Transport Asset Holding Entity

Our Reference: DSYD2021/188941

16 August 2021

Ms Margaret Crawford
Auditor-General
The Audit Office of New South Wales
Level 19, Darling Park Tower 2, 201 Sussex Street
SYDNEY NSW 2001

Dear Ms Crawford

TRANSPORT ASSET HOLDING ENTITY (TAHE) – 2020/21 UN-AUDITED FINANCIAL STATEMENTS

In accordance with Section 7.6 of the *Government Sector Finance Act 2018,* please find enclosed the un-audited Financial Statements of TAHE, for the twelve months ended 30 June 2021.

On 9th August 2021, NSW Treasury granted TAHE an extension to submit the Financial Statements by 16 August 2021.

Yours sincerely

David Jurd
A/Chief Executive

Transport Asset Holding Entity of New South Wales

Financial Statements

For the year ended 30 June 2021

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Directors' Statement

In relation to the financial statements for the year ended 30 June 2021

Pursuant to section 7.6(4) of the *Government Sector Finance Act 2018*, we declare that the accompanying financial statements and the notes thereto:

(a) exhibit a true and fair view of the financial position of TAHE as at 30 June 2021 and of its financial performance and cash flows for the year ended 30 June 2021.

(b) have been prepared in accordance with the provisions of the *Government Sector Finance Act 2018*, the Government Sector Finance Regulation 2018, Australian Accounting Standards, which includes Australian Accounting Interpretations and the Treasurer's Directions.

We are not aware, as at the date of this statement, of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

At the date of signing this statement, there are reasonable grounds to believe that TAHE will be able to pay its debts as and when they become due and payable.

Bruce Morgan
Chair
Transport Asset Holding Entity of
New South Wales

Anne McDonald
Director
Transport Asset Holding Entity of
New South Wales

xx October 2021

(Start of unaudited financial statements)

Statement of Comprehensive Income for the year ended 30 June 2021

	Note	2020-21 $'000	2019-20 Restated* $'000
Profit or loss			
Income			
Revenue from contracts with customers	3.1	73,428	78,136
Investment revenue	3.2	54,802	117,111
Government and other grants	3.3	105,747	80,581
Other	3.4	146,240	26,242
Total income		**380,217**	**302,070**
Expenses			
Operating expenses	4.1	149,395	175,166
Valuation of property, plant and equipment and intangible assets	7.2, 8.2	18,617,391	-
Impairment losses on financial assets		2,236	1,328
Total expenses		**18,769,022**	**176,494**
Earnings before interest, tax, depreciation & amortisation		**(18,388,805)**	**125,576**
Depreciation, amortisation and de-recognitions	7.2, 8.2	1,592,977	1,549,547
Finance costs	4.3	64,740	82,512
Profit / (loss) before income tax for the year		**(20,046,522)**	**(1,506,483)**
Income tax expense		-	-
Profit / (loss) for the year		**(20,046,522)**	**(1,506,483)**
Other comprehensive income			
Items that will not be reclassified to profit/ loss			
Revaluation of property, plant and equipment	17.3	(6,212,335)	1,872,609
Superannuation actuarial gains/ (losses) on defined benefit schemes	20	24,276	121
Total other comprehensive income for the year		(6,188,059)	1,872,730
Total comprehensive income for the year		**(26,234,581)**	**366,247**

**Refer Note 2.1.2*

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position as at 30 June 2021

	Note	30.6.2021 $'000	30.6.2020 Restated* $'000	1.7.2019 Restated* $'000
Assets				
Current assets				
Cash and cash equivalents	5.1	66,457	6,147	6,845
Trade and other receivables	6.1	65,942	63,324	52,633
Non-current assets classified as held for sale		4,007	-	131
Total current assets		136,406	69,471	59,609
Non-current assets				
Trade and other receivables	6.1	53,804	26,657	25,710
Property, plant and equipment	7.1	17,340,295	40,648,782	33,476,005
Intangible assets	8	123,544	323,905	359,186
Total non-current assets		17,517,643	40,999,344	33,860,901
Total assets		**17,654,049**	**41,068,815**	**33,920,510**
Current liabilities				
Trade & other payables	9	402,205	157,168	147,560
Borrowings	10	663,441	105,193	111,287
Provisions	14	25,974	16,567	15,077
Contract liabilities	11	3,266	3,475	-
Other liabilities	12	32,794	-	-
Total current liabilities		1,127,680	282,403	273,924
Non-current liabilities				
Trade & other payables	9	354,684	181,311	-
Borrowings	10	2,081,644	2,659,446	2,697,529
Provisions	14	29,891	241,563	249,397
Total non-current liabilities		2,466,219	3,082,320	2,946,926
Total liabilities		**3,593,899**	**3,364,723**	**3,220,850**
Net assets		**14,060,150**	**37,704,092**	**30,699,660**
Equity				
Contributed equity	15.1	24,405,370	21,814,731	15,176,546
Reserves		5,778,638	12,052,471	10,303,503
Retained earnings		(16,123,858)	3,836,890	5,219,611
Total equity		**14,060,150**	**37,704,092**	**30,699,660**

**Refer Note 2.1.2*

The Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity for the year ended 30 June 2021

	Note	Contributed equity $'000	Retained earnings $'000	Asset revaluation $'000	Total $'000
Balance at 1 July 2020		**21,814,731**	**3,836,890**	**12,052,471**	**37,704,092**
Profit/ (loss) for the year		**-**	**(20,046,522)**	**-**	**(20,046,522)**
Other comprehensive income					
Increase/ (decrease) in asset revaluation reserve		-	-	(6,212,335)	(6,212,335)
Superannuation actuarial gains/ (losses) on defined benefit schemes		-	24,276	-	24,276
Total other comprehensive income for the year		**-**	**24,276**	**(6,212,335)**	**(6,188,059)**
Total comprehensive income for the year		**-**	**(20,022,246)**	**(6,212,335)**	**(26,234,581)**
Reserves transferred to/ (from) retained earnings		**-**	**61,498**	**(61,498)**	**-**
Transaction with Owners in their capacity as owners					
Increase/ (decrease) in net assets from equity transfers (contribution by owners)	15.1	2,590,639	-	-	2,590,639
Balance at 30 June 2021		**24,405,370**	**(16,123,858)**	**5,778,638**	**14,060,150**
Balance at 1 July 2019		**15,176,546**	**5,407,885**	**10,303,503**	**30,887,934**
Changes in accounting policy – net adjustment on revocation of TPP06-8	2.1.5	-	(188,274)	-	(188,274)
Restated balance at 1 July 2019		**15,176,546**	**5,219,611**	**10,303,503**	**30,699,660**
Profit/ (loss) for the year		**-**	**(1,506,483)**	**-**	**(1,506,483)**
Other comprehensive income					
Increase/ (decrease) in asset revaluation reserve		-	-	1,872,609	1,872,609
Superannuation actuarial gains/ (losses) on defined benefit schemes		-	121	-	121
Total other comprehensive income for the year		**-**	**121**	**1,872,609**	**1,872,730**
Total comprehensive income for the year		**-**	**(1,506,362)**	**1,872,609**	**366,247**
Reserves transferred to/ (from) retained earnings		**-**	**123,641**	**(123,641)**	**-**
Transaction with Owners in their capacity as owners					
Increase/ (decrease) in net assets from equity transfers (contribution by owners)	15.1	6,638,185	-	-	6,638,185
Balance at 30 June 2020		**21,814,731**	**3,836,890**	**12,052,471**	**37,704,092**

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows for the year ended 30 June 2021

	Note	2020-21 $'000	2019-20 $'000
Cash flows from operating activities			
Cash received			
Receipts from customers and others		353,051	358,360
Government contributions - operating		113,652	75,983
Interest received		78	262
Total cash received		466,781	434,605
Cash used			
Payments to suppliers, employees and others		(361,674)	(322,950)
Interest paid		(93,651)	(104,366)
Total cash used		(455,325)	(427,316)
Net cash flows from/ (used in) operating activities	5.2	**11,456**	**7,289**
Cash flow from investing activities			
Cash received			
Capital contributions		24,889	4,598
Property, plant and equipment and other asset sales and disposals		3,670	2,265
Total cash received		28,559	6,863
Cash used			
Property, plant and equipment and intangible assets acquisitions		(2,396,244)	(1,914,107)
Total cash used		(2,396,244)	(1,914,107)
Net cash flows from/ (used in) investing activities		**(2,367,685)**	**(1,907,244)**
Cash flows from financing activities			
Cash received			
Proceeds from borrowings		26,800	25,000
Capital contribution from NSW Treasury		2,407,202	1,918,004
Total cash received		2,434,002	1,943,004
Cash used			
Repayment of borrowings		(17,463)	(48,557)
Total cash used		(17,463)	(48,557)
Net cash flows from/ (used in) financing activities		**2,416,539**	**1,894,447**
Net (decrease)/ increase in cash and cash equivalents		**60,310**	**(5,508)**
Cash and cash equivalents at beginning of year		6,147	6,845
Cash transferred in from TfNSW	15	-	4,810
Cash and cash equivalents at end of year	5.1	**66,457**	**6,147**

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

Note 1 Reporting entity and financial statements

(a) Reporting entity

Transport Asset Holding Entity of New South Wales (TAHE) is a NSW statutory State Owned Corporation constituted under the *Transport Administration Act 1988* and the *State Owned Corporations Act 1989.* Rail Corporation New South Wales converted to TAHE on 1 July 2020. TAHE is a for-profit entity for accounting purposes.

TAHE is the owner of the metropolitan and country rail network, stations, majority of property and certain rolling stock and provides Sydney Trains and NSW Trains with access rights to the assets, currently at no charge, which they operate at their own risk in accordance with the Rail Services Contract with Transport for NSW (TfNSW). Sydney Trains is responsible for the maintenance of rail assets under the Sydney Trains Rail Services Contract. NSW Trains will be responsible for the maintenance of the new intercity fleet. The new commercial agreements entered into by TAHE with Sydney Trains and NSW Trains will result in access and licence charges commencing on 1 July 2021.

TAHE's listed functions and other functions are set out in section 11 of the *Transport Administration Act 1988* and are authorised but also limited by, an operating licence issued by the Minister of Transport to:

- hold, manage, operate and maintain owned or vested transport assets
- establish, finance, acquire, construct and develop transport assets
- promote and facilitate access to the part of the NSW rail network in accordance with any current NSW rail access undertaking
- lease or make available transport assets vested in or owned by TAHE to other persons or bodies
- acquire and develop land for the purpose of enabling TAHE to carry out its other functions

(b) Comparative information

Except when an Australian Accounting Standard permits or requires otherwise, comparative information is presented in respect of the previous periods for all amounts reported in the financial statements.

TAHE has prepared its comparative information on a not-for-profit basis as the former RailCorp was a not-for-profit entity in the prior year. The current year financial statements have been prepared and presented on a for-profit basis. Refer Note 2.1.2 (a) – Note 2.1.2(d) for the change in accounting policies applied this year as a result of TAHE's transition to a for-profit entity.

Comparative information has also been restated as a result of the revocation of TPP 06-8 *Accounting for Privately Financed Projects* in the current financial year.

(c) Authorisation of the financial statements

The financial statements were authorised for issue by the Directors on the date on which the accompanying Directors' Statement was signed.

(d) Statement of compliance

The financial statements and notes comply with Australian Accounting Standards which includes Australian Accounting Interpretations.

Note 2 Summary of significant accounting policies

2.1 Basis of preparation

The financial statements are general purpose financial statements prepared in accordance with Australian Accounting Standards, which includes Australian Accounting Interpretations, the *Government Sector Finance Act 2018*, the Government Sector Finance Regulation 2018, the *State Owned Corporations Act 1989* and the Treasurer's Directions.

Generally, the historical cost basis of accounting has been adopted and these financial statements do not take into account changing money values or current valuations. However, property, plant and equipment, and non-current assets held for sale are measured at fair value. Refer Note 2.8 and Note 2.9(ii). Certain liabilities are calculated on a present value basis such as certain provisions.

The accrual basis of accounting has been adopted in the preparation of the financial statements, except for cash flow information.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

2.1.1 Going concern

The financial statements have been prepared on a going concern basis which assumes that TAHE is expected to be able to pay its debts as and when they fall due and continue in operation without any intention or necessity to liquidate or otherwise wind up their operations. TAHE receives funding from Transport for NSW which receives appropriations from the Consolidated Fund and equity injections from NSW Treasury. TAHE also receives a letter of shareholders support from the shareholding ministers for the 12 month period post signing of the Financial Statements to 31 October 2022.

2.1.2 Change in accounting policy

(a) Revocation of Treasury Policy Paper (TPP) 06-8 *Accounting for Privately Financed Projects*

In November 2020, NSW Treasury withdrew the application of Treasury Policy Paper (TPP) 06-8 *Accounting for Privately Financed Projects* which has resulted in changes to TAHE's accounting policies. The revocation of the TPP has been applied on a retrospective basis in accordance with NSW Treasury mandates and is effective from 1 July 2020. The withdrawal of the TPP has resulted in the recognition of various assets and liabilities at the transition date. The nature of the adjustments is described below:

- recognition of property, plant and equipment of $184.7m at 1 July 2019
- recognition of works in progress and a liability of $181.3m at 1 July 2020
- an increase to depreciation expense due to the recognition of property, plant and equipment
- de-recognition of emerging assets of $84.0m at 1 July 2019
- reversal of revenue previously accounted for under TPP 06-8.

Refer Note 2.1.5

Note 2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.2 Change in accounting policy (continued)

(b) AASB 120 *Accounting for Government Grants & Disclosure of Government Assistance*

TAHE has applied AASB 120 *Accounting for Government Grants & Disclosure of Government Assistance* for the first time in the current financial year. The standard applies to For-Profit entities and requires government grants to be recognised as deferred revenue when received and then on a systematic basis over the period that the associated costs are recognised as an expense. For grants related to assets the systematic basis is over the useful life of the asset. TAHE previously recognised government grants upon receipt. The standard has been applied prospectively as TAHE was a not-for–profit entity in the prior year. Retrospective application in accordance with the transitional provisions is not considered to be practical given that different accounting policies apply to the current and prior year. Further, a restatement will not result in more relevant and reliable information as the facts and circumstances of TAHE have changed this year.

(c) AASB 116 *Property, Plant and Equipment*

TAHE will offset asset revaluation increments /decrements at an individual asset level in accordance with the for-profit requirements under AASB 116 *Property, Plant and Equipment.* The revaluation adjustments were previously offset at an asset class level. TAHE will apply the change in accounting policy prospectively as different accounting policies apply to the current and previous year. The restatement of prior year comparatives is not practical as the basis of preparation of the financial statements is different this year.

(d) Change in tax status from 1 July 2020

TAHE's transition to a for-profit entity in the current year has resulted in the following accounting policy changes:

- TAHE was registered under the Tax Equivalent Regime commencing on 1 July 2020. The *Income Tax Assessment Act 1936* and the *Income Tax Assessment Act 1997* exempts TAHE from liability for Commonwealth income tax. TAHE is however subject to tax equivalent payments to the New South Wales Government which is nil in the current financial year. Previously TAHE was exempt from the Tax Equivalent Regime and National Tax Equivalent Regime and was not subject to income taxes.

- TAHE was exempted from State taxes for a period of 12 months (TA Act, Schedule 7, clause 227) except for land owned by, or leased to, TAHE and used primarily for railway purposes (other than land subject to a lease or licence by TAHE to another person other than a public transport agency). The former RailCorp was a NSW Government agency exempt from State Taxes. The approximate impact is the recognition of a provision of approximately $16.1m in the current financial year.

The change in accounting policy is applied on a prospective basis as the facts and circumstances of TAHE have changed this year.

Several other pronouncements and interpretations also apply for the first time in the current year, but do not have an impact on the financial statements of TAHE.

