A2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND FORECAST ASSUMPTIONS

Scope of the Estimated Financial Statements

The Budget Papers present the Estimated Financial Statements of the general government sector (GGS). These statements comprise the GGS operating statement, GGS balance sheet and GGS cash flow statement. These statements are prepared in accordance with this Statement of Significant Accounting Policies and Forecast Assumptions and include:

- revised estimates for the current year ending 30 June 2019
- estimates for the budget year ending 30 June 2020
- estimates for the three forward years ending 30 June 2021, 2022 and 2023.

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 are prepared for the New South Wales GGS, which is determined in accordance with the principles and rules contained in the Australian Bureau of Statistics, *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015 (cat. No. 5514)* (ABS-GFS Manual).

The scope of the GGS is outlined in Appendix A3 of this *Budget Statement*. 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.

Basis of preparation

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

The Statements have been prepared to reflect existing operations and the impact of new policy decisions taken by the NSW Government, where their financial effect can be reliably measured.

The 2018-19 revised estimates are based on the following information provided by agencies:

- actual results for the 10-month period ending 30 April 2019
- updated year end projections.

The Statements also take into account other economic and financial data available to Treasury up to 12 June 2019, including Commonwealth Government funding decisions announced in the *2019-20 Commonwealth Government Budget*.

In keeping with these principles, where the impact of a policy decision or planned event cannot be reliably estimated, 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 or 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.

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 their commercial-in-confidence nature.

The Estimated Financial Statements, except for the 2018-19 revised estimates, adopt the accounting policies expected to be used in preparing general purpose financial statements for 2019-20. This is a change from the 2018-19 Budget that was prepared on the basis of accounting policies expected to be used in preparing the general purpose financial statements for 2017-18. This change was made to include the estimated impacts of new AAS effective from 2019-20.

Except for the matters set out below under *Changes in accounting policies* and the adoption of AASB 9 *Financial Instruments* (AASB 9) (to be reflected in the *Total State Sector Accounts 2018-19*)*,* the expected 2019-20 accounting policies are not materially different from those applied in the audited *Total State Sector Accounts 2017-18*.

Note 1 *Statement of Significant Accounting Policies* in the *Total State Sector Accounts 2017--18* outlines significant accounting policies, including the principles of consolidation, significant accounting judgements and estimates, and the recognition and measurement policies for revenue, expenses, other economic flows, assets and liabilities.

To ensure that the 2018-19 revised estimates have been prepared on a consistent basis with the 2018-19 actual financial results, the revised estimates do not reflect the new accounting standards that are only effective from 1 July 2019. Consequently, the revised estimates for 2018-19 have not been prepared on the same basis as the budget and forward estimate years.

Changes in accounting policies

The Estimated Financial Statements apply AASB 9 for all years presented. AASB 9 is effective from 1 July 2018, and resulted in changes in accounting policies on classifications and measurement of financial assets and liabilities.

The Estimated Financial Statements apply for the first time AASB 15 *Revenue from Contracts with Customers* (AASB 15), AASB 1058 *Income of Not-for-Profit Entities* (AASB 1058) and AASB 16 *Leases* (AASB 16) – for the 2019-20 estimates and beyond. The nature and effect of the changes are outlined in detail below.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 establishes a five-step model to account for revenue arising from contracts with customers. It requires revenue to be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Not-for-profit entities (including the public sector) need to determine whether a transaction is a donation (accounted for under AASB 1058) or a contract with a customer (accounted for under AASB 15).

The impact from the adoption of AASB 15 is expected to mainly relate to the recognition of revenue from non-intellectual property licenses. Cash received upfront on most long-term licenses was previously recorded as unearned income liability under ‘Other liabilities’ and recognised as revenue progressively over the license period. AASB 15 requires that revenue from licences without further performance obligations are recognised at the issuance of the licenses from 2019-20 onwards. Therefore, unearned income liabilities in respect of some licenses have been reversed effective 1 July 2019.

