on other financial assets | (582,071) | 633,743 |
| Closing balance | 11,262,435 | 10,883,973 |

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

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

Asset Allocation

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

| Asset class | Strategic Asset Allocation (%) | Actual Asset Allocation (%) | Value (\$'000) |
|------------------------------------|-----------------------------------|--------------------------------|-------------------|
| Australian Shares | 14.0 | 14.0 | 1,576,741 |
| International Shares | 20.0 | 20.1 | 2,263,750 |
| Emerging Market Shares | 6.0 | 6.0 | 675,746 |
| Alternatives | 22.5 | 22.5 | 2,534,048 |
| Unlisted Property & Infrastructure | 7.0 | 6.0 | 675,746 |
| Opportunistic | 5.0 | 5.0 | 563,122 |
| Emerging Market Debt | 6.0 | 6.1 | 687,008 |
| Bank Loan | 5.0 | 5.2 | 585,647 |
| High Yield | 3.0 | 2.9 | 326,610 |
| Cash | 11.5 | 12.2 | 1,374,017 |
| Total | 100 | 100 | 11,262,435 |

NSW Generations (Debt Retirement) Fund

Notes to the Financial Report for the year ended 30 June 2020

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

Performance returns

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

| | YTD (%) | Since inception (%) |
|--|---------------|---------------------|
| Net return (<i>after fees</i>) | (0.12) | 5.70 |
| Strategic Asset Allocation (SAA) benchmark | 1.83 | 6.91 |
| Net relative to SAA benchmark | (1.95) | (1.21) |

6. FINANCIAL INSTRUMENTS

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

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

The Fund's other financial instrument is cash held in the Treasury Banking System which is subject to interest rate risk. As at 30 June 2020, 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 \$174,416 (2019: \$67,555).

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 7

NSW Generations (Community Services and Facilities) Fund

Financial Report
for the year ended 30 June 2020



INDEPENDENT AUDITOR'S REPORT

NSW Generations (Community Services and Facilities) Fund

To Members of the New South Wales Parliament

Opinions

Opinion on the audit of the financial report

I have audited the accompanying special purpose financial report (the financial report) of the NSW Generations (Community Services and Facilities) Fund (the Fund), which comprises the Statement by the Treasurer, the Statement of the Fund's Activities for the year ended 30 June 2020, the Statement of the Fund's Position as at 30 June 2020 and notes to the financial report. The financial report has been prepared by the Treasurer, using the basis of accounting described in Note 2 to the financial report for the purpose of fulfilling the Treasurer's annual reporting obligations under section 7 of the *NSW Generations Funds Act 2018* (the Act).

In my opinion, in all material respects, the financial report presents fairly, the Fund's position as at 30 June 2020 and its activities for the year ended 30 June 2020, in accordance with the basis of accounting described in Note 2 to the financial report.

Opinion on whether payments complied with the Act

I have undertaken an audit to provide reasonable assurance on whether payments from the Fund have, in all material respects, been made in accordance with the Act for the year ended 30 June 2020.

In my opinion, in all material respects, payments from the Fund have been made in accordance with the Act for the year ended 30 June 2020.

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

Basis for Opinions

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

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

The Fund's annual report for the year ended 30 June 2020 includes other information in addition to the financial report and my Independent Auditor's Report thereon. The Treasurer is responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprises the NSW Generations (Debt Retirement) Fund Financial Report.

My opinion on the financial report does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by section 7(3) of the Act, I have separately expressed an opinion on the NSW Generations (Debt Retirement) Fund Financial Report.

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

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

I have nothing to report in this regard.

The Treasurer's Responsibilities for the Financial Report

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

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

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

Auditor's Responsibilities

Audit of the financial report

My objectives are to:

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

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements.

Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial report.

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

The scope of my audit does not include, nor provide assurance:

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

Audit of whether payments complied with the Act

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

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

Inherent Limitations

Because of the inherent limitations of any compliance procedure, together with the Fund's internal control structure it is possible that fraud, error or non-compliance with the Act may occur and not be detected.

An audit for the year ended 30 June 2020 does not provide assurance on whether compliance with the Act will continue in the future.

Use of Report

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

A handwritten signature in black ink, appearing to read 'Margaret Crawford', with a long horizontal flourish extending to the right.

Margaret Crawford
Auditor-General for New South Wales

5 November 2020
SYDNEY

NSW Generations (Community Services and Facilities) Fund

**Financial Report
for the year ended 30 June 2020**

STATEMENT BY THE TREASURER

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

- (a) The accompanying financial report provides details of the transactions of the NSW Generations (Community Services and Facilities) Fund for the year ended 30 June 2020; and
- (b) The financial report has been prepared as a special purpose financial report and related notes in accordance with the basis of accounting described in Note 2.