2.1.3 Change in estimates

TAHE has applied the income valuation approach as at 30 June 2021 for property, plant and equipment given its transition to a for-profit entity in the current financial year. The assets were previously valued using the cost approach under TPP 14-01 *Valuation of Physical Non-Current Assets at Fair Value* given that TAHE was a not-for profit entity in the prior year. TAHE has revised the valuation technique on the basis that sufficient information on future cash flows is now available for valuation purposes. The revision in the valuation technique is accounted for as a change in accounting estimate and will be adjusted prospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. The impact of the change in estimate in the current year is an adjustment of $27.1B of which $18.6B is recognised in the statement of comprehensive income.

Notes to the financial statements for the year ended 30 June 2021

Note 2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.4 Prior period adjustments

TAHE has recognised a financial liability of $288.9m at 1 July 2019 for the first time relating to its contractual obligations under the Airport Line Contract with a corresponding adjustment to retained earnings. The recognition has resulted in an increase in liabilities of $260.1m, a reduction in operating expenses of $35.8m and an increase in finance costs of $7m in the prior financial year. Refer Note 2.1.5

2.1.5 Impact arising from change in accounting policy / prior period adjustments

The impact of the revocation of TPP 06-8 are as follows:

Statement of Financial Position (Extract)

1 July 2019	As reported	Impact	Previous standards
	$'000	$'000	$'000
Non-current assets			
Property, plant and equipment	33,476,005	184,662	33,291,343
Other	-	(84,049)	84,049
Total assets	**33,920,510**	**100,613**	**33,819,897**
Current liabilities			
Borrowings	111,287	28,787	82,500
Non-current liabilities			
Borrowings	2,697,529	260,100	2,437,429
Total liabilities	**3,220,850**	**288,887**	**2,931,963**
Net assets	**30,699,660**	**(188,274)**	**30,887,934**
Retained earnings	5,219,611	(188,274)	5,407,885
Total equity	**30,699,660**	**(188,274)**	**30,887,934**

30 June 2020	As reported	Impact	Previous standards
	$'000	$'000	$'000
Non-current assets			
Property, plant and equipment	40,648,782	357,609	40,291,173
Other	-	(104,969)	104,969
Total assets	**41,068,815**	**252,640**	**40,816,175**
Current liabilities			
Borrowings	105,193	17,463	87,730
Non-current liabilities			
Trade & other payables	181,311	181,311	-
Borrowings	2,659,446	242,637	2,416,809
Total liabilities	**3,364,723**	**441,411**	**2,923,312**
Net assets	**37,704,092**	**(188,771)**	**37,892,863**
Reserves	12,052,471	(12,789)	12,065,260
Retained earnings	3,836,890	(175,982)	4,012,872
Total equity	**37,704,092**	**(188,771)**	**37,892,863**

Notes to the financial statements for the year ended 30 June 2021

Note 2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.5 Impact arising from change in accounting policy / prior period adjustments (continued)

Statement of Financial Position (Extract)

30 June 2021	As reported	Impact	Previous standards
	$'000	$'000	$'000
Non-current assets			
Property, plant and equipment	17,340,295	425,405	16,914,890
Other	-	(112,317)	112,317
Total assets	**17,654,049**	**313,088**	**17,340,961**
Current liabilities			
Borrowings	663,441	19,073	644,368
Non-current liabilities			
Trade & other payables	354,684	354,684	-
Borrowings	2,081,644	223,564	1,858,080
Total liabilities	**3,593,899**	**597,321**	**2,996,578**
Net assets	**14,060,150**	**(284,233)**	**14,344,383**
Reserves	5,778,638	(12,789)	5,791,427
Retained earnings	(16,123,858)	(271,444)	(15,852,414)
Total equity	**14,060,150**	**(284,233)**	**14,344,383**

Statement of Comprehensive Income (Extract)

30 June 2020	As reported	Impact	Previous standards
	$'000	$'000	$'000
Income			
Revenue from contracts with customers	78,136	(78,226)	156,362
Investment revenue	117,111	78,226	38,885
Other	26,242	(8,131)	34,373
Total income	**302,070**	**(8,131)**	**310,201**
Operating expenses	175,166	(35,778)	210,944
Total expenses	**176,494**	**(35,778)**	**212,272**
Depreciation, amortisation and de-recognitions	1,549,547	8,364	1,541,183
Finance costs	82,512	6,991	75,521
Profit / (loss) before income tax for the year	**(1,506,483)**	**12,292**	**(1,518,775)**
Other comprehensive income			
Revaluation of property, plant and equipment	1,872,609	(12,789)	1,885,398
Total comprehensive income for the year	**366,247**	**(497)**	**366,744**

Note 2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.5 Impact arising from change in accounting policy / prior period adjustments (continued)

Statement of Comprehensive Income (Extract)

30 June 2021	As reported $'000	Impact $'000	Previous standards $'000
Income			
Revenue from contracts with customers	73,428	(21,098)	94,526
Investment revenue	54,802	21,098	33,704
Other	146,240	(7,348)	153,588
Total income	**380,217**	**(7,348)**	**387,565**
Operating expenses	149,395	(23,757)	173,152
Valuation of property, plant and equipment and intangible assets	18,617,391	97,214	18,520,177
Total expenses	**18,769,022**	**73,457**	18,695,565
Depreciation, amortisation and de-recognitions	1,592,977	8,364	1,584,613
Finance costs	64,740	6,294	58,446
Profit / (loss) before income tax for the year	**(20,046,522)**	**(95,463)**	**(19,951,059)**
Total comprehensive income for the year	**(26,234,581)**	**(95,463)**	**(26,139,118)**

2.2 Significant accounting judgements, estimates and assumptions

Management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular refer Note 7.4, Note 14 and Note 17.

2.3 Income

Income is measured at the fair value of the consideration or contributions received or receivable. In most cases this is the value of the cash exchanged or exchangeable. Income is only recognised if its receipt is probable and the amount is reliably measurable. The accounting policies for the recognition of income are discussed below:

(i) Revenue from contracts with customers

Access fees

Access fees include the fees for services provided to third parties (excluding Sydney Trains and NSW Trains) and for granting operators access to the rail network. Revenue is recognised when TAHE satisfies its performance obligation by transferring the promised services to the customer over time. The payments are typically within one month of the service being performed.

The revenue is measured at the transaction price agreed under contract. The transaction price is allocated to distinct performance obligations based on the agreed prices. No element of financing is deemed present as payments are due when service is provided.

Note 2 Summary of significant accounting policies (continued)

2.3 Income (continued)

(i) Revenue from contracts with customers (continued)

Rendering of services
Revenue from rendering of services is recognised when TAHE satisfies its performance obligation by transferring the promised services to the customer over time. The payments are typically due within one month of the service being performed or as agreed with the customer.

The revenue is measured at the transaction price agreed under contract. The transaction price is allocated to distinct performance obligations based on the agreed prices. No element of financing is deemed present as payments are due when service is provided.

Sale of assets and goods
Revenue from sale of assets or other goods is recognised when TAHE satisfies its obligation by transferring the promised goods or assets. TAHE satisfies its performance obligations when control of the asset or good is transferred to the customer. The payments are typically due within one month of the goods or assets being transferred or as agreed with the customer.

Revenue from these sales is recognised based on the price specified in the contract, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. No element of financing is deemed present as the sales are made with a short credit term. No volume discount or warranty is provided on the sale.

(ii) Government and other grants

<u>AASB 120 (From 1 July 2020)</u>

TAHE receives grants from the NSW Government towards the cost of providing certain agreed services which are 'operating' in nature and capital expenditure

Operating grants
Operating grants are recognised as income on a systematic basis over the periods in which TAHE recognises the related costs for which the grants are intended to compensate.

Capital grants
Capital grants related to the construction of assets are initially recognised as deferred revenue on receipt. Upon completion of the asset, the deferred revenue is recognised in the profit or loss on a systematic basis over the useful life of the asset.

<u>AASB 1058 (Until 30 June 2020)</u>

Capital grants
Income from contributions to acquire/ construct a recognisable non-financial asset to be controlled by TAHE is recognised when TAHE obtains control of the cash (i.e. upon receipt).

Other grants
Income from grants without sufficiently specific performance obligations is recognised when TAHE obtains control over the granted assets (e.g. cash).

(iii) Investment revenue

Interest revenue
Interest revenue is recognised as interest accrues and is calculated by applying the effective interest rate to the gross carrying amount 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. after deducting the loss allowance for expected credit losses). Interest revenue includes all earnings from deposits with Westpac Banking Corporation and 11am Call Deposits.

Note 2 Summary of significant accounting policies (continued)

2.3 Income (continued)

(iii) Investment revenue (continued)

Rental income
Rental income is recognised on a straight-line basis over the lease term. Fees received under an arrangement that is in the legal form of a lease but that is not, in substance, a lease are recognised as revenue over the term of the lease.

2.4 Depreciation and amortisation

(i) Depreciation

Each item of property, plant and equipment (except land) is depreciated on a straight-line basis over its estimated useful life commencing when the item is available for use. A capital spare is depreciated over the useful life of the asset or class of assets to which it relates.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately, except for rolling stock which is depreciated as a discrete asset.

In determining an asset's useful life consideration is given to its expected usage, its expected wear and tear, technical or commercial obsolescence and legal or similar limits on its use.

The expected useful lives of items of property, plant and equipment are as follows:

	Years
Stations and buildings	15-200
Station services and facilities	15-25
Track, including sleepers and ballast	15-100
Turnouts	15-50
Bridges and tunnels	100
Electrical overhead wiring and structures	15-100
Substations	10-50
Signalling equipment	20-50
Rolling stock	26-43
Plant and machinery	3-30
Heavy plant and machinery	15-40
Earthworks	51-254

Each asset's useful life, residual value and depreciation method are reviewed each year and any resulting adjustments are accounted for as a change in accounting estimate.

TAHE has adjusted the useful lives for certain assets. The impact is a net decrease to depreciation expense of $10.1m in the current year (2020: $0.3m decrease).

(ii) Amortisation

Each intangible asset is amortised on a straight-line basis over its estimated useful life commencing when the item is available for use. The useful lives of all intangible assets are finite with the exception of easement assets. Residual values are assumed to be zero, due to the absence of active markets for disposing of the assets.

In determining an asset's useful life, consideration is given to its expected usage; technical, technological, commercial or other types of obsolescence; legal or similar limits on its use; and whether its life is dependent on the useful life of other assets.

Note 2 Summary of significant accounting policies (continued)

2.4 Depreciation and amortisation (continued)

(ii) Amortisation (continued)

The expected useful life of an item of software is 5-10 years.

Each intangible asset's useful life and amortisation method are reviewed each year and any resulting adjustments are accounted for as a change in accounting estimate.

The amortisation charge for each year is recognised in the statement of comprehensive income as depreciation and amortisation expense unless it is included in the carrying amount of another asset.

2.5 Finance costs

Borrowing costs are capitalised in respect of constructed property, plant and equipment that meet the criteria of qualifying assets. Other finance costs are recognised as an expense in the period in which they are incurred.

Refer Note 4.3.

2.6 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position includes cash at bank and on hand, at call deposits, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Refer Note 5.

2.7 Trade and other receivables

Trade receivables are measured initially at fair value and subsequently at invoiced cost less an allowance for impairment/ expected credit losses, which is not materially different from amortised cost due to their short-term nature. A trade receivable is usually due for settlement within 30 days of invoicing. Collectability of trade receivables is reviewed on an ongoing basis. Trade receivables that do not contain a significant financing component are measured at the transaction price.

A receivable is recognised when it is probable that the future cash inflows associated with it will be realised and it has a value that can be measured reliably. It is derecognised when the contractual rights to future cash inflows from it expire or are transferred.

If there is objective evidence at year end that a receivable may not be collectable, its carrying amount is reduced by means of an allowance for impairment or allowance for expected credit losses and the resulting loss is recognised in the statement of comprehensive income. Receivables are monitored during the year and bad debts are written off against the allowance when those are determined to be irrecoverable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that trade receivables are impaired.

TAHE holds receivables with the objective to collect the contractual cash flows and therefore measures them at amortised cost using the effective interest method subsequent to initial recognition. Changes are recognised in the net result for the year when impaired, derecognised or through the amortisation process.

Refer Note 6.

Note 2 Summary of significant accounting policies (continued)

2.8 Non-current assets held for sale

Non-current assets are classified as held for sale, where their carrying amount will be recovered principally through a sale transaction, not through continuing use. This condition is regarded as met when the sale is highly probable; the asset is available for immediate sale in its present condition and is expected to be completed within 1 year from the date of classification.

Non-current assets held for sale are recognised at the lower of carrying amount and fair value less cost to sell. Such assets are presented separately from other assets in the statement of financial position and are not depreciated or amortised while they are classified as held for sale.

2.9 Property, plant and equipment

(i) Recognition

An item of property, plant and equipment is recognised as an asset if it has service potential controlled by TAHE, is expected at acquisition to be used for more than 1 year, has a cost or value that can be measured reliably and exceeds the capitalisation threshold.

A component is accounted for separately if it:

- has a useful life materially different from that of the prime asset and therefore requires separate replacement during the life of the prime asset,
- is significant enough to justify separate tracking, and
- is capable of having a reliable value attributed to it.

A dedicated spare part does not normally have a useful life of its own. Dedicated spares purchased specifically for a particular asset, or class of assets, and which would become redundant if that asset or class were retired or use of that asset or class were discontinued, are considered to form part of the historical cost of that asset or class.

Expenditure on the acquisition, replacement or enhancement of property, plant and equipment is capitalised, provided it exceeds the capitalisation threshold or qualifies for recognition as a capital spare.

The capitalisation threshold for a network of property, plant and equipment items or for an individual (non-networked) item (other than a capital spare) is $5,000. A capital spare is only capitalised if it is part of a pool of rotable spares, primarily held for the overhaul of the asset to which it relates, and significant enough to warrant it being individually tracked. Expenditure below the capitalisation threshold or not qualifying for recognition as a capital spare is charged to the statement of comprehensive income.

An item of property, plant and equipment in the course of construction is classified as capital work in progress.

An item leased to a lessee under an operating lease continues to be recognised as property, plant and equipment and to be classified according to the nature of the asset.

(ii) Measurement

An item of property, plant and equipment purchased or constructed is initially measured at its cost, which is its fair value on acquisition and subsequently carried at fair value less accumulated depreciation and impairment.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of acquisition or construction or where applicable the amount attributed to that asset when initially recognised. The cost includes the purchase price and any costs directly attributable to bringing it to the location and condition necessary for it to be capable of operating as intended.

Note 2 Summary of significant accounting policies (continued)

2.9 Property, plant and equipment (continued)

(ii) Measurement (continued)

Fair value is defined as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.' There are three approaches to estimating fair value:

- the market approach, where fair value is determined using prices and other relevant information generated by market transactions involving identical or comparable assets or groups of assets;
- the income approach, where fair value is determined by converting future cash flows to a single current (discounted) amount; and
- the cost approach, where fair value is determined by calculating the current replacement cost of an asset, which represents the amount that would be required currently to replace the service capacity of an asset.

An item of property, plant and equipment acquired at no cost, or for a nominal cost, is initially measured at its fair value.

<u>As at 30 June 2021</u>

TAHE estimates the fair value of the majority of property, plant and equipment using the income approach at a cash generating unit (CGU) level. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. TAHE has a total of 3 cash generating units comprising of:

- metropolitan regulated assets
- metropolitan and regional unregulated assets
- country rail network

The CGUs represent the lowest level at which the assets work together to provide services to customers and to generate cash flows. From a market participant's perspective, the existing use of TAHE's CGUs represents their highest and best use. The 'regulated assets' comprise of tracks, tunnels, bridges, corridor land, network control and signalling assets. The 'unregulated assets' comprise of rolling stock, unregulated land and station assets.

Management have adopted an expected cash flow approach when assessing future cash flows in accordance with accounting standards. Under this approach, the fair value is estimated using the future net cash flows (discounted to their present value) from the CGUs. Determining fair value under this approach is dependent on management assumptions and judgements used to estimate the future net cash flows.

