

A. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND FORECAST ASSUMPTIONS

The Half-Yearly Review presents the Estimated Financial Statements for the general government sector (GGS).

These comprise the GGS operating statement (Table B.1), GGS balance sheet (Table B.2) and GGS cash flow statement (Table B.3). These are prepared in accordance with this Statement of Significant Accounting Policies and Forecast Assumptions.

Collectively, the statements and the Statement of Significant Accounting Policies and Forecast Assumptions are referred to as the 'Estimated Financial Statements'.

The Estimated Financial Statements cover the revised budget estimates for the current year ending 30 June 2018, and estimates for the three forward years ending 30 June 2019, 2020 and 2021.

Scope

The Estimated Financial Statements are prepared for the New South Wales GGS, which is determined in accordance with the principles and rules contained in the Australian System of Government Finance Statistics: *Concepts, Sources and Methods*, 2015 edition (AGFS15).

The GGS comprises government agencies controlled by the State that:

- undertake regulatory functions
- redistribute income and wealth
- provide or distribute goods and services on a non-market basis to individuals and the community and/or
- provide other services to general government agencies.

The scope of the GGS is outlined in Appendix A3 of the 2017-18 Budget Paper No.1 *Budget Statement*.

Basis of preparation

The Estimated Financial Statements are prepared and presented consistent with the principles adopted in the 2017-18 Budget and based on the assumptions outlined below.

The 2017-18 Budget information included in the Estimated Financial Statements reflects the original budget tabled in Parliament on 20 June 2017.

The Estimated Financial Statements are prepared using the accrual basis of accounting, which recognises the effects of transactions and events when they are forecast to occur.

The Estimated Financial Statements have been prepared to reflect existing operations, the impact of new policy decisions taken by Government, as well as known Commonwealth Government funding revisions and known circumstances that may have a material effect on the Half-Yearly Review. The revised estimates for 2017-18 are based on actual amounts as at and for the four month period ending 31 October 2017, and updated year-end projections provided by agencies. They have also been prepared to take into account other economic and financial data currently available to Treasury as at 7 December 2017.

In keeping with these principles, where the impact of a policy decision or planned event cannot be reliably measured, the impact is not reflected within the Estimated Financial Statements (e.g. due to uncertainties regarding the timing and amount of future cash flows).

Any estimates or assumptions made in measuring revenue, expenses, other economic flows, assets or liabilities are based on the latest information available at the time, professional judgements derived from experience and other factors considered to be reasonable under the circumstances. Actual results may differ from such estimates. Key assumptions are detailed below, under the headings *Material economic and other assumptions* and *Summary of other key assumptions*.

Accounting policies

Australian Accounting Standards (AAS) do not include requirements or provide guidance on the preparation and presentation of prospective financial statements. However, recognition and measurement principles within AAS have been applied in the presentation of the Estimated Financial Statements to the maximum extent possible.

Therefore, except for the matters set out below under *Change in accounting policies*, these Estimated Financial Statements follow the presentation and principles in the 2017-18 Budget and the accounting policies applied in the audited *2016-17 Consolidated Financial Statements of the New South Wales General Government and Total State Sectors* as presented to Parliament.

The same accounting policies have been used for the subsequent forecast years. In particular, Note 1 Statement of Significant Accounting Policies of the 2016-17 Consolidated Financial Statements of the New South Wales General Government and Total State Sectors includes information on the principles of consolidation, significant accounting judgements and estimates, the recognition and measurement policies for revenue, expenses, other comprehensive income, assets and liabilities.

The Estimated Financial Statements do not include the impact of major asset transactions until they are finalised. The financial impact of these future planned discontinuing operations or restructuring transactions are not recognised due to the commercial-in-confidence nature of these transactions.

Change in accounting policies

There are no significant changes to accounting policies adopted in the preparation of the estimates to those used in preparing the 2017-18 Budget.

Definitions

Key technical terms and key fiscal aggregates used in this report are defined in Note 37 of the *2016-17 Consolidated Financial Statements of the New South Wales General Government and Total State Sectors* and in the Glossary to the 2017-18 Budget Paper No.1 *Budget Statement*.

Presentation of the Estimated Financial Statements

The Estimated Financial Statements follow the presentation requirements for GGS reporting contained in AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

AASB 1049 harmonises generally accepted accounting principles (GAAP, i.e. AAS) with GFS principles in accordance with the Government Financial Statistics (GFS) framework adopted by the Australian Bureau of Statistics (ABS). This occurs by requiring that:

- the statement of comprehensive income (referred to as the operating statement) classifies income and expenses as either transactions or other economic flows to be consistent with GFS principles, applied from a GAAP perspective.