Table A2.1: Impact of AASB 15

	2019-20	2020-21	2021-22	2022-23
	Budget	Forward Estimates		
	$m	$m	$m	$m
Estimated GGS operating statement				
Revenue from transactions	19	(21)	(18)	(17)
Expenses from transactions	…	…	…	…
Budget result	**19**	**(21)**	**(18)**	**(17)**
Other economic flows - included in operating result	(6)	(6)	(6)	(6)
Operating result	**13**	**(27)**	**(24)**	**(23)**
Estimated GGS balance sheet				
Receivables	61	63	64	65
Total assets	**61**	**63**	**64**	**65**
Other liabilities	(356)	(328)	(302)	(278)
Total liabilities	**(356)**	**(328)**	**(302)**	**(278)**
Net worth	**417**	**390**	**367**	**343**
Accumulated funds	417	390	367	343

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

AASB 1058 replaces most of the existing requirements in AASB 1004 *Contributions*. The scope of AASB 1004 is now limited mainly to parliamentary appropriations, administrative arrangements and contributions by owners.

Not-for-profit entities (including the public sector) need to determine whether a transaction is a donation (accounted for under AASB 1058) or a contract with a customer (accounted for under AASB 15).

The impact from the adoption of AASB 1058 is expected to mainly relate to changes in the deferral of revenue recognition from certain capital grants to align with the construction of the projects to which they relate. This results in changes to unearned income liabilities under ‘Other liabilities’ and ‘Grants and subsides’ in the budget year and forward years.

Table A2.2: Impact of AASB 1058

	2019-20	2020-21	2021-22	2022-23
	Budget	Forward Estimates		
	$m	$m	$m	$m
Estimated GGS operating statement				
Revenue from transactions	130	(146)	226	(39)
Expenses from transactions	…	…	…	…
Budget result	**130**	**(146)**	**226**	**(39)**
Other economic flows - included in operating result	…	…	…	…
Operating result	**130**	**(146)**	**226**	**(39)**
Estimated GGS balance sheet				
Receivables	…	…	…	…
Total assets	**…**	**…**	**…**	**…**
Other liabilities	364	510	284	323
Total liabilities	**364**	**510**	**284**	**323**
Net worth	**(364)**	**(510)**	**(284)**	**(323)**
Accumulated funds	(364)	(510)	(284)	(323)

AASB 16 *Leases*

Where the State is a lessee, AASB 16 requires all leases to be accounted for under a single on-balance sheet model similar to the accounting for finance leases under AASB 117 *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee recognises a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). A lessee is required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Where the State is a lessor, the accounting for lessors under AASB 16 has not significantly changed. However, an intermediate lessor in a sublease is now required to evaluate the lease classification of a sublease with reference to the right-of-use asset instead of the underlying asset of the head lease.

On adoption of AASB 16 from 2019-20 onwards, the State will recognise lease liabilities (included in 'Borrowings at amortised cost') in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117. These liabilities are measured at the present value of the remaining lease payments, discounted using the State's incremental borrowing rate and amortised over the remaining term of the lease. This results in an increase in 'Borrowings at amortised cost' and 'Interest expense'. The right-of-use assets are recorded at an amount equal to the lease liabilities, adjusted by any prepaid or accrued lease payments immediately before the transition date. Right-of-use assets are subsequently depreciated. The recognition of right-of-use assets results in an increase in 'Property, plant and equipment' with a corresponding increase in 'Depreciation expense'. The net impact on 'Expenses from transactions' is marginal as the increase in interest and depreciation expenses are offset by the decrease in operating lease expenses.

The State will continue to recognise leases of 'low-value' assets and short-term leases as operating expenses.

Some sublease transactions result in a reclassification by sublessors to finance leases, resulting in a decrease in rental income.