The discounted cash flow model is based on the following management assumptions and judgements:

- expected cash flows are based on the terms of existing contracts, along with the entity's knowledge of the business and assessment of the likely current economic environment impacts, adjusted to account for an expected arm's length market participant's view of cash flow risks
- income growth rates derived from the underlying contractual data
- the discount rates of 3% to 4.63% which is the real post tax weighted average cost of capital (including asset specific premiums)
- the term of modelling is 10 years plus a terminal value due to the long lives of the assets
- a risk adjustment has been made for cash flows outside the contracted period to account for 're-contracting risk'

Any surplus land assets continues to be valued using the market approach similar to the prior year.

Note 2 Summary of significant accounting policies (continued)

2.9 Property, plant and equipment (continued)

(ii) Measurement (continued)

Where an item of property, plant and equipment is revalued, any accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset accordingly.

Valuation increments are credited directly to revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of the same CGU previously recognised as an expense in the statement of comprehensive income, in which case the increment is recognised immediately as revenue in the statement of comprehensive income.

Valuation decrements are recognised immediately as expenses in the statement of comprehensive income, except that, to the extent that a credit balance exists in the revaluation reserve in respect of that CGU in which case the decrement is debited directly to the revaluation reserve.

Prior policy

TAHE valued its assets at depreciated replacement in the prior year as it was a not-for-profit entity (except for land which continues to be valued using the market approach).

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at measurement date or if such price is not observable or estimable from market evidence, its replacement costs. Replacement cost is the written-down cost of an optimised modern equivalent asset. Non-specialised assets with short useful lives such as minor plant and equipment are measured at depreciated historical cost as a proxy for fair value. TAHE has assessed the difference between fair value and depreciated historical cost to be immaterial.

Property, plant and equipment is revalued, at least once every 5 years with the exception of land which is revalued every 3 years where the market approach is used having regard to its highest and best use in accordance with TPP 14-1 *Accounting Policy: Valuation of Physical Non-Current Assets at Fair Value* (TPP 14-1). As existing natural, legal, financial or socio-political restrictions on asset use or disposal generally prevent any alternative use being feasible within the next 5 years, highest and best use is taken to be existing use. An interim revaluation in accordance with TPP 14-1 will be undertaken as appropriate where a cumulative movement in indexes exceeds 12% or is material.

Specialised assets are measured at depreciated replacement cost. Depreciated replacement cost is based on the incremental optimised replacement cost. Optimised replacement cost is the minimum cost in the normal course of business to replace the existing asset with a technologically modern equivalent asset with the same economic benefits after adjusting for over design, over capacity and redundant components.

If an item of property, plant and equipment is revalued, the entire class to which it belongs is revalued unless the revaluation is undertaken on a rolling basis.

When revaluing non-current assets by reference to current prices for assets newer than those being revalued (adjusted to reflect the present condition of the assets), the gross amount and the related accumulated depreciation are separately restated.

For other assets, any accumulated depreciation at the date of a revaluation is restated proportionately with the change in the gross carrying amount of the related asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Revaluation increments are credited directly to revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in the statement of comprehensive income, in which case the increment is recognised immediately as revenue in the statement of comprehensive income.

Revaluation decrements are recognised immediately as expenses in the statement of comprehensive income, except that, to the extent that a credit balance exists in the revaluation reserve in respect of the same class of assets, they are debited directly to the revaluation reserve.

Note 2 Summary of significant accounting policies (continued)

2.9 Property, plant and equipment (continued)

(iii) Derecognition

An item of property, plant and equipment is derecognised either on disposal or when its service potential ceases and it is not expected to have any disposal value.

On derecognition of an item of property, plant and equipment, any gain or loss or any related compensation receivable is recognised in the statement of comprehensive income. Any revaluation increase remaining in the asset revaluation reserve in respect of a derecognised asset is transferred to retained earnings.

Refer Note 7.

(iv) Impairment of property, plant and equipment

TAHE assesses at each reporting date for any indication that an asset may be impaired. If an indication exists, TAHE assesses the asset's recoverable amount. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered to be impaired and is written down to the recoverable amount.

As at 30 June 2021

An impairment loss is recognised in the statement of comprehensive income to the extent the impairment loss exceeds the amount in the revaluation surplus for the asset or CGU. After an impairment loss has been recognised, it is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited so that the carrying amount of the asset or CGU does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset or CGU in prior years. A reversal of an impairment loss for a CGU shall be allocated to the assets of the unit, pro rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and is recognised in other comprehensive income as a revaluation increase. However, to the extent that an impairment loss on the same asset or CGU was previously recognised in the statement of comprehensive income, a reversal of that impairment loss is also recognised in the statement of comprehensive income.

Prior policy

The former RailCorp was a not-for-profit entity in the prior year and continues to assess for impairment under AASB 136. Impairment under AASB 136 *Impairment of Assets* is unlikely to arise given that the recoverable amount test for non-cash generating assets is the higher of fair value less costs of disposal and depreciated replacement cost (where depreciated replacement cost is also the fair value).

Specialised assets held for continuing use of their service capacity are rarely sold and their cost of disposal is typically negligible. Their recoverable amount is expected to be materially the same as fair value, where they are regularly revalued under AASB 13 *Fair Value Measurement*.

Note 2 Summary of significant accounting policies (continued)

2.9 Property, plant and equipment (continued)

(iv) Impairment of property, plant and equipment (continued)

An impairment loss is recognised in the statement of comprehensive income to the extent the impairment loss exceeds the amount in the revaluation surplus for the class of asset. After an impairment loss has been recognised, it is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in other comprehensive income and is treated as a revaluation increase. However, to the extent that an impairment loss on the same class of asset was previously recognised in the statement of comprehensive income, a reversal of that impairment loss is also recognised in the statement of comprehensive income.

(v) Airport Link Company Contract

TAHE has an arrangement with the Airport Link Company (ALC). Under the arrangement:

- ALC has a concession to build, operate and maintain 4 stations on the Airport Line until 2030.
- TAHE will take over operation of the stations in 2030. The arrangement commenced in May 2000.
- In October 2005, TAHE entered into a Restated Stations Agreement (RSA) as part of the overall restructuring of the ALC operations and related debt. The revised agreement included amended terms in respect of various matters including revenue sharing, fee arrangements and TAHE's various performance obligations which are now mainly fulfilled by Sydney Trains as the provider of train services and TfNSW for ticketing.
- In March 2011, the RSA was varied to remove the station access fee for passengers using Mascot and Green Square stations with TAHE instead paying ALC a shadow station access fee.
- In August 2014, the RSA was varied further as a result of the impact of the introduction of Opal ticketing.
- In June 2018, a direction was issued by the Secretary of Transport to transfer the annual train service fees net of shadow station access fees and other costs to Sydney Trains to fund the provision of train services.
- On 1 July 2020 the TAHE Implementation Deed continued the previous arrangement to transfer the annual train service fees net of shadow station access fees and other costs to Sydney Trains to fund the provision of train services for the 2020-21 financial year.

Note 2 Summary of significant accounting policies (continued)

2.10 Intangible assets

(i) Recognition

An identifiable, non-monetary asset without physical substance (such as computer software that is not integral to the related hardware) is recognised as an intangible asset if it has service potential controlled by TAHE, is expected at acquisition to be used for more than 1 year, has a cost or value that can be measured reliably and exceeds the capitalisation threshold of $5,000.

The service potential is assessed using reasonable and supportable assumptions relating to the estimated conditions likely to exist over the useful life of the asset.

An intangible asset arising from development (or from the development phase of an internal project) is only recognised if it is likely to be completed and actually used and the development expenditure can be measured reliably. Expenditure on research (or on the research phase of an internal project) is not recognised as an intangible asset.

An intangible asset in the course of development is classified as intangible capital work in progress.

(ii) Measurement

An intangible asset that is purchased or internally developed is initially measured at its cost. This includes the purchase price and any costs directly attributable to preparing the asset for its intended use. An intangible asset acquired at no cost, or for a nominal cost, because it is transferred by the government is initially measured at its fair value, which is based on its amortised cost as recognised by the transferor. After initial recognition, such assets are accounted for under the cost model.

Due to the absence of active markets for intangible assets, they are not subsequently revalued but continue to be carried at cost less any accumulated amortisation.

(iii) Derecognition

An intangible asset is derecognised either on disposal or when its service potential ceases and it is not expected to have any disposal value. On derecognition, any gain or loss is recognised in the statement of comprehensive income.

(iv) Impairment

Intangible assets are tested for impairment where an indicator of impairment exists. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to recoverable amount and the reduction is recognised as an impairment loss.

Refer Note 8.

Note 2 Summary of significant accounting policies (continued)

2.11 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to TAHE and other amounts. A payable is recognised in the statement of financial position when a present obligation arises under a contract.

Trade and other payables are financial liabilities at amortised cost, initially measured at fair value, net of directly attributable transaction costs. These are subsequently measured at amortised cost using effective interest method. A payable is measured at original invoice amount, which is not materially different from amortised cost due to the short-term nature of trade payables.

Payables are derecognised when the obligation expires or is discharged, cancelled or substituted. Any gain or loss arising when a payable is settled or transferred is recognised in the statement of comprehensive income.

Trade payables are unsecured and, unless otherwise agreed with the creditor, are due for settlement by the end of the month following the month in which the invoice is received.

Refer Note 9.

2.12 Borrowings

A borrowing is recognised when a present obligation arises under a debt instrument. It is classified as a current liability if settlement is due within twelve months after the reporting date. Otherwise it is classified as non-current. It is derecognised when the obligation expires or is discharged, cancelled or substituted.

A borrowing is initially measured at its fair value and subsequently measured at amortised cost, being its face value less unamortised discount or plus unamortised premium.

Discount or premium is amortised over the term of the borrowing on an effective interest rate basis and recognised as a loss or gain in the statement of comprehensive income. Any difference between the carrying amount and the consideration paid on repayment or transfer of a borrowing is also recognised as a gain or loss.

TAHE will be required to pay a Government Guarantee Fee to NSW Treasury commencing 1 July 2021.

Refer Note 10.

Note 2 Summary of significant accounting policies (continued)

2.13 Provisions

(i) Provisions generally

Provisions are made for liabilities of uncertain amount or uncertain timing of settlement, e.g. employee benefits, workers' compensation claims, public liability claims, legal claims, Airport Line asset replacement, quarry restoration and land and buildings remediation.

A provision is recognised when:

- there is a likely present legal or constructive obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised is the best estimate of the expenditure required to settle the likely present obligation as at reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision. Where the effect of the time value of money is material, a provision is measured using the present value of the expenditures expected to be required to settle the obligation and using a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time (i.e. the unwinding of the discount rate) is recognised as a finance cost.

Each provision is reviewed as at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that a settlement will be required, the provision is reversed. A provision is only used for its intended purpose.

(ii) Employee benefits

Superannuation is recognised as a provision when the obligations arise, which is usually through the rendering of service by employees. Expenditure creating such provisions is either expensed or capitalised, depending on its nature.

Superannuation is actuarially assessed prior to each reporting date and is measured at the present value of the estimated future payments. The amount recognised for the superannuation provision is the net total of the present value of the defined benefit obligation at the reporting date, minus the fair value at that date of any plan assets out of which the obligations are to be settled directly. Investment credits are not netted off against the superannuation contribution tax when calculating the net defined benefit liability (asset) at balance date. However, any prepaid superannuation asset recognised cannot exceed the total of any cumulative unrecognised net actuarial losses and past service cost and 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.

The amount recognised in the statement of comprehensive income for superannuation is the net total of current service cost and the net interest. Actuarial gains or losses for superannuation are recognised in the other comprehensive income.

The actuarial assessment of superannuation uses the Projected Unit Credit Method and reflects estimated future salary increases and the benefits set out in the terms of the plan. The liabilities are discounted using the market yield rate on government bonds of similar maturity to those obligations. Actuarial assumptions are unbiased and mutually compatible and financial assumptions are based on market expectations for the period over which the obligations are to be settled.

An asset relating to one superannuation plan is not offset against a liability relating to another plan because there is no legally enforceable right to do so.

Refer Note 14 and Note 20.

Note 2 Summary of significant accounting policies (continued)

2.14 Contributed equity and share capital

Contributed equity comprises of cash transfers from NSW Treasury to fund capital construction and assets and liabilities transferred to / from other NSW public sector entities. TAHE accounts for the transaction as a contribution by or distribution to the Government in accordance with TPP 09-3 *Accounting Policy: Contribution by Owners made to wholly-owned public sector entities.*

TAHE converted to a statutory State Owned Corporation on 1 July 2020. TAHE has two voting shareholding Ministers with an equal number of shares under the *State Owned Corporations Act 1989.* The ordinary shares are classified as equity and valued at a $1 each.

Refer Note 15.

2.15 Taxes

(i) Income tax equivalents

TAHE was registered under the Tax Equivalent Regime commencing on 1 July 2020. The *Income Tax Assessment Act 1936* and the *Income Tax Assessment Act 1997* exempts TAHE from liability for Commonwealth income tax. However, TAHE is subject to tax equivalent payments to the New South Wales Government. Tax equivalent payments are based on TAHE's accounting profit and as at the 30 June 2021 is nil.

In the prior year, the TAHE was exempt from the Tax Equivalent Regime and the National Tax Equivalent Regime as it was a not for profit entity.

(ii) Goods and Services Tax

Revenues, expenses and assets are generally recognised net of the amount of Goods and Services Tax (GST). However, receivables and payables are stated with the amount of GST included, and GST that is not recoverable from the Australian Taxation Office (ATO) is recognised as part of the relevant asset or expense.

The net amount of GST recoverable from (or payable to) the ATO is recognised as part of receivables (or payables) in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis and the GST component of any cash flow arising from investing activities that is recoverable from (or payable to) the ATO is classified as an operating cash flow.

(iii) State taxes

TAHE was exempted from State taxes for a period of 12 months (TA Act, Schedule 7, clause 227). State tax is not chargeable for the financial year ended 30 June 2021 for land owned by, or leased to, TAHE and used primarily for railway purposes (other than land subject to a lease or licence by TAHE to another person other than a public transport agency) or any other matter or thing done by TAHE in the exercise of its functions. The former RailCorp was a NSW Government agency exempt from State Taxes.

2.16 Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Recognition and measurement

(a) As lessee

TAHE assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. TAHE recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets, except for short-term leases and leases of low-value assets (if any).

Note 2 Summary of significant accounting policies (continued)

2.16 Leases (continued)

Recognition and measurement **(continued)**

(a) As lessee (continued)

Right-of-use assets under leases at significantly below-market terms and conditions that are entered into principally to enable TAHE to further its objectives, are measured at cost. These right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, subject to impairment.

(b) As lessor

(i) Operating lease

An operating lease is a lease other than a finance lease. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of comprehensive income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the underlying asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(ii) Finance lease

Leases that TAHE transfers substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. At the lease commencement date, TAHE recognises a receivable for assets held under a finance lease in its statement of financial position at an amount equal to the net investment in the lease. The net investment in leases is classified as financial assets amortised cost and equals the lease payments receivable by a lessor and the unguaranteed residual value, plus initial direct costs, discounted using the interest rate implicit in the lease initial direct costs.

Finance income arising from finance leases is recognised over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.

(iii) Arrangements in the form but not the substance of a lease

An arrangement comprising a series of transactions involving the legal form, but not the economic substance, of a lease is accounted for as one linked transaction rather than as a lease. Any fee resulting from the arrangement is recognised as income in the year it is received.

(iv) Accounting treatment for prepaid rentals

Prepaid rentals where the initial lease term exceeds 50 years are treated as sales in accordance with NSW Treasury policy, TPP 11-1 *Accounting Policy: Lessor Classification of Long Term Land Leases*.