The net operating balance (i.e. budget result) is the net result of harmonised GFS-GAAP transactions for the GGS.

In the operating statement:

- the *net operating balance* is the net result of revenue and expense *transactions*. It excludes *other economic flows*, which represent changes in the volume or value of assets or liabilities that do not arise from transactions with other entities and which are often outside the control of government
- the *operating result* is the same under both the harmonised GFS-GAAP and pure GAAP presentations.

Further, AASB 1049 requires:

- the GGS financial statements adopt the recognition, measurement and disclosure requirements of GAAP
- where options exist in GAAP, the GGS financial statements adopt the option that is aligned with GFS, to minimise differences between GAAP and GFS and/or
- where options do not exist in GAAP and there is conflict between GAAP and GFS, GAAP prevails.

Due to the prospective nature of the statements, detailed notes to the Estimated Financial Statements, including disclosure of contingent assets and liabilities, are not required to be included within the meaning of Australian Accounting Standards as outlined in Section 27A (5) of the *Public Finance and Audit Act 1983*.

Each year ends on 30 June. All monetary amounts are presented in Australian dollars and rounded to the nearest million dollars (\$m).

Use of a zero ("0") represents amounts rounded to zero. Use of three dots ("...") represents nil amounts.

Tables may not add in all instances due to rounding.

Material economic and other assumptions

The Estimated Financial Statements included in the Half-Yearly Review have been prepared using the material economic and other assumptions as set out below.

Table A.1: Key economic performance assumptions^(a)

	2016-17 Outcomes	2017-18 Forecasts	2018-19 Forecasts	2019-20 Forecasts	2020-21 Forecasts
New South Wales population (persons) ^(b)	7,868,000	7,991,000	8,107,000	8,223,000	8,340,000
Nominal gross state product (\$million)	576,700	604,200	629,600	660,200	691,800
Real gross state product	2.9	3	2¾	2¾	2½
Real state final demand	3.6	3½	2¾	–	–
Employment	0.9	2½	1¾	1½	1¼
Unemployment rate (year average, per cent)	5.0	4¾	4¾	4¾	4¾
Sydney consumer price index ^(c)	2.0	2¼	2¼	2¼	2½
Wage Price index ^(d)	2.1	2	2½	2¾	3
Nominal gross state product	6.4	4¾	4¼	4¾	4¾

(a) Per cent change, year average, unless otherwise indicated.

(b) As at June each year. 2016-17 is a forecast as June quarter 2017 data is not yet available.

(c) Includes a ¼ percentage point from tobacco excise increases.

(d) Weighted public and private sector wages.

Source: ABS 3101.0, 5206.0, 5220.0, 6202.0, 6345.0 and 6401.0 Treasury

Summary of other key assumptions

The following section outlines the other key assumptions used in the preparation of the Estimated Financial Statements. The summary takes into account materiality in relation to the GGS's overall financial position and sensitivity to changes in key economic assumptions.

Notwithstanding these key assumptions, agency finance officers apply appropriate professional judgement in determining estimated financial information.

Revenue from transactions

Taxation revenue

Taxation revenue is forecast by assessing economic and other factors that influence the various taxation bases. Payroll tax, for example, involves an assessment of the outlook for employment and wages. Forecasts of government debt guarantee fees take into account an assessment of the level of debt of PNFCs and their credit rating differential compared with the State as a whole. The forecasts of taxation revenue also involve the analysis of historical information and relationships (using econometric and other statistical methods) and consultation with relevant government agencies.

Grants and subsidies revenue

Forecast grants from the Commonwealth Government are based on the latest available information from the Commonwealth Government. This takes into account the conditions, payment timetable and escalation factors relevant to each type of grant.

The Goods and Services Tax (GST) grants are forecast based on estimates of the national GST pool by the Commonwealth Government, and GST collected in 2016-17. For 2017-18, the GST forecast is based on the assessed relativity for New South Wales in 2017-18 and the Commonwealth Government's population projections. The assessed relativity is the average of actual data (2013-14, 2014-15 and 2015-16) as published by the Commonwealth Grants Commission.

Beyond 2017-18, the State's share of GST is based on New South Wales' forecast relativities and the Commonwealth Government's population and GST pool projections. The forecast per capita annual relativities are based on the projected fiscal capacity of New South Wales compared to other States and Territories.