Table A2.3: Impact of AASB 16

	2019-20	2020-21	2021-22	2022-23
	Budget	Forward Estimates		
	$m	$m	$m	$m
Estimated GGS operating statement				
Revenue from transactions	(18)	(19)	(20)	(21)
Expenses from transactions	98	78	66	44
Budget result	**(116)**	**(97)**	**(86)**	**(64)**
Other economic flows - included in operating result	…	…	…	…
Operating result	**(116)**	**(97)**	**(86)**	**(64)**
Estimated GGS balance sheet				
Other financial assets	101	93	80	64
Property, plant and equipment	3,613	3,306	3,049	2,767
Total assets	**3,714**	**3,399**	**3,129**	**2,831**
Borrowings at amortised cost	3,830	3,612	3,428	3,194
Total liabilities	**3,830**	**3,612**	**3,428**	**3,194**
Net worth	**(116)**	**(214)**	**(299)**	**(364)**
Accumulated funds	(116)	(214)	(299)	(364)

The State plans to adopt the full retrospective approach option in transitioning to AASB 15 and AASB 1058. This requires the restatement of all comparative years presented as if AASB 15 and AASB 1058 have always been applied for the comparative years presented. For AASB 16, the State plans to adopt the modified retrospective approach option, under which comparative years are not restated for AASB 16. Instead, the modified retrospective approach requires the impact of prior periods to be presented only in the opening balance of accumulated funds of the transition year. For the purposes of the Estimated Financial Statements, the State has presented the impact of adopting the new standards only to the opening balance of the accumulated funds of the budget year 2019-20, which is also the transition year. The revised estimates for 2018-19, therefore, do not reflect the impact of AASB 15, AASB 1058 or AASB 16.

For the purposes of the Estimated Financial Statements, the impact of transition to AASB 15, AASB 1058 and AASB 16 on the GGS accumulated funds as at 1 July 2019 are as follows:

Table A2.4: Impact of new standards on accumulated funds as at 1 July 2019

	$m
Balance at 1 July 2019 – before new accounting standards	84,579
Impact of AASB 15	405
Impact of AASB 1058	(494)
Impact of AASB 16	…
Restated balance at 1 July 2019 – after new accounting standards	**84,490**

The expected aggregate impacts of applying the above new accounting standards are reported in the table below.

Table A2.5: Aggregate impact of new standards to key financial information

	Before new accounting standard impacts				Impact of new accounting standards				After new accounting standard impacts			
	2019-20	2020-21	2021-22	2022-23	2019-20	2020-21	2021-22	2022-23	2019-20	2020-21	2021-22	2022-23
	Budget		Forward Estimates		Budget	Forward Estimates			Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Revenue from transactions	84,185	87,817	89,829	92,085	131	(185)	189	(76)	84,316	87,632	90,018	92,009
Expenses from transactions	83,201	86,326	87,950	89,366	98	78	66	44	83,300	86,405	88,016	89,410
Budget result	**984**	**1,491**	**1,880**	**2,719**	**32**	**(264)**	**123**	**(120)**	**1,016**	**1,227**	**2,002**	**2,599**
Less: Net acquisition of non-financial assets												
Capital expenditure	21,932	17,400	16,838	13,964	414	350	409	385	22,345	17,750	17,247	14,349
Less: depreciation	5,429	5,801	5,921	6,085	681	690	701	710	6,110	6,491	6,623	6,795
Less: other items	712	1,428	1,007	559	...	...	...	...	712	1,428	1,007	559
Total net acquisition of non-financial assets	15,790	10,171	9,910	7,320	(267)	(340)	(293)	(325)	15,523	9,831	9,618	6,995
Net lending / (borrowing)	**(14,807)**	**(8,680)**	**(8,030)**	**(4,601)**	**299**	**76**	**415**	**205**	**(14,507)**	**(8,604)**	**(7,615)**	**(4,396)**
Total assets	416,505	432,393	448,012	467,523	3,775	3,461	3,193	2,896	420,280	435,854	451,205	470,419
Total liabilities	149,496	151,243	154,296	156,167	3,838	3,795	3,409	3,239	153,334	155,038	157,705	159,406
Net worth	**267,008**	**281,150**	**293,716**	**311,356**	**(63)**	**(333)**	**(216)**	**(343)**	**266,946**	**280,816**	**293,500**	**311,013**
Net debt	**8,524**	**19,361**	**29,456**	**35,445**	**3,830**	**3,612**	**3,428**	**3,194**	**12,354**	**22,973**	**32,884**	**38,640**

There are no other significant changes to AAS or accounting policies adopted in 2019-20 that would significantly impact the Estimated Financial Statements.