2.17 Foreign currency translation

A foreign currency transaction is recognised and initially translated into Australian currency using the market rate at the date of the transaction. Outstanding transactions at any subsequent reporting date are translated at the market rate at that date.

Note 2 Summary of significant accounting policies (continued)

2.18 Financial instruments

Financial instruments are contracts that give rise to both a financial asset of one entity and a financial liability (or equity instrument) of another entity. They include cash and cash equivalents, receivables, payables and borrowings.

(i) Recognition

A financial asset or financial liability is recognised when TAHE becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the contractual rights to the associated cash flows expire or if TAHE 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 either:

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

When TAHE has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

Financial liabilities are derecognised when the contractual obligation is discharged, cancelled, or expires.

Any applicable amortisation, impairment loss (or reversal), or fair value adjustment is recognised in the statement of comprehensive income.

On derecognition, any difference between the items carrying amount and the consideration received or paid is recognised in the statement of comprehensive income.

(ii) Measurement

On initial recognition, a financial asset or financial liability is measured at its fair value (which is usually its cost) plus any directly-attributable transaction costs.

After initial recognition, receivables and payables are carried in the statement of financial position at amortised cost, which is a reasonable approximation of their fair value. Borrowings are carried at amortised cost. Their fair value at year end is disclosed in Note 10.

(iii) Offsetting financial assets and liabilities

TAHE does not offset its financial assets and liabilities and has no offsetting arrangements in place.

Note 2 Summary of significant accounting policies (continued)

2.19 Impairment of financial assets

TAHE recognises an allowance for expected credit losses (ECLs) for debt financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows and the cash flows that TAHE expects to receive, discounted at the original effective interest rate.

For trade and other receivables, TAHE applies the simplified approach in calculating ECLs. TAHE recognises a loss allowance based on lifetime ECLs at each reporting date. TAHE has established a provision matrix based on its historical credit loss experience for trade receivables, adjusted for forward-looking factors specific to each receivable.

Trade debtors are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others a failure to make contractual payments for a period of greater than 90 days past due.

2.20 Fair value hierarchy

A number of the TAHE accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring fair value, the valuation technique used maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Under AASB 13, TAHE categorises, for disclosure purposes, the valuation techniques based on the inputs as follows:

- Level 1 - Derived from quoted market prices in active markets for identical assets/ liabilities. Quoted market price represents the fair value determined based on the quoted prices on active markets as at the reporting date without any deduction of transaction costs.
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable directly or indirectly.
- Level 3 – Inputs that are not based on observable market data (unobservable inputs).

Refer Note 17 and Note 18.

2.21 Contract assets and liabilities

Contract assets relate to TAHE’s right to consideration in exchange for goods transferred to customers/ works completed, but not billed at the reporting date. TAHE does not have any contract assets as at 30 June 2021 (2020: Nil).

Contract liabilities relate to consideration received in advance from customers. The balance of contract liabilities is impacted primarily by the timing of the provision of the performance obligations and the agreed payment terms under the arrangement.

2.22 Dividends

A dividend is only payable in a financial year if it is agreed by the TAHE Board and the relevant Ministers. A provision for the full amount of the dividend is recognised in the statement of financial position to the extent that TAHE has a present obligation for a future payment. The provision for dividend is calculated in accordance with requirements of TPP 14-04 *Financial Distribution Policy for Government Businesses*. TAHE did not pay any dividends in the current financial year.

2.23 Retained earnings

Retained earnings includes all current and prior period retained funds.

Note 2 Summary of significant accounting policies (continued)

2.24 Adoption of new and revised Accounting Standards

The financial statements have adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to TAHE effective for the annual reporting period beginning on 1 July 2020. The adoption of these new and revised Standards and Interpretations has not resulted in any significant changes to TAHE's accounting policies.

TAHE did not early adopt any new Accounting Standards and Interpretations that are not yet effective in accordance with NSW Treasury mandates.

The following new Accounting Standards and Interpretations apply to TAHE and have not been adopted and are not effective as at 30 June 2021. The standards are effective for annual reporting periods commencing on or after 1 January 2021.

AASB/ Amendment	Title	Issue Date	Application date of Standard
AASB 2020-1	Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current	Mar 2020	1 Jan 2022
AASB 2020-2	Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities	Mar 2020	1 Jul 2021
AASB 2020-3	Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments	Jun 2020	1 Jan 2022
AASB 2020-6	Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date	Aug 2020	1 Jan 2022
AASB 2020-8	Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2	Sep 2020	1 Jan 2021
AASB 2021-3	Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions beyond 30 June 2021	Apr 2021	1 Apr 2021

The impact of the standards is not anticipated to be significant.

Note 3 Income

3.1 Revenue from contracts with customers

	2020-21 $'000	2019-20 $'000
Access fees	58,572	63,352
Other	14,856	14,784
Total Income from operating activities	**73,428**	**78,136**

3.2 Investment revenue

Rental income	31,440	35,992
Interest	250	261
Operating lease contingent rents	21,743	79,476
Finance income on the net investment in the lease	1,369	1,382
Total investment revenue	**54,802**	**117,111**

3.3 Government and other grants

Capital	44	4,598
Operating	105,703	75,983
Total government and other grants	**105,747**	**80,581**

3.4 Other

Gains on disposal of finance lease receivables	-	216
Assets recognitions	115,235	20,899
Gain on disposal of land and other assets	27,213	954
Other services	3,792	4,173
Total other income	**146,240**	**26,242**

Note 4 Expenses

4.1 Operating expenses

	2020-21 $'000	2019-20 $'000
Employee related expenses	1,444	5,703
Other payroll related costs	4,118	-
State taxes	16,168	401
Contribution paid to Sydney Trains	-	47,078
Management and property services	30,179	39,896
Contractors	88,153	72,090
Auditor's remuneration - audit of the financial statements	333	330
Consultants	2,404	-
Other	6,596	9,668
Total other operating expenses	**149,395**	**175,166**

4.2 Maintenance expenses

Sydney Trains is responsible for the maintenance of rail assets excluding assets relating to the Country Regional Rail Network. In addition to recurrent maintenance expenditure it incurred, it also charged TAHE $289.7m (2020: $291m) major periodic maintenance that was capitalised which is reflected in Note 7.

TAHE also incurred maintenance expenditure of $148.6m (2020: $138.5m) in relation to the Country Regional Rail Network of which major periodic maintenance of $83.7m (2020: $81.2m) was capitalised during the year.

4.3 Finance costs

Borrowing and interest charges	64,732	82,425
Discounting of provisions	8	87
Total finance costs	**64,740**	**82,512**

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Note 5 Cash and cash equivalents

5.1 Cash and cash equivalents

	30.6.2021 $'000	30.6.2020 $'000
Cash at bank	66,457	6,147
Total cash and cash equivalents	**66,457**	**6,147**

The above cash and cash equivalents reconciles to the statement of cash flows.

5.2 Reconciliation of profit/ (loss) for the year with net cash flows from operating activities

	30.6.2021 $'000	30.6.2020 $'000
Profit / (loss) for the year	**(20,046,522)**	**(1,506,483)**
Cash capital contributions	(44)	(4,598)
Derecognition and write off of assets	48,684	143,109
Depreciation and amortisation	1,517,252	1,404,892
Impaired trade receivables expense	3	106
Impairment of assets	(173)	593
Non cash financing activities	(28,893)	(20,619)
Termination of finance lease	-	(216)
Assets recognised for the first time	(115,235)	(20,899)
Revaluation of property, plant and equipment	18,617,391	-
Discounting of provisions	8	87
Net movements in assets and liabilities applicable to operating activities:		
(Increase)/ decrease in trade and other receivables	(3,180)	(9,616)
Increase/ (decrease) in trade and other payables and provisions	22,374	17,458
Increase/ (decrease) in contract liabilities	(209)	3,475
Net cash flows from/ (used in) operating activities	**11,456**	**7,289**

5.3 Credit standby arrangements and loan facilities

The credit standby arrangements and unused amounts available are:

	30.6.2021 Credit Facilities $'000	30.6.2021 Unused $'000	30.6.2020 Credit Facilities $'000	30.6.2020 Unused $'000
Transaction negotiation authority	251,000	251,000	251,000	251,000
Borrowing facility	2,509,000	9,200	2,512,200	7,660
Come and Go facility	100,000	100,000	100,000	100,000
Total	**2,860,000**	**360,200**	**2,863,200**	**358,660**

5.4 Non-cash investing activities

During 2020-21, TAHE recognised a net equity increase of $4.1m (2020: $4,718m increase) as a result of assets transferred to and from other entities. Refer Note 15.2.

Notes to the financial statements for the year ended 30 June 2021

Note 6 Trade and other receivables

6.1 Trade and other receivables

	Note	30.6.2021 $'000	30.6.2020 $'000
Current trade and other receivables			
Trade receivables from contracts with customers		12,031	21,786
Retained taxes, fees and fines		42,096	35,203
Other receivables		15,277	7,487
Finance lease - minimum payments	13.3	188	181
Less: allowance for expected credit losses*	6.2	(4,162)	(1,702)
Prepayments		512	369
Total current trade and other receivables		**65,942**	**63,324**
Non-current receivables			
Other receivables Non-current		28,584	1,250
Finance lease - minimum payments	13.3	25,220	25,407
Total non-current receivables		**53,804**	**26,657**
Total trade and other receivables		**119,746**	**89,981**

**The allowance for trade receivables from contracts with customers is $0.2m in the current year (2020: $0.66m).*

Movements in the allowance for expected credit losses balance is as follows:

Opening balance	(1,702)	(242)
Amounts recovered during the year	-	-
Amounts written off	3	106
GST movement	(224)	(133)
Allowance recognised in statement of comprehensive income**	(2,239)	(1,433)
Closing balance	**(4,162)**	**(1,702)**

***The impairment losses/ gains for contracts with customers is a gain of $0.4m in the current year (2020: $0.59m loss).*

Note 6 Trade and other receivables (continued)

6.2 Aging analysis

The loss allowance for trade debtors as at 30 June is determined as follows:

	Current $'000	<30 Days $'000	30-60 days $'000	61-90 days $'000	>91 days $'000	Total $'000
30 June 2021						
Expected average credit loss rate	6.53%	19.12%	41.53%	45.27%	64.58%	
Estimated total gross carrying amount of default	6,906	1,433	850	634	3,746	13,569
Expected credit loss	451	274	353	287	2,419	3,784
30 June 2020						
Expected average credit loss rate	7.40%	11.63%	20.11%	15.86%	51.03%	
Estimated total gross carrying amount of default	9,648	1,384	532	435	972	12,971
Expected credit loss	714	161	107	69	496	1,547

Note: The analysis excludes statutory receivables, prepayments, as these are not within the scope of AASB 7 hence the 'total' will not reconcile to the receivables total in Note 6.1.

6.3 Nature and extent of risk arising from receivables

Information about TAHE's exposure to credit risk in relation to trade and other receivables is provided in Note 18. Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

Notes to the financial statements for the year ended 30 June 2021

Note 7 Property, plant and equipment

7.1 Classes

	Land	Buildings	Rolling Stock	Plant and Machinery	Trackwork and Infrastructure	Capital works in progress	Total*
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Property, plant & equipment held and used by TAHE							
Year ended 30 June 2021							
Gross carrying amount	2,170,899	3,141,126	961,942	93,143	6,030,333	4,643,402	17,040,845
Accumulated depreciation	-	-	-	-	-	-	-
Net carrying amount	**2,170,899**	**3,141,126**	**961,942**	**93,143**	**6,030,333**	**4,643,402**	**17,040,845**
Year ended 30 June 2020							
Gross carrying amount	5,243,972	12,588,443	5,091,275	507,876	59,695,443	3,617,488	86,744,497
Accumulated depreciation	-	(5,292,898)	(3,224,028)	(262,736)	(37,858,020)	-	(46,637,682)
Net carrying amount	**5,243,972**	**7,295,545**	**1,867,247**	**245,140**	**21,837,423**	**3,617,488**	**40,106,815**
At 1 July 2019							
Gross carrying amount	5,088,682	11,313,014	4,960,780	329,085	40,969,511	2,666,069	65,327,141
Accumulated depreciation	-	(4,537,006)	(3,057,060)	(226,861)	(24,565,335)	-	(32,386,262)
Net carrying amount	**5,088,682**	**6,776,008**	**1,903,720**	**102,224**	**16,404,176**	**2,666,069**	**32,940,879**
Property, plant & equipment under operating leases where TAHE is the lessor							
Year ended 30 June 2021							
Gross carrying amount	104,105	195,345	-	-	-	-	299,450
Accumulated depreciation	-	-	-	-	-	-	-
Net carrying amount	**104,105**	**195,345**	**-**	**-**	**-**	**-**	**299,450**
Year ended 30 June 2020							
Gross carrying amount	104,806	766,064	-	-	-	-	870,870
Accumulated depreciation	-	(328,903)	-	-	-	-	(328,903)
Net carrying amount	**104,806**	**437,161**	**-**	**-**	**-**	**-**	**541,967**
At 1 July 2019							
Gross carrying amount	99,847	746,378	-	-	-	-	846,225
Accumulated depreciation	-	(311,099)	-	-	-	-	(311,099)
Net carrying amount	**99,847**	**435,279**	**-**	**-**	**-**	**-**	**535,126**
Total property, plant & equipment							
Year ended 30 June 2021							
Gross carrying amount	2,275,004	3,336,471	961,942	93,143	6,030,333	4,643,402	17,340,295
Accumulated depreciation	-	-	-	-	-	-	-
Net carrying amount	**2,275,004**	**3,336,471**	**961,942**	**93,143**	**6,030,333**	**4,643,402**	**17,340,295**
Year ended 30 Jun 2020							
Gross carrying amount	5,348,778	13,354,507	5,091,275	507,876	59,695,443	3,617,488	87,615,367
Accumulated depreciation	-	(5,621,801)	(3,224,028)	(262,736)	(37,858,020)	-	(46,966,585)
Net carrying amount	**5,348,778**	**7,732,706**	**1,867,247**	**245,140**	**21,837,423**	**3,617,488**	**40,648,782**
At 1 July 2019							
Gross carrying amount	5,188,529	12,059,392	4,960,780	329,085	40,969,511	2,666,069	66,173,366
Accumulated depreciation	-	(4,848,105)	(3,057,060)	(226,861)	(24,565,335)	-	(32,697,361)
Net carrying amount	**5,188,529**	**7,211,287**	**1,903,720**	**102,224**	**16,404,176**	**2,666,069**	**33,476,005**

Note 7 Property, plant and equipment (continued)

7.2 Reconciliation – total property, plant and equipment

A reconciliation of the carrying amount at the beginning and end of the period is set out below:

	Land	Buildings	Rolling Stock	Plant and Machinery	Trackwork and Infrastructure	Capital Work in Progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2021							
Net carrying amount at the beginning of the year	**5,348,778**	**7,732,706**	**1,867,247**	**245,140**	**21,837,423**	**3,617,488**	**40,648,782**
Additions	-	114,595	-	-	34,137	2,749,159	2,897,891
Completed capital work	-	516,554	582,799	(87)	622,689	(1,721,955)	-
Assets held for sale	(4,007)	-	-	-	-	-	(4,007)
Disposals/ derecognition/ write-offs	(3,043)	(13,700)	-	(1,710)	(55,472)	(5,016)	(78,941)
Transfers from Transport cluster	407	-	-	-	-	2,770	3,177
Valuation - reserves	(1,807,022)	(1,322,322)	76,048	(23,475)	(3,135,564)	-	(6,212,335)
Valuation - P&L	(1,260,109)	(3,502,918)	(1,398,346)	(104,597)	(12,173,900)	-	(18,439,870)
Depreciation expense	-	(260,135)	(168,644)	(23,322)	(1,023,430)	-	(1,475,531)
Impairment loss reversal	-	-	173	-	-	-	173
Other movements	-	71,691	2,665	1,194	(75,550)	956	956
Net Carrying amount at the end of the year	**2,275,004**	**3,336,471**	**961,942**	**93,143**	**6,030,333**	**4,643,402**	**17,340,295**
Year ended 30 June 2020							
Net carrying amount at the beginning of the year	**5,188,529**	**7,026,625**	**1,903,720**	**102,224**	**16,404,176**	**2,666,069**	**33,291,343**
Net adjustment on revocation of TPP06-8	-	184,662	-	-	-	-	184,662
Adjusted net carrying amount at the beginning of the year	**5,188,529**	**7,211,287**	**1,903,720**	**102,224**	**16,404,176**	**2,666,069**	**33,476,005**
Additions	216	1,316	-	-	19,583	2,072,734	2,093,849
Completed capital work	132	380,625	100,123	85,277	892,649	(1,458,806)	-
Assets held for sale	131	-	-	-	-	-	131
Disposals/ derecognition/ write-offs	(575)	(38,443)	-	(944)	(94,842)	(10,569)	(145,373)
Transfers to Transport cluster	(1,630)	-	-	-	-	(9,276)	(10,906)
Transfers from Transport cluster	161,975	20,433	-	96	4,189,121	357,336	4,728,961
Revaluation - reserve	-	531,771	-	-	1,340,838	-	1,872,609
Depreciation expense	-	(273,043)	(165,977)	(22,317)	(904,564)	-	(1,365,901)
Impairment*	-	-	(593)	-	-	-	(593)
Other movements	-	(101,240)	29,974	80,804	(9,538)	-	-
Net carrying amount at the end of the year	**5,348,778**	**7,732,706**	**1,867,247**	**245,140**	**21,837,423**	**3,617,488**	**40,648,782**

**In the prior year, TAHE recognised an impairment loss of $0.6m reducing the fair value of its rolling stock due to damage incurred. The impairment loss is recognised in the statement of comprehensive income and the asset's recoverable amount is $0.6m which reinstates the fair value.*

Note 7 Property, plant and equipment (continued)

7.3 Reconciliation – assets under operating leases and used by TAHE

A reconciliation of the carrying amount at the beginning and end of the period is set out below for land and buildings held and used by TAHE and under operating leases where TAHE is the lessor.