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



**The Hon. Dominic Perrottet MP
Treasurer**

 October 2020

NSW Generations (Community Services and Facilities) Fund

**Statement of the Fund's Activities and Position
for the year ended 30 June 2020**

| | Note | 2020 \$'000 | 2019 \$'000 |
|--|------|----------------------|----------------------|
| Receipts | | | |
| Government contribution | 3 | 27,500 | 27,500 |
| Interest earned | 3 | 396 | 420 |
| Other | 3 | - | 200 |
| GST received | 3 | - | 3 |
| Total receipts | | <u>27,896</u> | <u>28,123</u> |
| Payments | | | |
| Project payments | 4 | 17,625 | - |
| Administrative expenses | 4 | 463 | 378 |
| Total payments | | <u>18,088</u> | <u>378</u> |
| Net receipts | | <u>9,808</u> | <u>27,745</u> |
| The Fund's Position as at 30 June | | | |
| Opening balance of the Fund - cash | | 27,745 | - |
| Net receipts | | 9,808 | 27,745 |
| Closing balance of the Fund | | <u>37,553</u> | <u>27,745</u> |

The accompanying notes form part of the financial report.

NSW Generations (Community Services and Facilities) Fund

Notes to the Financial Report for the year ended 30 June 2020

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

Reporting entity

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

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

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

Section 4 of the Act establishes the Fund as a Special Deposit Account (SDA). Section 4.15 of the *Government Sector Finance Act 2018* defines an SDA to consist of:

- a) all accounts of money that the Treasurer is, under statutory authority, required to hold otherwise than for or on account of the Consolidated Fund, and
- b) all accounts of money that are directed or authorised to be paid to the SDA by or under legislation.

The Treasurer is responsible for the funding and investment operations of the Fund.

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

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

Key Activities

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

NSW Generations (Community Services and Facilities) Fund

Notes to the Financial Report for the year ended 30 June 2020

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

Funding Sources for the Fund

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

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

Payments out of the Fund

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

NSW Generations (Community Services and Facilities) Fund

Notes to the Financial Report for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

The Fund's financial report is presented in Australian dollars and all amounts are rounded to the nearest one thousand dollars (\$000).

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.

3. RECEIPTS

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

| | 2020 \$'000 | 2019 \$'000 |
|-------------------------------|----------------|----------------|
| Section 13(b) receipts | | |
| Government contribution | 27,500 | 27,500 |
| Section 13(c) receipts | | |
| Interest earned | 396 | 420 |
| Section 13(e) receipts | | |
| Other | - | 200 |
| GST received | - | 3 |
| Total Receipts | <u>27,896</u> | <u>28,123</u> |

NSW Generations (Community Services and Facilities) Fund

Notes to the Financial Report for the year ended 30 June 2020

4. PAYMENTS

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

| | 2020 \$'000 | 2019 \$'000 |
|--------------------------------------|----------------|----------------|
| Section 14(1)(a) payments | | |
| Project payment | 17,625 | - |
| Section 14(1)(b) payments | | |
| Directors fees | 185 | 161 |
| Auditor's remuneration | 11 | - |
| Operating expenses | 267 | 217 |
| Total administrative expenses | <u>463</u> | <u>378</u> |
| Total payments | <u>18,088</u> | <u>378</u> |

5. FINANCIAL INSTRUMENTS

Risk management

The Fund's only financial instrument is the cash held in the Treasury Banking System which is subject to interest rate risk. As at 30 June 2020, a rise or fall of 1 percent in interest rate over the course of the year would result in an increase or decrease in interest earned of approximately \$375,528 (2019: \$277,446).

6. EVENTS AFTER THE REPORTING DATE

There are no events after reporting date requiring disclosure.

End of audited financial report

Published by NSW Treasury

treasury.nsw.gov.au

FIRST PUBLISHED NOVEMBER 2020.

T20/25398

This publication is protected by copyright. With the exception of (a) any coat of arms, logo, trade mark or other branding; (b) any third party intellectual property; and (c) personal information such as photographs of people, this publication is licensed under the Creative Commons Attribution 3.0 Australia Licence.

The licence terms are available at the Creative Commons website at: creativecommons.org/licenses/by/3.0/au/legalcode

NSW Treasury requires that it be attributed as creator of the licensed material in the following manner: © State of New South Wales (NSW Treasury), (2020).