New Accounting Standards issued but not effective

Certain new accounting standards and interpretations have been published that are not mandatory for 2019-20. The State has not adopted these early. The assessed impact of these new standards and interpretations is set out below.

AASB 1059 *Service Concession Arrangements: Grantors*

AASB 1059 *Service Concession Arrangements: Grantors* (AASB 1059) will be effective for reporting periods commencing on or after 1 January 2020. Service concession arrangements (SCA) involve either a public or private sector entity operating a service concession asset to deliver public services on behalf of a public sector grantor.

Currently, under TPP 06-8 *Privately Financed Projects* (TPP 06-8), most SCAs in New South Wales are generally treated as leases or as assets gradually recognised over the concession period.

AASB 1059 will require service concession assets to be recognised immediately at the start of the arrangement or over the construction period, with a corresponding liability to reflect any payments due, and/or the grant of a right, to the operator. Further, AASB 1059 has a broader scope than TPP 06-8, possibly resulting in more arrangements being recognised in the State's statement of financial position.

These changes are expected to significantly increase assets and liabilities in the State's balance sheet and impact the operating statement depreciation and amortisation expenses and income from the amortisation of grant of right liabilities.

The estimated impact of AASB 1059 on future estimated financial statements has not been sufficiently identified and quantified at this stage.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Estimated Financial Statements.

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).

AASB 1049 harmonises generally accepted accounting principles (GAAP) with Government Financial Statistics (GFS) principles in accordance with the GFS framework adopted by the Australian Bureau of Statistics. The statement of comprehensive income (referred to as the operating statement) classifies income and expenses as either transactions or other economic flows, in order to be consistent with GFS principles, applied from a GAAP perspective.

The net operating balance (i.e. the 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 expenses from transactions*. It excludes *other economic flows*, which capture 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 are not required to be presented within the meaning of AAS as outlined in Section 27A (5) of the *Public Finance 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 to the nearest million dollars.

Presentation changes

There have been no presentation changes since the release of the 2018-19 Budget Papers. The presentation of information in the financial estimates remains consistent with GAAP and GFS presentation requirements.

Definitions

Key technical terms, including fiscal aggregates, are defined in the Glossary to this *Budget Statement*.

Material economic and other assumptions

The Estimated Financial Statements have been prepared using the material economic and other assumptions as set out in Table A2.6.

Table A2.6: Key economic performance assumptions[(a)]

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
	Outcomes	Forecasts	Forecasts	Forecasts	Projections	Projections
New South Wales population (persons)[(b)]	7,988,000	8,120,000	8,250,000	8,376,000	8,501,000	8,624,000
Nominal gross state product ($million)	604,400	626,200	649,000	678,200	710,400	745,700
Real gross state product (per cent)	2.6	2¼	2¼	2½	2½	2½
Real state final demand (per cent)	3.4	2½	2½	2½	-	-
Employment (per cent)	3.2	3¼	1½	1¼	1¼	1¼
Unemployment rate (per cent)[(c)]	4.8	4½	4½	4½	4½	4½
Sydney consumer price index (per cent)[(d)]	1.9	1½	1¾	1¾	2¼	2½
Wage price index (per cent)[(e)]	2.1	2½	2½	2¾	3	3
Nominal gross state product (per cent)	4.5	3½	3¾	4½	4¾	5

(a) Per cent change, year average, unless otherwise indicated.
(b) As at 30 June each year.
(c) Year average, per cent.
(d) 2017-18 to 2020-21 excludes ¼ percentage point from tobacco excise increases.
(e) Weighted private and public sector wages.
Source: ABS 3101.0, 5206.0, 5220.0, 6202.0, 6401.0, 6345.0 and 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

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 Public Non-Financial Corporations (PNFC) 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 and projections of timing of payments at the time of preparation of the Budget. This takes into account the conditions, payment timetable and escalation factors relevant to each type of grant.