	Operating leases		Held and used assets		
	Land	Buildings	Land	Buildings	Total
	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2021					
Net carrying amount at the beginning of the year	**104,806**	**437,161**	**5,243,972**	**7,295,545**	**13,081,484**
Additions	-	-	-	114,595	114,595
Completed capital work	-	-	-	516,554	516,554
Asset held for sale	-	-	(4,007)	-	(4,007)
Disposals/ derecognition/ write-offs	-	-	(3,043)	(13,700)	(16,743)
Transfers from Transport cluster	-	-	407	-	407
Revaluation - reserve	(71,594)	(35,416)	(1,735,428)	(1,286,906)	(3,129,344)
Revaluation - net result	(48,440)	(188,428)	(1,211,669)	(3,314,490)	(4,763,027)
Depreciation expense	-	(17,972)	-	(242,163)	(260,135)
Other movements	119,333	-	(119,333)	71,691	71,691
Net carrying amount at the end of the year	**104,105**	**195,345**	**2,170,899**	**3,141,126**	**5,611,475**
Year ended 30 June 2020					
Net carrying amount at the beginning of the year	**99,847**	**250,617**	**5,088,682**	**6,776,008**	**12,215,154**
Net adjustment on revocation of TTP06-8	-	184,662	-	-	184,662
Adjusted net carrying amount at the beginning of the year	**99,847**	**435,279**	**5,088,682**	**6,776,008**	**12,399,816**
Additions	-	-	216	1,316	1,532
Completed capital work	-	-	132	380,625	380,757
Asset held for sale	-	-	131	-	131
Disposals/derecognition/write-offs	-	-	(575)	(38,443)	(39,018)
Transfers to Transport cluster	-	-	(1,630)	-	(1,630)
Transfers from Transport cluster	4,957	726	157,018	19,707	182,408
Revaluation - reserve	-	18,967	-	512,804	531,771
Depreciation expense	-	(17,804)	-	(255,239)	(273,043)
Other movements	2	(7)	(2)	(101,233)	(101,240)
Net carrying amount at the end of the year	**104,806**	**437,161**	**5,243,972**	**7,295,545**	**13,081,484**

Note 7 Property, plant and equipment (continued)

7.4 Valuation of property, plant and equipment

TAHE undertook a comprehensive valuation of all asset classes as at 30 June in the current financial year using the income valuation approach. Prior to 30 June, TAHE revalued its infrastructure assets using the depreciated replacement cost approach and land was valued using the market approach.

The following table details information on the revaluation activities undertaken:

Category	Valuer	Valuation technique	Date of revaluation	Revaluation increment/ (decrement)
Land	Colliers International and Preston Rowe Paterson	Market approach	1 Nov 2020	$1,072.0m
Buildings	Marsh	Cost approach*	1 Oct 2019	$531.8m
Rolling stock	SNC Lavalin Rail & Transit Pty Ltd/ AON Risk Services Australia Ltd	Cost approach*	1 Nov 2018	($220.0m)
Plant & machinery	AON Risk Services Australia Ltd	Cost approach*	1 Nov 2018	$26.2m
Trackwork & infrastructure	E3 Advisory	Cost approach*	1 Nov 2020	$1,231m

**The cost approach refers to depreciated replacement cost.*

Note 8 Intangible assets

8.1 Classes

	30.6.2021 $'000	30.6.2020 $'000
Gross carrying amount	102,993	397,722
Less accumulated amortisation and impairment	-	(119,247)
Net carrying amount of software/ licences	102,993	278,475
Work in progress	20,551	45,430
Total intangible assets	**123,544**	323,905

Note 8 Intangible assets (continued)

8.2 Movements during the year

	Intangible assets $'000	Intangible assets work in progress $'000	Total $'000
Year ended 30 June 2021			
Net carrying amount at the beginning of the year	**278,475**	**45,430**	**323,905**
Additions	-	18,882	18,882
Completed capital work	7,815	(7,815)	-
Amortisation expense	(41,722)	-	(41,722)
Impairment losses*	(141,574)	(35,947)	(177,521)
Transfers from Transport cluster	-	956	956
Other movements	-	(956)	(956)
Net carrying amount at the end of the year	**102,994**	**20,550**	**123,544**
Year ended 30 June 2020			
Net carrying amount at the beginning of the year	**294,224**	**64,962**	**359,186**
Additions	-	3,710	3,710
Completed capital work	23,242	(23,242)	-
Amortisation expense	(38,991)	-	(38,991)
Net carrying amount at the end of the year	**278,475**	**45,430**	**323,905**

**TAHE recognised an impairment loss of $177.5m in the current financial year as a result of the 30 June 2021 assessment. The impairment is the result of reassessment of intangible assets and the consideration as part of a CGU. The impairment loss is included in Valuation of property, plant and equipment and intangible assets in the statement of comprehensive income. The recoverable amount of the impaired assets is $103m which is the carrying amount.*

Note 9 Trade and other payables

9.1 Trade and other payables

	30.6.2021 $'000	30.6.2020 $'000
Current trade and other payables		
Trade payables	175	46
Transport cluster payables	1,545	14,900
Capital expenditure accruals	353,573	98,216
Other payables and accruals	44,211	40,007
Deferred revenue	2,701	3,999
Total current trade and other payables	**402,205**	**157,168**
Non- current trade and other payables		
Transport cluster payables	354,684	181,311
Total non-current trade and other payables	**354,684**	**181,311**
Total trade and other payables	**756,889**	**338,479**

9.2 Fair value

Due to the short-term nature of current trade and other payables, their carrying value is deemed to approximate their fair value.

Note 10 Borrowings

10.1 Borrowings

	Note	30.6.2021 $'000	30.6.2020 $'000
Current			
TCorp borrowings		644,368	87,730
Financial liability*		19,073	17,463
Total - current		**663,441**	**105,193**
Non-current			
TCorp borrowings		1,858,080	2,416,809
Financial liability*		223,564	242,637
Total - non-current		**2,081,644**	**2,659,446**
Total borrowings	10.2	**2,745,085**	**2,764,639**

**The financial liability relates to TAHE's contractual obligations under the Airport Link contract*

TAHE's borrowings are approved under the *Government Sector Finance Act 2018* and have an associated Government guarantee. The current borrowings are due to mature in the next 12 months and are expected to be refinanced on maturity. The liability is current as TAHE does not have an unconditional right to defer settlement for at least 12 months.

10.2 Changes in liabilities arising from financing activities

	1.7.2020 $'000	Cash flows** $'000	Non cash changes* $'000	30.6.2021 $'000
Borrowings	**2,764,639**	**9,337**	**(28,891)**	**2,745,085**
	1.7.2019 $'000	**Cash flows** $'000**	**Non cash changes* $'000**	**30.6.2020 $'000**
Borrowings	**2,808,816**	**(23,557)**	**(20,620)**	**2,764,639**

** Non-cash changes relate to the amortisation of the premium/ discount.*
*** Cash flows comprise of new borrowings of $26.8m (2020: $25.0m) offset by nil repayments (2020: $19.8m), and repayment of financial liability of $17.5m (2020: $28.8m)*

Note 11 Contract liabilities

	30.6.2021 $'000	30.6.2020 $'000
Contract liabilities-current	3,266	3,475
Contract receivables (included in Note 6)	12,031	21,786

The contract liability balance has decreased during the year consistent with the revenue receipted in advance for services yet to be performed.

The effect on the contract balances is outlined below:

	30.6.2021 $'000	30.6.2020 $'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	2,107	1,819
Revenue recognised from performance obligations satisfied in previous periods	-	-
Transaction price allocated to the remaining performance obligations from contracts with customers	1,898	1,918

The transaction price allocated to the remaining performance obligations is expected to be recognised as revenue in the next financial year.

Note 12 Other liabilities

	30.6.2021 $'000	30.6.2020 $'000
Current		
Deferred government grants - capital	24,845	-
Deferred government grants - operating	7,949	-
Total - current	**32,794**	-
Total other liabilities	**32,794**	-

Note 13 Leases

(a) As Lessee

13.1 Leases at significantly below-market terms and conditions

TAHE is a lessee under a number peppercorn lease arrangements with various local councils. The leased premises are primarily for the use of commuter car parks. The lease contracts specify lease payments of $1 per annum and the lease terms range from 10 years to 99 years. The leased premises accounts for a small portion of similar TAHE assets. Therefore, it does not have a significant impact on TAHE's operations.

(b) As Lessor

TAHE's properties are leased to tenants under operating leases with rentals payable monthly. Lease payments for some contracts include CPI increases, but there are no other variable lease payments that depend on an index or rate.

Although TAHE is exposed to changes in the residual value at the end of current leases, TAHE typically enters into new operating leases and therefore will not immediately realise any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of the properties.

13.2 Lessor for finance leases

Future minimum rentals receivable (undiscounted) under non-cancellable finance lease as at 30 June are, as follows:

	30.6.2021 $'000	30.6.2020 $'000
Within one year	1,550	1,550
One to two years	1,549	1,550
Two to three years	1,477	1,549
Three to four years	1,477	1,477
Four to five years	1,477	1,477
Later than five years	70,660	72,137
Total (excluding GST)	**78,190**	**79,740**

13.3 Reconciliation of net investment in leases

	30.6.2021 $'000	30.6.2020 $'000
Future discounted rentals receivable	78,190	79,740
Less: unearned finance income	(52,782)	(54,152)
Net investment in finance leases	**25,408**	**25,588**

There was no significant change to the carrying amount of net investment in finance leases from the prior year.

Notes to the financial statements for the year ended 30 June 2021

Note 14 Provisions

14.1 Provisions

	Note	30.6.2021 $'000	30.6.2020 $'000
Current provisions			
Workers' compensation	14.3	3,812	4,226
Total employee benefits and related on-costs		3,812	4,226
Public liability claims	14.4	37	371
Airport Line asset replacement	14.6	-	1,972
Quarry restoration	14.7	1,048	-
Land and building remediation	14.8	4,972	9,998
State taxes	14.9	16,105	-
Total other provisions		22,162	12,341
Total current provisions		**25,974**	**16,567**
Non-current provisions			
Workers' compensation	14.3	22,415	25,144
Superannuation	20	-	211,873
Total employee benefits and related on-costs		22,415	237,017
Quarry restoration	14.7	2,080	3,080
Land and building remediation	14.8	5,396	1,466
Total other provisions		7,476	4,546
Total non-current provisions		**29,891**	**241,563**
Total provisions			
Workers' compensation	14.3	26,227	29,370
Superannuation	20	-	211,873
Total employee benefits and related on-costs		**26,227**	**241,243**
Public liability claims	14.4	37	371
Airport Line asset replacement	14.6	-	1,972
Quarry restoration	14.7	3,128	3,080
Land and building remediation	14.8	10,368	11,464
State taxes	14.9	16,105	-
Total other provisions		29,638	16,887
Total provisions		**55,865**	**258,130**

Note 14 Provisions (continued)

14.2 Movements in provisions (other than employee benefit provisions)

	Carrying amount at start of year	Increase in provision	Discounting adjustment	Payments	Unused amount reversed	Carrying amount at end of year
	$'000	$'000	$'000	$'000	$'000	$'000
2021						
Public liability claims	371	9	-	(343)	-	37
Airport Line Asset replacement	1,972	-	-	(1,972)	-	-
Quarry restoration	3,080	41	7	-	-	3,128
Land & buildings remediation	11,464	1,600	-	(2,615)	(81)	10,368
State taxes	-	16,105	-	-	-	16,105
2020						
Public Liability Claims	345	336	-	(304)	(6)	371
Legal Claims	256	582	-	(838)	-	-
Airport Line Asset replacement	4,329	-	8	(2,365)	-	1,972
Quarry Restoration	4,233	-	47	(1,200)	-	3,080
Land & Buildings Remediation	11,042	5,347	32	(4,151)	(806)	11,464

Note 14 Provisions (continued)

14.3 Workers' compensation

Workers' compensation insurance is in place to cover any claim exceeding $1.5m as of 1 January 2021 (2020: $1.5m) and the workers' compensation provision is maintained for smaller claims, for which TAHE is a licensed self-insurer. The provision relates to claims incurred prior to 1 August 2014.

The workers' compensation liability at year end was assessed by Marsh Pty Ltd assuming a discount rate ranging from 0.1% to 2.2% per annum over the next 15 years (2020: 0.2% to 1.2% per annum over the next 15 years) and a future wage inflation rate is 2.5% per annum over the next 15 years (2020: 2.5% per annum over the next 15 years).

The actuary has advised that no allowance was made for asbestos related claims (2020: nil). Liabilities for such claims prior to July 1996 were vested to the Crown. Post 1996 exposure to asbestos is low, highly uncertain and, therefore, cannot be quantified with any reliability.

14.4 Public liability claims

The public liability claims provision recognises claims against TAHE that arise from personal injuries or property damage occurring on its premises or involving its assets.

Any claim recoverable from TAHE's insurer is also recognised as a receivable or disclosed as a contingent asset, depending on its probability of settlement. Refer Notes 6 and 17.

The liability at year end was assessed by management. The likely amount to be settled was assessed on the basis of past experience. The likely timing of settlement was assessed by reviewing individual claims. The timing of the liability is inherently uncertain due to disputes over the existence or quantum of individual claims.

14.5 Legal claims

The legal claims provision recognises claims against TAHE arising from legislative or contractual breaches or other matters.

The liability at year end was assessed by management by reviewing individual claims. The timing of the liability is inherently uncertain due to disputes over the existence or quantum of individual claims.

14.6 Airport Line asset replacement

The Airport Line asset replacement provision in the prior year recognised a provision for renewal of major track and tunnel assets on the Airport Line. The timing of payments was inherently uncertain as they are based on unpredictable future claims by the maintenance contractor.

14.7 Quarry restoration

The quarry restoration provision recognises TAHE's legal obligation to restore quarry sites when operations cease.