Sale of goods and services

Revenue from the sale of goods and services is forecast by taking into account all known factors, including estimates of changes in demand for services provided or expected unit price variations based on proposed fee increases set by government.

Dividend and income tax equivalents from other sectors

Dividend and income tax equivalent revenue from other sectors are estimated by PFCs and PNFCs based on expected profitability and the agreed dividend policy at the time of the Half-Yearly Review.

Other dividends and distributions

Other dividends include estimates of dividends to be received from investments in entities other than the PNFC and PFC sectors, with the revenue recognised when the right to receive payment is expected to be established. Estimates are based on advice from external parties.

Distributions are mainly from managed fund investments administered by TCorp, with the revenue recognised when the right to receive payment is expected to be established based on advice from TCorp. It excludes estimated fair value movements in the unit price of the investments, which are recognised as 'other economic flows – included in the operating result'.

Fines, regulatory fees and other revenues

Fines, regulatory fees and other revenues include estimates of fines issued by the Courts, estimated traffic infringement fines, estimated revenue from enforcement orders and regulatory fees and contributions. It also includes estimated royalty revenue based on assessments of coal volumes, prices and the Australian dollar exchange rate. Other revenue forecasts are adjusted for indexation, where appropriate.

Expenses from transactions

To improve the accuracy of budget estimates, consistent with longstanding practice and reflecting historic trends, the budget includes adjustments:

- to account for parameter and technical adjustments expected to be required to maintain service provision on a no policy change basis reflecting the historic conservative bias in aggregate spending estimates
- to account for expenses expected to be carried forward into future years reflecting changes in timing of delivery of government activity, consistent with the policy set out in Treasury Circular NSW TC 15-08 and
- to reflect government decisions that are not yet included in agency estimates, for example due to timing or because they are commercial in confidence or subject to further requirements.

Employee expenses

Employee expenses are forecast based on expected staffing profiles, current salaries, conditions and on-costs. Employee expenses are adjusted over the forecast period for approved wage agreements. Beyond the period of the agreements, allowance is made for further adjustments consistent with the State's wages policy at a net cost of 2.5 per cent per annum, inclusive of scheduled increases in the superannuation guarantee levy. The forecasts for employee expenses also reflect the impact of newly approved initiatives and required efficiency savings.

Superannuation expense (and liabilities)

Superannuation expense comprises:

- for the defined contribution plan, the forecast accrued contribution for the period
- for defined benefit plans, the forecast service cost and the net interest expense. This excludes the re-measurements (i.e. actuarial gains and losses and return on plan assets in excess of the long-term Commonwealth Government Securities (CGS) rate) which are classified as 'other economic flows – other comprehensive income'.

Superannuation expenses for defined contribution plans are based on assumptions regarding future salaries and contribution rates.

Superannuation expenses for defined benefit plans are estimated based on actuarial advice, applying the long-term CGS yield as at 30 June in the prior year to the opening value of net liabilities (gross superannuation liabilities less assets), less benefit payments at the mid-point of the contribution year, plus any accruing liability for the year.

Forecasts of defined benefit superannuation liabilities are based on actuarial estimates of cash flows for the various defined benefit superannuation schemes discounted using a nominal long-term CGS yield as at 30 June. Gross liability estimates are based on a number of demographic and financial assumptions. The major financial assumptions used for the budget and forward estimates period are outlined in the table below.

Table A.2: Superannuation assumptions – pooled fund / state super schemes

	2016-17 %	2017-18 %	2018-19 %	2019-20 %	2020-21 %
	Actual	Forecasts	Forecasts	Forecasts	Forecasts
Liability discount rate	2.77	3.02	3.28	3.53	3.53
Expected return on investments ^(a)	9.60	7.80	7.80	7.80	7.80
Expected salary increases ^(b)					
- SSS and SASS members	2.50	2.50	2.50	2.50	3.50
- PSS members	2.50	2.50	2.50	2.50	3.50
Expected rate of CPI	2.00	2.25	2.25	2.25	2.50

(a) For the EISS, the expected return on investments is 6.3 per cent per annum from 2016-17 and beyond.

(b) Taking the increased Superannuation Guarantee Contribution (SGC) into account, total remuneration will increase by 2.50 per cent. Note that the Commonwealth Government's *Mineral Resources Rent Tax Repeal and Other Measures Act 2014* provides a further pause in the SGC rate increases until 2021.