The adoption of AASB 1058 from 2019-20 onwards results in changes to estimates, as revenue recognition on certain grants with specific performance obligations are aligned with the timing of the completion of the related performance obligations. For further details, refer to *Changes in accounting policies*.

Goods and Services Tax (GST) grants are forecast based on estimates of the national GST pool by the Commonwealth Government. For 2019-20, the GST forecast is based on the assessed relativity for New South Wales in 2019-20 and the Treasury's population projections. The assessed relativity is based on the three-year average of actual data (2015-16, 2016-17 and 2017-18) as published by the Commonwealth Grants Commission.

Beyond 2019-20, the State's share of GST is based on New South Wales Treasury's forecast relativities, state populations and the Commonwealth's GST pool estimates. The forecast per capita annual relativities are based on the projected fiscal capacity of New South Wales compared with 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
- expected unit price variations based on proposed fee increases imposed by general government agencies and/or indexation.

Dividend and income tax equivalents from other sectors

Dividend and income tax equivalent revenue from other sectors are estimated by the PNFC and Public Financial Corporations (PFC) sectors. They are based on expected profitability and the agreed dividend policy at the time of the Budget.

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 and 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*
- to reflect government decisions 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 table below sets out the major financial assumptions used to estimate the superannuation expense and liability in respect of defined benefit superannuation for the Budget and forward estimates period.

Table A2.7: Superannuation assumptions – pooled fund / state super schemes

	2018-19	2019-20	2020-21	2021-22	2022-23
	%	%	%	%	%
Liability discount rate	1.75	1.75	2.00	2.25	2.75
Expected return on investments	7.76	7.40	7.40	7.40	7.40
Expected salary increases	2.70	2.70	3.20	3.20	3.20
Expected rate of CPI(a)	1.75	2.00	2.00	2.25	2.50

(a) 2017-18 to 2020-21 includes ¼ percentage point from tobacco excise increases

Depreciation and amortisation

Property, plant and equipment are depreciated (net of residual value) over their respective useful lives. Right-of-use assets are generally depreciated over their respective lease term (from 2019-20 onwards). Depreciation is generally allocated on a straight-line basis.

Depreciation is forecast on the basis of known asset carrying valuations, the expected economic life of assets, assumed new asset investment 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 also 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 tested for impairment annually.

Interest expense

Estimates for interest expense are based on the forecast levels of outstanding borrowings (e.g. debt facilities with NSW TCorp and lease liabilities), other long-term financial liabilities and provisions. Interest expense on new borrowings (including any refinancing of existing borrowings) are based on forward estimates from TCorp.

Other operating expenses

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

Grants and subsidies expense

Grants and subsidies expenses generally comprise cash contributions to local government authorities and non-government organisations. For the GGS, they include grants and subsidies paid to the PNFC and PFC 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 property, plant and equipment. The budget and forward estimates years include the estimated impact of revaluations of property, plant and equipment.

Superannuation actuarial gains / losses

The forecast actuarial gains or losses on defined benefit superannuation are 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 sectors

The net gain / (loss) on equity investments in other sectors is based on estimates of the PNFC and PFC 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 equity holders 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 adoption of AASB 16 from 2019-20 results in the recognition of right-of-use assets, including those from leases previously classified as operating leases, where the State is a lessee. The estimates of right-of-use assets are based on the State's best estimate of the timing of renewals of lease arrangements and the impact of depreciation. Refer to *Changes in accounting policies* for further details on the impacts of adopting AASB 16.

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.

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

- to account for capital 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*
- to reflect government decisions on capital expenditure that are not yet included in agency estimates, for example due to timing because they are commercial in confidence or subject to further requirements.

Liabilities

Borrowings

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

The adoption of AASB 16 from 2019-20 results in the recognition of additional lease liabilities in relation to leases previously classified as operating leases where the State is a lessee. Estimates of lease liabilities are based on the best estimate of the timing of renewals of lease arrangements and impact of amortisation of the liabilities. Refer to *Changes in accounting policies* for further details on the impacts of adopting AASB 16.

Employee provisions

Employee provisions are forecast based on expected staffing profiles and current salaries, conditions and on-costs. For the forecast period, employee benefits 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 claim 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.