The liability at year end was assessed by an independent expert who undertook site inspections to estimate the minimum cost of the necessary restoration work. The timing of the liability is inherently uncertain due to the time likely to elapse before the restoration is required.

Note 14 Provisions (continued)

14.8 Land and buildings remediation provision

This provision is comprised of $3.5m (2020: $5.3m) for remediation of asbestos/ other hazardous materials and $6.9m (2020: $6.2m) for remediation of contaminated land. The liability is uncertain as it is based on forecasted cash flows and the timing of the actual works.

14.9 State taxes

The state tax provision recognises TAHE's obligation to pay state taxes. The amount of the liability is not known as it is yet to be formally assessed. The timing of the payment is anticipated to occur in the next financial year.

Note 15 Contributed equity and share capital

15.1 Contributed equity

	Note	30.6.2021 $'000	30.6.2020 $'000
Contributed equity at start of year		21,814,731	15,176,546
Net assets/ (liabilities) contributed by Government	15.2	2,590,639	6,638,185
Contributed equity at end of year		**24,405,370**	**21,814,731**

15.2 Contributed equity movements

The transfer of assets or (liabilities) from (or to) another NSW public sector entity are considered to be a contribution by the owner and are outlined below:

	2020-21 $'000	2019-20 $'000
NSW Treasury capital construction contributions	2,407,202	1,918,004
Transfer of Superannuation liabilities to Crown	179,304	-
Country Regional Rail Network assets and liabilities from TfNSW	-	4,528,019
Other transfers between Transport entities	4,133	192,162
Total	**2,590,639**	**6,638,185**

	30.6.2021 $'000	30.6.2020 $'000
Assets transferred from/ (to) other entities		
Cash assets*	2,407,202	1,922,814
Receivables*	-	2,126
Property, plant and equipment (net)*	4,133	4,718,055
Total assets	**2,411,335**	**6,642,995**
Liabilities transferred (from)/ to other entities		
Provisions	179,304	-
Payables and accruals*	-	(4,810)
Total liabilities	**179,304**	**(4,810)**
Total net assets/ (liabilities) transferred	**2,590,639**	**6,638,185**
Net assets/ (liabilities) contributed by Government	**2,590,639**	**6,638,185**

**In the prior year, TfNSW transferred cash of $4.8m, receivables of $2.1m, property, plant and equipment of $4.5b and payables of $4.8m relating to the Country Regional Rail Network.*

Note 15 Contributed equity and share capital (continued)

15.3 Share capital

TAHE transitioned to a statutory State Owned Corporation on 1 July 2020 and has share capital of $2. The Treasurer and Minister for Finance & Small Business were the voting shareholders as at 30 June 2021, each holding one share valued at $1. The ordinary shares are classified as equity.

Any changes to TAHE's share capital can only be undertaken in accordance with TAHE's constitution and with the agreement of its shareholding ministers

Note 16 Contingent liabilities and contingent assets

Contingent liabilities are possible obligations arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of TAHE.

The contingent liabilities are present obligations arising from past events which are not recognised because it is not probable that resources will be required to settle the obligation or the amount of the obligation cannot be reliably measured.

Contractual and other claims against TAHE arise in the ordinary course of operations. The existence or quantum of each claim is usually in dispute and the outcome cannot be measured reliably.

TAHE by virtue of its operations has a range of possible contamination in land and buildings. TAHE is engaged in an ongoing process of identifying necessary remediation of land and buildings the final amount of which is contingent on further investigation and cannot be accurately calculated at the date of preparation of these financial statements. Land and buildings remediation, where there is a legal or constructive obligation to undertake remediation and the cost of which can be reliably estimated has been provided for. Refer Note 14.8.

Contingent assets represent matters that are unconfirmed (pending the occurrence or non-occurrence of an uncertain future event), or not reliably measurable or unlikely to be settled.

Contractual and other recoveries represent claims made by TAHE against others in relation to contractual breaches and insurance claims in relation to other matters. The existence or quantum of each claim is usually in dispute.

Note 17 Fair value measurements of non-financial assets

17.1 Fair value measurements of non-financial assets

TAHE measures and recognises the following assets at fair value on a recurring basis:

- Land
- Buildings
- Rolling stock
- Plant and machinery
- Trackwork and infrastructure

Due to the specialised nature of TAHE assets apart from some plant and machinery items such as forklifts and loaders, all others are not traded in active markets.

TAHE has also measured assets of $4m (2020: nil) at fair value on a non-recurring basis as a result of classifying the assets as held for sale.

Fair value measurements recognised in the statement of financial position are categorised into the following levels at 30 June 2021.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total fair value $'000
2021				
Land	-	-	2,275,004	2,275,004
Buildings	-	-	3,336,471	3,336,471
Rolling stock	-	-	961,942	961,942
Plant and machinery	-	-	93,143	93,143
Trackwork and infrastructure	-	-	6,030,333	6,030,333
Total recurring fair value measurements	**-**	**-**	**12,696,893**	**12,696,893**
2020				
Land	-	-	5,348,778	5,348,778
Buildings	-	-	7,732,706	7,732,706
Rolling stock	-	-	1,867,247	1,867,247
Plant and machinery	-	707	244,433	245,140
Trackwork and infrastructure	-	-	21,837,423	21,837,423
Total recurring fair value measurements	**-**	**707**	**37,030,587**	**37,031,294**

As at 30 June 2021, TAHE valued its assets using the income and market approach given its transition to a for-profit entity. Previously, TAHE used the cost approach to value all its assets (except for land) which was valued using the market approach.

Income approach (as at 30 June 2021)

Level 3 fair value inputs include the estimate of likely future cash flows relating to access, rental and licence fees which are based on financial forecasts and the discount rate which represents the time value of money.

Cost approach (prior policy)

Level 2 fair value inputs include inputs other than quoted prices being known sales of comparable items to those assessed on a market evidence basis.

Level 3 fair value inputs include prices observed for recent transactions adjusted for market participant assumptions such as optimisation and obsolescence using the cost approach.

Plant and machinery had some level 2 market based evidence whilst all other categories have been based on level 3 inputs.

Note 17 Fair value measurements of non-financial assets (continued)

17.1 Fair value measurements of non-financial assets (continued)

TAHE's policy is to recognise transfers into and transfers out of the fair value hierarchy as at the end of the reporting period. There were no transfers between levels 1 and 2 for recurring fair value measurements during the year.

For recurring and non-recurring fair value measurements, the highest and best use of non-financial assets is generally its current use.

17.2 Valuation techniques used to derive level 2 and 3 fair values

Recurring fair value measurements

The fair value of non-financial assets that are not traded in an active market such as land, buildings, rolling stock, trackwork, infrastructure and specialised plant and equipment are determined using valuation techniques.

The valuation technique adapted in the current year is the income and market approach in view of the for-profit nature of TAHE. The valuation techniques adapted previously involve the use of the cost and market approach in view of the specialised nature of the assets. The fair value measurement reflected the lowest cost amount to replace the service capacity with a technologically modern equivalent optimised asset adjusted for obsolescence and depreciation. In arriving at the fair value for rolling stock and major plant and equipment where level 2 inputs other than quoted prices were used for similar assets that were observable with adjustments made to account for their operational suitability to TAHE assets.

All of the resulting fair value estimates are included in levels 2 and 3 of the fair value hierarchy.

Note 17 Fair value measurements of non-financial assets (continued)

17.3 Fair value measurements using significant unobservable inputs (level 3)

The following table is a reconciliation of level 3 items:

	Land $'000	Buildings $'000	Rolling Stock $'000	Plant and Machinery $'000	Trackwork and Infrastructure $'000	Total $'000
Fair value at 1 July 2020	5,348,778	7,732,706	1,867,247	244,433	21,837,423	37,030,587
Transfers from Transport cluster	407	-	-	-	-	407
Transfer from Level 2 fair value	-	-	-	707	-	707
Assets held for Sale	(4,007)	-	-	-	-	(4,007)
Additions/ transfers in	-	702,840	585,464	1,194	656,826	1,946,324
Disposals/ transfers out	(3,043)	(13,700)	-	(1,797)	(131,022)	(149,562)
Gains/ (losses) recognised in the statement of comprehensive income	(1,260,109)	(3,763,053)	(1,566,817)	(127,919)	(13,197,330)	(19,915,228)
Depreciation, amortisation and impairment	-	(260,135)	(168,644)	(23,322)	(1,023,430)	(1,475,531)
Asset revaluation	(1,260,109)	(3,502,918)	(1,398,346)	(104,597)	(12,173,900)	(18,439,870)
Other gains/ (losses)	-	-	173	-	-	173
Gains/ (losses) recognised in other comprehensive income*	(1,807,022)	(1,322,322)	76,048	(23,475)	(3,135,564)	(6,212,335)
Fair value at 30 June 2021	**2,275,004**	**3,336,471**	**961,942**	**93,143**	**6,030,333**	**12,696,893**
Fair value at 1 July 2019	5,188,529	7,026,625	1,903,720	100,926	16,404,176	30,623,976
Net adjustment on revocation of TTP06-8	-	184,662	-	-	-	184,662
Adjusted fair value as at 1 July 2019	5,188,529	7,211,287	1,903,720	100,926	16,404,176	30,808,638
Assets held for Sale	131	-	-	-	-	131
Additions/ transfers in	162,323	402,374	130,097	166,177	5,101,352	5,962,323
Disposals/ transfers out	(2,205)	(139,682)	-	(944)	(104,381)	(247,212)
Gains/ (losses) recognised in the statement of comprehensive income	-	(273,044)	(166,570)	(21,726)	(904,562)	(1,365,902)
Depreciation, amortisation and impairment	-	(273,044)	(166,570)	(21,726)	(904,562)	(1,365,902)
Gains/ (losses) recognised in other comprehensive income*	-	531,771	-	-	1,340,838	1,872,609
Fair value at 30 June 2020	**5,348,778**	**7,732,706**	**1,867,247**	**244,433**	**21,837,423**	**37,030,587**

** Gains/ losses recognised in other comprehensive income relates to the asset revaluation reserve.*

For recurring level 3 fair value measurements, the change in unrealised gains/ losses for the period included in the profit/ loss for the year for assets held at the end of the reporting period is nil in the current and prior year.

Note 17 Fair value measurements of non-financial assets (continued)

17.3 Fair value measurements using significant unobservable inputs (level 3) (continued)

Valuation inputs and relation to fair value

<u>As at 30 June 2021</u>

Unobservable inputs for rolling stock, infrastructure, buildings, plant and machinery are the estimated cash flows and the discount rate.

There were no significant inter-relationships between unobservable inputs that materially affect fair value.

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurement:

Unobservable input	Rate applied	Relationship of unobservable inputs to fair value
Discount rate (including the terminal value adjustment)	3% plus 0.38% (regulated assets) 4.25% plus 0.38% (unregulated assets)	A 1% increase in the rates would reduce the fair value by $2,656m. A 1% decrease in the rates would increase the fair value by $ $4,611m

Note 17 Fair value measurements of non-financial assets (continued)

17.3 Fair value measurements using significant unobservable inputs (level 3) (continued)

Valuation inputs and relation to fair value (continued)

Prior policy

Under the cost approach, valuation inputs are consistently applied and have taken account of observable inputs which have then been adjusted for obsolescence and there has been no material change.

Unobservable inputs for rolling stock and major plant relate to functional obsolescence, technical obsolescence and qualitative attractiveness applied to replacement cost. Other inputs for rolling stock assets to derive optimised replacement cost include prices from relevant contracts awarded for the rolling stock manufacture. Certain level 2 inputs such as international prices and exchange rates which apply to rolling stock assets are adjusted for international transportation costs/ structural modifications and are subsequently classified as level 3 inputs.

Unobservable inputs for infrastructure and buildings relate to raw materials and labour rates after considering historical data, existing assets and current railway infrastructure technologies. The inputs are categorised in level 3 of the fair value hierarchy and are unobservable due to the specialised nature of TAHE assets. Other inputs include pricing, construction methodology, structural foundations, and other specific allowances were considered to establish the optimised replacement cost of each asset.

Unobservable inputs for land include the discount factors applied to adjacent land values.

There were no significant inter-relationships between unobservable inputs that materially affect fair value.

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurement:

Description	Significant Unobservable Input	Range of Inputs (probability or weighted average)	Relationship of unobservable inputs to fair value
Rolling Stock	Qualitative attractiveness is part of obsolescence, and is based on a discount on the age of fleet of 10-30 years and above.	5-20% based on fleet age $103m	The older the fleet the greater the obsolescence attributed to qualitative attractiveness, and the lower the fair value. A 1% increase/ decrease will change fair value by $1.0m.
	Optimisation factors are factors that may affect the fair value such as asset condition (e.g. obsolescence).	$143m	The higher the obsolescence factors, the lower the fair value. A 1% increase/ decrease will change fair value by $1.43m.

Note 17 Fair value measurements of non-financial assets (continued)

17.3 Fair value measurements using significant unobservable inputs (level 3) (continued)

Valuation inputs and relation to fair value (continued)

Description	Significant Unobservable Input	Range of Inputs (probability or weighted average)	Relationship of unobservable inputs to fair value
Buildings	Indirect costs consist mainly of preliminaries, profit and overheads, professional fees and client costs.	71%-100% based on simple, semi-complex, complex, or major stations site classifications	The higher the in-directs, the higher the fair value. A 1% increase/ decrease will change fair value by $42m.
Trackwork & infrastructure	Optimisation based on the percentage equivalent function, legacy equipment compared to a modern engineering equivalent replacement, construction or asset condition. Mark-ups are based on current industry standards and similar project outcomes.	10-100% 102-126%	The higher the optimisation, the higher the fair value. A 1% increase/ decrease will change fair value by $117m The higher the mark-ups, the higher the fair value. A 1% increase / decrease will change the fair value by $61m.
Land	Discount factor applied to adjacent land use values	40-90% (station and maintenance areas) 60-95% (corridors)	The higher the discount factor the lower the fair value. A 1% increase/ decrease will change fair value by $114m.

Note 18 Financial instruments

18.1 Financial instruments

TAHE holds the following financial instruments:

	Category	30.6.2021 $'000	30.6.2020 $'000
Financial assets			
Cash and cash equivalents	N/A	66,457	6,147
Trade and other receivables*	Amortised cost	79,028	53,344
Total financial assets		**145,485**	**59,491**
Financial liabilities			
Trade and other payables**	Financial liabilities measured at amortised cost	720,095	324,226
Borrowings	Financial liabilities measured at amortised cost	2,745,085	2,764,639
Total financial liabilities		**3,465,180**	**3,088,865**

* *Trade and other receivables exclude statutory receivables and prepayments, i.e. not within the scope of AASB 7 Financial Instruments: Disclosures.*
** *Trade and other payables exclude statutory payables and unearned income, i.e. not within the scope of AASB 7 Financial Instruments: Disclosures.*

18.2 Financial risks

The operational activities of TAHE expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk). A risk management program focuses on financial performance and seeks to minimise potential adverse effects from financial market price movements. Methods used to measure risk include sensitivity analysis in the case of interest rate and an ageing analysis for credit risk.

Risk management is carried out under approved policies. TAHE's Treasury Management Policy establishes a prudential framework covering policies, best practice internal controls and reporting systems for the management of financial risks within TAHE's operation. The policy covers specific areas such as interest rate risk, credit risk, and investment of excess funds. The Treasury Management Policy is reviewed annually.

The primary objective of the Treasury Management policy is to achieve management of all financial risks in strict compliance with internal policies and guidelines within the broad framework of the NSW Treasury Management Policy (TPP 07-7 *Commercial Policy Framework: Treasury Management Policy).* Accounting for Financial Instruments is in accordance with the NSW Treasury accounting policy (TPP 19-05 *Accounting Policy: Accounting for Financial Instruments*).