Depreciation and amortisation

Property, plant and equipment are depreciated (net of any residual value) over their respective useful lives. Depreciation is generally allocated on a straight-line basis.

Depreciation is forecast on the basis of known asset valuations, the expected economic life of assets, assumed new asset investments and asset sale programs. The depreciation expense is based on the assumption that there will be no change in depreciation rates over the forecast period, but includes the estimated impact of the current and future revaluation of assets over the forecast period. The depreciation expense may be impacted by future changes in useful lives, carrying value, residual value or valuation methodology.

Certain heritage assets, including original artworks and collections and heritage buildings, may not have limited useful lives because appropriate custodial and preservation policies are adopted. Such assets are not subject to depreciation. Land is not a depreciable asset.

Intangible assets with finite lives are amortised using the straight-line method. Intangible assets with indefinite lives are not amortised, but are tested for impairment annually.

Interest expense

The forecasts for the interest expense are based on:

- payments required on outstanding borrowings
- expected payments on any new borrowings (including any refinancing of existing borrowings) required to finance general government activities based on forward contracts for TCorp bonds and
- the unwinding of discounts on non-employee provisions.

Other operating expenses

Other operating expenses mainly represent the day-to-day running costs incurred in normal operations of agencies and include the cost of supplies and services. They are forecast by applying appropriate economic parameters and known activity changes, including planned changes in the method of service delivery and application of government policies. Other operating expenses also reflect the impact of government efficiency strategies, such as efficiency dividends.

Grants and subsidies expenses

Grants and subsidies expenses generally comprise cash contributions to local government authorities and non-government organisations. For the GGS, they also include grants and subsidies paid to the PFC and PNFC sectors. The forecast grant payments are determined by taking into account current and past policy decisions, the forecast payment schedules and escalation factors relevant to each type of grant.

Other economic flows

Revaluations

The estimates are based on an examination and extrapolation of historical trends in the valuation of non-financial physical assets. The forward estimates include the estimated impact of revaluations of non-financial physical assets.

Superannuation actuarial gains / losses

The forecast actuarial gain or loss on defined benefit superannuation is based on the revised estimates of the margin of forecast fund earnings in excess of the expected discount rate.

Net gain / (loss) on equity investments in other sector entities

The net gain/(loss) on equity investments in other sector entities is based on estimates of the PFC and PNFC sectors' forward comprehensive results adjusted for transactions with owners. The underlying management estimates of future comprehensive results are based on current Statements of Corporate Intent. Future distributions to owners are based on Treasury's *Commercial Policy Framework*.

Net acquisition of non-financial assets - Sale of non-financial assets

Sale of non-financial assets includes the proceeds from the sale of an intangible asset recognised upfront in GFS, but amortised over the term of the arrangement for GAAP. This is presented consistently in the cash flow statement.

Assets

Property, Plant and Equipment

The estimates of property, plant and equipment over the forecast period are at fair value and take into account planned acquisitions, disposals and the impact of depreciation, impairment and revaluations. New investments in assets are valued at the forecast purchase price and, where appropriate, recognised progressively over the estimated construction period. The forward estimates include the estimated impact of revaluations of property, plant and equipment. These estimates are based on an examination of expected cost trends.

The Estimated Financial Statements also include adjustments for future capital expenditure. These include agency estimates of approved projects and future new works held within agencies, as well as a central estimate for future new works still to be approved at the agency level. The central estimate for future new works is based on historical trends.

Liabilities

Borrowings

Estimates for borrowings are based on current debt levels, amortisation of any premiums or discounts and the cash flows expected to be required to fund future government activities.

Employee provisions

Employee provisions are forecast based on expected staffing profiles and current salaries, conditions and on-costs. For the forecast period, employee provisions are adjusted for approved wage agreements. Beyond the period of the agreements, allowance is made for further adjustments consistent with the State's wages policy at a net cost of 2.5 per cent per annum inclusive of scheduled increases in the superannuation guarantee levy. The forecasts for employee expenses also reflect the impact of new initiatives and required efficiency savings.

Superannuation provisions

Refer to superannuation expense (and liabilities) (above) for information on assumptions that also impact the measurement of the superannuation provisions.

Other provisions

Other provisions include the State's obligations for several insurance schemes. To estimate future claims liabilities, actuarial assumptions have been applied for future claims to be incurred, claim payments, inflation and liability discount rates. Actual liabilities may differ from estimates.