NSW Treasury

TPG23-21 Determining the present value of a provision

TPG23-21

25 September 2023

Acknowledgement of Country

We acknowledge that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and the oldest continuing culture in human history.

We pay respect to Elders past and present and commit to respecting the lands we walk on, and the communities we walk with.

We celebrate the deep and enduring connection of Aboriginal and Torres Strait Islander peoples to Country and acknowledge their continuing custodianship of the land, seas and sky.

We acknowledge the ongoing stewardship of Aboriginal and Torres Strait Islander peoples, and the important contribution they make to our communities and economies.

We reflect on the continuing impact of government policies and practices, and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples, families and communities, towards improved economic, social and cultural outcomes.

Artwork:
Regeneration by Josie Rose

Contents

Key information	
Treasury Policy and Guidelines (TPG) is relevant to?	☒ GSF Agencies ☐ General Government Sector ☐ Public non-financial corporation ☐ Public financial corporation ☐ State Owned Corporations ☐ Other
	☐ Executive agencies related to Departments
	☐ Subsidiaries of the NSW Government established under the Corporations Act 2001
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Document contains
☒ **MANDATORY POLICY** compliance set out by NSW Treasury.
☐ **RECOMMENDED POLICY** reflecting best practice standards.
☐ **GUIDANCE/ADDITIONAL INFORMATION** to provide clarity or explain requirements in detail.

Revision history				
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Determining the present value of a provision

Purpose

For provisions where settlement is expected to be deferred for some time, various accounting standards require the liability to be measured at present value. The purpose of this Treasury Policy and Guidelines (TPG) is to provide consistency and comparability across the NSW Public Sector and the Total State Sector Accounts when determining the present value of a provision.

Overview

A 'provision' is defined as a liability of uncertain timing or amount. Where settlement is expected to be deferred for some time, various standards require the liability to be measured at present value. For example, AASB 119 *Employee Benefits*, AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and AASB 1023 *General Insurance Contracts* require certain provisions for superannuation, long-service leave, workers' compensation, insurance claims, etc, to be measured at present value.

This TPG specifies the source of the discount rate, inflation rate and wage growth to ensure consistency across NSW Government agencies for determining the present value of provisions. Agencies should note that the factors may need to be extrapolated, interpolated or modified if necessary to reflect entity-specific risks or circumstances.

This TPG withdraws and replaces NSWTC 11/17 *Determining the present value of a provision* without substantively changing its content. There is a change in the source of the discount rate for not-for profit agencies due the Reserve Bank of Australia (RBA) no longer publishing the table previously referred to in TC 11-17 *Determining the present value of a provision*.

Determining the present value of a provision

Guidance

The present value of an existing obligation, such as a provision, is the amount payable in the future, discounted at a selected rate. In some cases, the amount payable in the future may also be affected by changes in wages and salaries or in general prices in the intervening period.

When determining present value, it is necessary to make economic assumptions about the discount rate and possibly also the inflation and wage growth rates. Such assumptions are based on market expectations, at the end of the reporting period, for the period over which the provision is to be settled.

For consistency and comparability within the NSW public sector and the Total State Sector Accounts, agencies should use the following specified factors as the bases for the economic assumptions applied to determine present value of a provision. The factors may need to be extrapolated, interpolated or modified if necessary to reflect entity-specific risks or circumstances.

For further information or clarification, please contact NSW Treasury's Accounting Policy Team (accpol@treasury.nsw.gov.au).

Mandatory

- The **discount rate** is to be based on the market yield on Commonwealth government bonds as published by the Reserve Bank of Australia. See Capital Market Yields – Government Bonds – Daily (Table F2) at https://www.rba.gov.au/statistics/tables/
- The **inflation rate** is to be based on the forecasts for Sydney consumer price index as set out in the NSW economic performance and outlook in the most recent NSW Budget Statement (Budget Paper No 1)[1] at www.budget.nsw.gov.au.
- The **wage increase** rate is to be based on the forecasts wage price index as set out in the NSW economic performance and outlook in the most recent NSW Budget Statement (Budget Paper No 1)[1] at www.budget.nsw.gov.au.

Consideration - Provisions greater than 10 years

Table F2 contains market yields on Commonwealth government bonds for periods up to 10 years. Treasury recommends that the 10-year bond yield can be used to discount provisions where it can be clearly demonstrated the impact of discounting is not material to the agency. For provisions longer than 10 years, where the impact of discounting is material, please contact Accounting Policy (accpol@treasury.nsw.gov.au) for guidance.

[1] In Budget Paper No 1 for 2022-23, the price indices appeared in Chapter 2, page 2-1

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