TAHE identifies and evaluates financial risk. Treasury instruments approved for the management of financial risk are still in accordance with the *Government Sector Finance Act 2018.*

18.3 Market risk

Market risk relates to fluctuations in the fair value of future cash flows of financial instruments because of changes in market prices. This applies to TAHE's interest rate.

Sensitivity analysis on market risk is based on price variability taking into account the economic environment in which TAHE operates and the time frame for assessment, that is, until the end of the next reporting period. The sensitivity analysis is based on financial instruments held at the balance date. The analysis assumes that all other variables remain constant.

Notes to the financial statements for the year ended 30 June 2021

Note 18 Financial instruments (continued)

18.3 Market risk (continued)

18.3.1 Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. TAHE's main interest rate risk relates primarily to borrowings with TCorp.

Borrowings

TAHE adopts a continuously diversified approach to managing its borrowing portfolio. Debt maturity is spread across the yield curve, comprising both short-term TCorp borrowing and long-term semi government bonds. A neutral benchmark measures the performance of the debt portfolio.

TAHE will review its borrowing portfolio on a 10 year time horizon. The maturity of long term borrowings should be spread evenly throughout the curve with a view of up to 15% face value per financial year. Each financial year the limits roll forward. The Weighted Average Life (duration) will be used to measure the borrowing portfolio. The borrowing portfolio is managed through a restructuring facility offered by TCorp. Borrowings issued at variable rates expose TAHE to cash flow risk.

	Interest Rate*		**Principle Amount**	
	2021	2020	**2021**	2020
	%	%	**$'000**	$'000
Financial assets				
Not later than 1 year				
Cash at bank	0.10	0.25	66,457	6,147
Total financial assets			**66,457**	**6,147**
Financial liabilities				
Not later than 1 year				
Borrowings	2.39	0.19	663,441	105,193
Between 1 and 5 years				
Borrowings	2.40	2.52	1,059,515	1,810,703
Later than 5 years				
Borrowings	2.12	2.12	1,022,129	848,743
Total financial liabilities			**2,745,085**	**2,764,639**
Net exposure			**(2,678,628)**	**(2,758,492)**

**Interest rate risk is not applicable to the Airport Link contract.*

Note 18 Financial instruments (continued)

18.3 Market risk (continued)

18.3.1 Interest rate risk (continued)

Interest rate sensitivity analysis

Exposure to interest rate risk arises primarily through TAHE's interest bearing liabilities. A change of +/ - 1% is used to measure TAHE's financial sensitivity to interest rate movements. TAHE's exposure to interest rate risk is set out below:

	Carrying amount $'000	Profit/ loss $'000		Equity $'000	
		-1%	+1%	-1%	+1%
2021					
Cash at bank	66,457	(665)	665	(665)	665
Borrowings	2,502,448	25,024	(25,024)	25,024	(25,024)
2020					
Cash at bank	6,147	(61)	61	(61)	61
Borrowings	2,504,539	25,045	(25,045)	25,045	(25,045)

18.4 Credit risk

Credit risk arises where there is the possibility of TAHE's debtors defaulting on their contractual obligations, resulting in a financial risk to TAHE.

Credit risk can arise from financial assets of TAHE, including cash and cash equivalents, deposits with banks as well as credit exposure to customers, including outstanding receivables and committed transactions. TAHE holds bank guarantees for significant customers as well as property bonds for some leased premises. TAHE has not granted any financial guarantees. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment or allowance for expected credit losses).

TAHE's credit risk policy is aimed at minimising the potential for counter party default. TAHE uses the Standard & Poor's rating system in assessing credit risk.

Credit risk associated with TAHE's financial assets, other than receivables, is managed through the sound selection of counterparties and establishment of minimum credit rating standards. The *Government Sector Finance Act 2018* requires TAHE to transact all debt management and investment activities with TCorp, which has an AAA credit rating from Standard & Poor's due to their financial arrangements and obligations being guaranteed by the NSW Government.

TAHE held $66.5m (2020: $6.1m) in cash at bank and investments at 30 June 2021. This was held with Westpac Banking Corporation.

Note 18 Financial instruments (continued)

18.4 Credit risk (continued)

Trade receivables and contract assets

The maximum credit risk exposure in relation to receivables and contract assets is the carrying amount, less the allowance for impaired debts/ expected credit losses. Where necessary to support approval of a credit application for customers, security may need to be obtained in the form of an unconditional bank guarantee and/ or security deposit.

TAHE considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, TAHE may also consider a financial asset to be in default when internal or external information indicates that TAHE is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the debtor.

TAHE applies the simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade debtors. To measure the expected credit losses, Trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on historical observed loss rates. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. TAHE has identified various factors to be relevant and has adjusted the historical loss rates accordingly.

TAHE is not obliged to extend credit. TAHE is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors.

Investments

TAHE held funds on deposit with Westpac Banking Corporation at 30 June 2021. The deposits at balance date were earning an interest rate of 0.1% (2020:0.25%) while over the year the weighted average interest rate was 0.15% (2020:0.66%) on an average balance during the year of $42.9m (2020: $40.8m).

18.5 Liquidity risk

Liquidity risk refers to TAHE being unable to meet its payment obligations when they fall due. TAHE manages risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Credit standby arrangements are shown at Note 5.3.

During the current and prior years, there have been no defaults or breaches on any loans payable. No assets have been pledged as collateral. TAHE exposure to liquidity risk is deemed insignificant based on prior period data and current assessment of risk.

Liabilities are recognised for amounts due to be paid in the future for goods and services received, whether or not invoiced. If trade terms are not specified, payment is generally made no later than the end of the month following the month in which an invoice or a statement is received.

The following table reflects the maturity band for all contractual obligations including the payment of principal and interest resulting from recognised financial liabilities at reporting date excluding the impact of netting.

Note 18 Financial instruments (continued)

18.5 Liquidity risk (continued)

	Carrying Amount $'000	Contract Cash Flow $'000	Less than 1 Year $'000	Between 1 and 5 Years $'000	Over 5 Years $'000
30 June 2021					
Trade and other payables	720,095	720,095	365,411	354,684	-
Borrowings	2,745,085	3,019,944	746,627	1,227,647	1,045,670
Total financial liabilities	**3,465,180**	**3,740,039**	**1,112,038**	**1,582,331**	**1,045,670**
30 June 2020					
Trade and other payables	324,226	324,226	142,915	181,311	-
Borrowings	2,764,639	3,099,662	198,712	1,604,408	1,296,542
Total financial liabilities	**3,088,865**	**3,423,888**	**341,627**	**1,785,719**	**1,296,542**

18.6 Fair value compared to carrying amount

The fair values of financial instrument assets and liabilities are determined as follows:

- the fair value of financial instrument assets and liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial instrument assets and liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

TAHE considers that the carrying amount of financial instrument assets and liabilities recorded in the financial statements to be a fair approximation of their fair values, because of the short-term nature of the financial instruments and the expectation that they will be paid in full.

The fair values of most of the contractual financial assets and liabilities are the same as the carrying amounts with the exception of borrowings shown in the table below.

Financial liabilities recognised at fair value after initial recognition include borrowings in the current year. The fair value of borrowings is estimated by discounting the future contractual cash flows at the current market interest rates that are available to TAHE for similar financial instruments. As at 30 June 2021, the market rates were determined to be between 0.11% to 1.73% (2020: 0.19% to 1.41%). The financial liabilities are recognised on a recurring basis in the statement of financial position.

There were no transfers between levels 1 and 2, and levels 2 and 3 during the year. The fair value of financial assets and liabilities recognised in the statement of financial position is as follows:

	Fair value $'000	Carrying value $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
Fair value at 30 June 2021					
Financial liabilities					
Borrowings	2,626,358	2,502,448	-	2,626,358	-
Total financial liabilities	**2,626,358**	**2,502,448**	**-**	**2,626,358**	**-**
Fair value at 30 June 2020					
Financial liabilities					
Borrowings	2,678,388	2,504,539	-	2,678,388	-
Total financial liabilities	**2,678,388**	**2,504,539**	**-**	**2,678,388**	**-**

Note 19 Related parties

19.1 Key management personnel compensation

During 2020-21, TAHE incurred expenses of $0.9m (2020: nil) in respect of key management personnel services:

	30.06.2021 $'000
Short-term employee benefits	881
Post-employment benefits	53
Other long term benefits	-
Terminations benefits	-
Total	934

NSW Legislature and TfNSW pay the compensation to the Ministers and the Transport Secretary.

19.2 Transactions & outstanding balances with key management personnel

During 2020-21:

- the Transport Secretary, a voting member of the TAHE Board of Directors provided services to TAHE at no charge.
- a Board member continues to receive post-employment benefits from a professional services firm. The firm were engaged during the year to provide professional services of $0.2m to TAHE in the current financial year. The services provided were at arms-length and in the ordinary course of business

In the prior year, the positions of Acting Chief Executive and Chief Financial Officer were held by executives of Sydney Trains and TfNSW and their services were provided to TAHE at no charge.

19.3 Transactions with government related entities during the year

TAHE entered into transactions and held balances with other entities that are controlled or jointly controlled by the NSW Government. All of the activities were undertaken in the ordinary course of business operations.

The following transactions are significant either individually or in aggregate:

Nature of Transaction	Agency	Value $'000
2020-21		
Access rights to rail network, stations, rolling stock and property	Sydney Trains NSW Trains	No charge*
Maintenance services for TAHE	Sydney Trains	No charge
Transfer (in) of work in progress at fair value of $3.7m	NSW Trains	No charge
Transfer (in) of land at fair value of $0.4m	TfNSW	No charge
Transfer (out) of Superannuation liabilities at fair value of $179.3m	Crown	No charge
Capital contribution received to fund capital activities	TfNSW	24,889
Contribution received to fund operating activities	TfNSW	113,652
Capital funding via equity	NSW Treasury	2,407,202
Approved borrowings for capital projects	T-Corp	2,502,448
Letter of comfort to TAHE	NSW Treasury	No charge

**Refer Note 21*

Note 19 Related parties (continued)

19.3 Transactions with government related entities during the year (continued)

Nature of Transaction	Agency	Value $'000
2019-20		
Access rights to rail network, stations, rolling stock and property	Sydney Trains NSW Trains	No charge
Maintenance services for RailCorp	Sydney Trains	No charge
Transfer in of assets and liabilities relating to the Country Reginal Rail Network at fair value of $4.5b	TfNSW	No charge
Transfer (in) of work in progress at fair value of $195.7m and transfer (out) of land at fair value of $1.6m	TfNSW	No charge
Transfer (in) of work in progress at fair value of $7.1m	NSW Trains	No charge
Transfer (out) of work in progress at fair value of $9.3m	Sydney Trains	No charge
Capital contribution received to fund capital activities	TfNSW	3,179
Contribution received to fund operating activities	TfNSW	75,983
Contribution paid to fund operating activities	Sydney Trains	47,078
Capital funding via equity	NSW Treasury	1,918,004
Approved borrowings for capital projects	T-Corp	2,504,539
Letter of comfort to RailCorp	NSW Treasury	No charge

19.4 Transactions and outstanding balances with other related parties

During 2020-21, TAHE did not engage in any transactions/ have outstanding balances with other related parties (2020: nil).

Other related parties may include close family members of key management personnel, private entities controlled or jointly controlled by close family members and private entities controlled or jointly controlled by key management personnel.

Notes to the financial statements for the year ended 30 June 2021

Note 20 Superannuation

On 30 June 2021, all defined benefits superannuation liabilities were transferred to the Crown.

Overview

Employer contributions are made to 3 defined-benefit superannuation schemes. An underfunded scheme is recognised as a provision and an overfunded scheme is recognised as an asset. Details of both the provisions and assets are disclosed below.

Nature of the benefits provided by the fund

The Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:
- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- State Authorities Non-contributory Superannuation Scheme (SANCS).

These schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal.

All the schemes are closed to new members.

Description of the regulatory framework

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

The schemes in the Pooled Fund 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 New South Wales Government undertakes to ensure that the Pooled Fund 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 Pooled Fund and the 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 Trustee Board and internal processes that monitor the Trustee Board's adherence to the principles of the Commonwealth's retirement incomes policy.

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

Unless otherwise indicated, the paragraph references in Note 20 refer to AASB 119 *Employee Benefits.*

Description of other entities' responsibilities for the governance of the fund

The 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.

Note 20 Superannuation (continued)

Description of risks

There are a number of risks to which the 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.

The defined benefit fund assets are invested with independent fund managers and have a diversified asset mix. The Fund has no significant concentration of investment risk or liquidity risk.

Description of significant events

There were no fund amendments, curtailments or settlements during the year.

30 June 2021

The following is the 30 June 2021 superannuation position:

Member Numbers	SASS 30-Jun-21	SANCS 30-Jun-21	SSS 30-Jun-21	Total 30-Jun-21
Contributors	-	-	-	-
Deferred benefits	-	-	-	-
Pensioners	-	-	-	-
Pensions fully commuted	-	-	-	-
Superannuation Position for AASB 119 purposes	$'000	$'000	$'000	$'000
Accrued liability (Note 1)	-	-	-	-
Estimated reserve account balance	-	-	-	-
1. Deficit/ (surplus)	-	-	-	-
2. Future Service Liability (Note 2)	-	-	-	-
3. Surplus in excess of recovery available from schemes (-1, -2. and subject to a minimum of zero)	-	-	-	-
4. Net (asset)/ liability to be recognised in statement of financial position (1. + 3.)	-	-	-	-

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

Notes to the financial statements for the year ended 30 June 2021

Note 20 Superannuation (continued)

Reconciliation of the Net Defined Benefit Liability/ (Asset) - Para 140(a)

	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Net Defined Benefit Liability/ (Asset) at start of year	**182,202**	**(1)**	**29,672**	**211,873**
Current service cost	-	-	-	-
Net Interest on the net defined benefit liability/ (asset)	1,550	-	251	1,801
Past service cost	-	-	-	-
(Gains)/ losses arising from settlements	-	-	-	-
Actual return on Fund assets less Interest income	(17,899)	-	(2,191)	(20,090)
Actuarial (gains)/ losses arising from changes in demographic assumptions	26,816	-	(694)	26,122
Actuarial (gains)/ losses arising from changes in financial assumptions	(11,095)	-	(1,859)	(12,954)
Actuarial (gains)/ losses arising from liability experience	(16,386)	-	(968)	(17,354)
Adjustment for effect of asset ceiling	-	-	-	-
Employer contributions	(8,133)	-	(1,961)	(10,094)
Effects of transfers in/ out due to business combinations and disposals	(157,055)	1	(22,250)	(179,304)
Net Defined Benefit Liability/ (Asset) at end of year	**-**	**-**	**-**	**-**

Reconciliation of the Fair Value of Fund Assets – Para 140(a)(i)

	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Fair value of Fund assets at beginning of the year	**145,781**	**1**	**18,003**	**163,785**
Interest income	1,240	-	155	1,395
Actual return on Fund assets less Interest income	17,899	-	2,191	20,090
Employer contributions	8,133	-	1,961	10,094
Contributions by participants	-	-	-	-
Benefits paid	(13,262)	-	(1,677)	(14,939)
Taxes, premiums and expenses paid	6,163	-	(81)	6,082
Transfers in/ out due to business combinations and disposals	(165,954)	(1)	(20,552)	(186,507)
Contributions to accumulation section	-	-	-	-
Settlements	-	-	-	-
Exchange rate changes	-	-	-	-
Fair value of Fund assets at end of the year	**-**	**-**	**-**	**-**

Note 20 Superannuation (continued)

Reconciliation of the Defined Benefit Obligation – Para 140(a)(ii)

	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Present value of defined benefit obligations at beginning of the year	**327,983**	**-**	**47,675**	**375,658**
Current service cost	-	-	-	-
Interest cost	2,790	-	406	3,196
Contributions by participants	-	-	-	-
Actuarial (gains)/ losses arising from changes in demographic assumptions	26,816	-	(694)	26,122
Actuarial (gains)/ losses arising from changes in financial assumptions	(11,095)	-	(1,859)	(12,954)
Actuarial (gains)/ losses arising from liability experience	(16,386)	-	(968)	(17,354)
Benefits paid	(13,262)	-	(1,677)	(14,939)
Taxes, premiums & expenses paid	6,163	-	(81)	6,082
Transfers in/ out due to business combinations and disposals	(323,009)	-	(42,802)	(365,811)
Contributions to accumulation section	-	-	-	-
Past service cost	-	-	-	-
Settlements	-	-	-	-
Exchange rate changes	-	-	-	-
Present value of defined benefit obligations at end of the year	**-**	**-**	**-**	**-**

Fair value of Fund assets - Para 142

All Pooled Fund assets are invested by SAS Trustee Corporation (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. As such, the disclosures below relate to total assets of the Pooled Fund.

Notes to the financial statements for the year ended 30 June 2021

Note 20 Superannuation (continued)

Fair value of Fund assets - Para 142 (continued)

As at 30 June 2021 Asset category	Total $'000	Quoted prices in active markets for identical assets Level 1 $'000	Significant observable inputs Level 2 $'000	Unobservable inputs Level 3 $'000
Short Term Securities	5,108,370	2,398,668	2,709,702	-
Australian Fixed Interest	903,816	-	903,816	-
International Fixed Interest	1,755,026	45,227	1,709,799	-
Australian Equities	8,310,657	8,308,316	2,341	-
International Equities	13,889,680	13,884,532	5,148	-
Property	3,287,730	626,961	-	2,660,769
Alternatives	8,529,711	759	2,709,828	5,819,124
Total	**41,784,990**	**25,264,463**	**8,040,634**	**8,479,893**

The percentage invested in each asset class at the reporting date is:

As at	30-Jun-21
Short Term Securities	12.2%
Australian Fixed Interest	2.2%
International Fixed Interest	4.2%
Australian Equities	19.9%
International Equities	33.2%
Property	7.9%
Alternatives	20.4%
Total	**100%**

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 that are not based on observable market data. 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.

Fair value of entity's own financial instruments - Para 143

The fair value of the Pooled Fund assets as at 30 June 2021 includes $41.4 million in NSW government bonds.

Of the direct properties owned by the Pooled Fund:
SAS Trustee Corporation occupies part of a property 100% owned by the Pooled Fund with a fair value of $328 million (30 June 2020: $340 million).

Health Administration Corporation occupies part of a property 50% owned by the Pooled Fund with a fair value (100% interest) of $443 million (30 June 2020: $343 million).

Note 20 Superannuation (continued)

Significant Actuarial Assumptions at the Reporting Date - Para 144

Discount rate	1.5% pa
Salary increase rate (excluding promotional increases)	2.74% pa 21/22 to 25/26; 3.2% pa thereafter
Rate of CPI increase	1.50% for 20/21; 1.75% for 21/22 and 22/23; 2.25% for 23/24, 24/25 and 25/26; 2.50% for 26/27; 2.75% for 27/28, 3.00% for 28/29; 2.75% for 29/30; 2.50% pa thereafter
Pensioner mortality	The pensioner mortality assumptions are those to be used for the 2021 Actuarial Investigation of the Pooled Fund. These assumptions will be disclosed in the actuarial investigation report when available from the trustee's website. The report will show the pension mortality rates for each age.

Sensitivity Analysis - Para 145

The entity's total defined benefit obligation as at 30 June 2021 under several scenarios is presented below. The total defined benefit obligation disclosed is inclusive of the contribution tax provision which is calculated based on the asset level at 30 June 2021.

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 -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)	-	-	-

	Base case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of Discount rate
Discount rate	as above	as above	as above
Rate of CPI increase	as above	as above +0.5% pa	as above -0.5% pa
Salary inflation rate	as above	as above	as above
Defined benefit obligation ($'000)	-	-	-

	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 +0.5% pa	as above -0.5% pa
Defined benefit obligation ($'000)	-	-	-

	Base case	Scenario G Lower Mortality*	Scenario H Higher Mortality**
Defined benefit obligation ($'000)	-	-	-

**Assumes the short term pensioner mortality improvement factors for years 2021-2026 also apply for years after 2026.*
***Assumes the long term pensioner mortality improvement factors for years post 2026 also apply for the years 2021 to 2026.*

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

Note 20 Superannuation (continued)

Asset-Liability matching strategies - Para 146

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

Funding arrangements - Para 147(a)

Funding arrangements 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 positions are reviewed annually and funding arrangements may be adjusted as required after each annual review.

Surplus/deficit

The following is a summary of the 30 June 2021 financial position of the Fund calculated in accordance with AASB 1056 Accounting Standard "Superannuation Entities":

	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Accrued benefits*	-	-	-	-
Net market value of Fund assets	-	-	-	-
Net (surplus)/ deficit	**-**	**-**	**-**	**-**

**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.*

Contribution recommendations

Recommended contribution rates for the entity are:

	SASS multiple of member contributions	SANCS % member salary	SSS multiple of member contributions
	N/A	N/A	N/A

Economic assumptions

The economic assumptions adopted for 30 June 2021 AASB 1056 Accounting Standard "Superannuation Entities":

Weighted-Average Assumptions	
Expected rate of return on Fund assets backing current pension liabilities	6.5% pa
Expected rate of return on Fund assets backing other liabilities	5.7% pa
Expected salary increase rate (excluding promotional salary increases)	2.74% pa 21/22 to 25/26; 3.2% pa thereafter
Expected rate of CPI increase	2.0% pa

Note 20 Superannuation (continued)

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 for paragraph 145 provides a guide to how this could affect the defined benefit obligation.

For AASB 1056, separate sensitivities are not included. However, the assumptions for CPI, Salary and demographics are broadly the same under both reporting standards. While the underlying liability amounts for AASB 1056 are lower than for AASB 119, the sensitivity of results under AASB 119 gives an indication to the directional and proportional impact of the changes in these assumptions.

The one assumption that differs substantially under the two standards is the expected rate of return on the fund assets (discount rate). Due to this variation and the potential for material variation in the rate of return on fund assets in current financial conditions, the sensitivities to this assumption for the AASB 1056 results is shown below:

Scenarios A and B relate to sensitivity of the Total Accrued Benefits figure shown in the AASB 1056 results.

	Base case	Scenario A -0.5% Discount rate	Scenario B +0.5% Discount rate
Expected rate of return on Fund assets backing current pension liabilities (discount rate)	6.5%pa	6.0% pa	7.0% pa
Expected rate of return on Fund assets backing other liabilities (discount rate)	5.7% pa	5.2% pa	6.2% pa
Rate of CPI increase	2.0% pa	as base case	as base case
Salary inflation rate	As above	as base case	as base case
Accrued Benefits ($'000)	-	-	-

Expected contributions - Para 147(b)

	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Expected employer contributions	-	-	-	-

Maturity profile of defined benefit obligation - Para 147(c)

The weighted average duration of the defined benefit obligation is 0 years.

Note 20 Superannuation (continued)

Profit or Loss Impact

	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Current service cost	-	-	-	-
Net interest	1,550	-	251	1,801
Past service cost	-	-	-	-
(Gains)/ Loss on settlement	-	-	-	-
Profit or loss component of the Defined Benefit Cost	**1,550**	**-**	**251**	**1,801**

Other comprehensive income

	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Actuarial (gains) losses on liabilities	(665)	-	(3,521)	(4,186)
Actual return on Fund assets less Interest income	(17,899)	-	(2,191)	(20,090)
Change in the effect of asset ceiling	-	-	-	-
Total remeasurement in other comprehensive income	**(18,564)**	**-**	**(5,712)**	**(24,276)**

30 June 2020

The following is the 30 June 2020 superannuation position:

Member Numbers	SASS 30-Jun-20	SANCS 30-Jun-20	SSS 30-Jun-20	Total 30-Jun-20
Contributors	-	-	-	
Deferred benefits	-	-	-	
Pensioners	384	-	20	
Pensions fully commuted	-	-	-	
Superannuation Position for AASB 119 purposes	$'000	$'000	$'000	$'000
Accrued liability (Note 1)	327,983	-	47,675	375,658
Estimated reserve account balance	(145,781)	(1)	(18,003)	(163,785)
1. Deficit/ (surplus)	182,202	(1)	29,672	211,873
2. Future Service Liability (Note 2)	-	-	-	-
3. Surplus in excess of recovery available from schemes (-1, -2. and subject to a minimum of zero)	-	-	-	-
4. Net (asset)/ liability to be recognised in statement of financial position (1. + 3.)	182,202	(1)	29,672	211,873

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

Note 20 Superannuation (continued)

Reconciliation of the Net Defined Benefit Liability/ (Asset) - Para 140(a)

	SASS $ '000	SANCS $ '000	SSS $ '000	Total $ '000
Net Defined Benefit Liability/ (Asset) at start of year	**189,282**	**(362)**	**30,340**	**219,260**
Current service cost	-	-	-	-
Net Interest on the net defined benefit liability/ (asset)	2,435	(2)	395	2,828
Past service cost	-	-	-	-
(Gains)/ losses arising from settlements	-	-	-	-
Actual return on Fund assets less Interest income	(1,208)	(7)	(190)	(1,405)
Actuarial (gains)/ losses arising from changes in demographic assumptions	-	-	-	-
Actuarial (gains)/ losses arising from changes in financial assumptions	(1,372)	-	(19)	(1,391)
Actuarial (gains)/ losses arising from liability experience	2,761	53	(139)	2,675
Adjustment for effect of asset ceiling	-	-	-	-
Employer contributions	(9,696)	317	(715)	(10,094)
Effects of transfers in/ out due to business combinations and disposals	-	-	-	-
Net Defined Benefit Liability/ (Asset) at end of year	**182,202**	**(1)**	**29,672**	**211,873**

Reconciliation of the Fair Value of Fund Assets – Para 140(a)(i)

	SASS $ '000	SANCS $ '000	SSS $ '000	Total $ '000
Fair value of Fund assets at beginning of the year	**152,076**	**308**	**18,438**	**170,822**
Interest income	1,972	2	236	2,210
Actual return on Fund assets less Interest income	1,208	7	190	1,405
Employer contributions	9,696	(317)	715	10,094
Contributions by participants	-	-	-	-
Benefits paid	(13,392)	1	(1,671)	(15,062)
Taxes, premiums and expenses paid	(5,779)	-	95	(5,684)
Transfers in/ out due to business combinations and disposals	-	-	-	-
Contributions to accumulation section	-	-	-	-
Settlements	-	-	-	-
Exchange rate changes	-	-	-	-
Fair value of Fund assets at end of the year	**145,781**	**1**	**18,003**	**163,785**

Note 20 Superannuation (continued)

Reconciliation of the Defined Benefit Obligation – Para 140(a)(ii)

	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Present value of defined benefit obligations at beginning of the year	**341,358**	**(54)**	**48,778**	**390,082**
Interest cost	4,407	-	631	5,038
Current service cost	-	-	-	-
Contributions by participants	-	-	-	-
Actuarial (gains)/ losses arising from changes in demographic assumptions	-	-	-	-
Actuarial (gains)/ losses arising from changes in financial assumptions	(1,372)	-	(19)	(1,391)
Actuarial (gains)/ losses arising from liability experience	2,761	53	(139)	2,675
Benefits paid	(13,392)	1	(1,671)	(15,062)
Taxes, premiums & expenses paid	(5,779)	-	95	(5,684)
Transfers in/ out due to business combinations and disposals	-	-	-	-
Contributions to accumulation section	-	-	-	-
Past service cost	-	-	-	-
Settlements	-	-	-	-
Exchange rate changes	-	-	-	-
Present value of defined benefit obligations at end of the year	**327,983**	**-**	**47,675**	**375,658**

Notes to the financial statements for the year ended 30 June 2021

Note 20 Superannuation (continued)

Fair value of Fund assets - Para 142

All Pooled Fund assets are invested by SAS Trustee Corporation (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. As such, the disclosures below relate to total assets of the Pooled Fund.

As at 30 June 2020	Total	Quoted prices in active markets for identical assets Level 1	Significant observable inputs Level 2	Unobservable inputs Level 3
Asset category	$'000	$'000	$'000	$'000
Short Term Securities	4,096,298	1,889,511	2,206,787	-
Australian Fixed Interest	1,066,448	-	1,066,448	-
International Fixed Interest	1,909,424	30,409	1,879,015	-
Australian Equities	7,294,211	6,901,927	392,284	-
International Equities	11,950,330	11,487,308	463,022	-
Property	3,352,466	644,805	16,266	2,691,395
Alternatives	10,522,833	23,408	4,337,075	6,162,350
Total	**40,192,010**	**20,977,368**	**10,360,897**	**8,853,745**

The percentage invested in each asset class at the reporting date is:

As at	30-Jun-20
Short Term Securities	10.2%
Australian Fixed Interest	2.7%
International Fixed Interest	4.8%
Australian Equities	18.1%
International Equities	29.7%
Property	8.3%
Alternatives	26.2%
Total	**100.0%**

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 that are not based on observable market data. 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.

Fair value of entity's own financial instruments - Para 143

The fair value of the Pooled Fund assets as at 30 June 2020 includes $36.9 million in NSW government bonds.
Of the direct properties owned by the Pooled Fund:
SAS Trustee Corporation occupies part of a property 100% owned by the Pooled Fund with a fair value of $340 million (30 June 2019: $316 million).
Health Administration Corporation occupies part of a property 50% owned by the Pooled Fund with a fair value (100% interest) of $343 million (30 June 2019: $331 million).

Note 20 Superannuation (continued)

Significant Actuarial Assumptions at the Reporting Date - Para 144

Discount rate	0.87%
Salary increase rate (excl. promotional increases)	3.2% pa
Rate of CPI increase	1.00% for 2019/20; 0.25% for 2020/21; 1.50% for 2021/22; 1.25% for 2022/23; 1.75% for 2023/24; 2.00% for 2024/25 and 2025/26; 2.25% pa to 2029/30; 2.50% pa thereafter.
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.

Sensitivity Analysis - Para 145

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

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 -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)	375,658	401,656	351,953

	Base case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of Discount rate
Discount rate	as above	as above	as above
Rate of CPI increase	as above	as above +0.5% pa	as above -0.5% pa
Salary inflation rate	as above	as above	as above
Defined benefit obligation ($'000)	375,658	401,783	351,953

	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 +0.5% pa	as above -0.5% pa
Defined benefit obligation ($'000)	375,658	375,658	375,658

	Base case	Scenario G Lower Mortality*	Scenario H Higher Mortality**
Defined benefit obligation ($'000)	375,658	383,891	369,389

**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 the years 2020 to 2023.*

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

Note 20 Superannuation (continued)

Asset-Liability matching strategies - Para 146

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

Funding arrangements - Para 147(a)

Funding arrangements 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 positions are reviewed annually and funding arrangements may be adjusted as required after each annual review.

Surplus/deficit

The following is a summary of the 30 June 2020 financial position of the Fund calculated in accordance with AASB 1056 Accounting Standard “Superannuation Entities”:

	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Accrued benefits*	165,489	-	22,551	188,040
Net market value of Fund assets	(145,781)	(1)	(18,003)	(163,785)
Net (surplus)/ deficit	**19,708**	**(1)**	**4,548**	**24,255**

**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.*

Contribution recommendations

Recommended contribution rates for the entity are:

	SASS multiple of member contributions	SANCS % member salary	SSS multiple of member contributions
	N/A	N/A	N/A

Economic assumptions

The economic assumptions adopted for 30 June 2020 AASB 1056 Accounting Standard “Superannuation Entities”:

Weighted-Average Assumptions	
Expected rate of return on Fund assets backing current pension liabilities	7.0% pa
Expected rate of return on Fund assets backing other liabilities	6.0% pa
Expected salary increase rate (excluding promotional salary increases)	3.2% pa
Expected rate of CPI increase	2.0% pa

Notes to the financial statements for the year ended 30 June 2021

Note 20 Superannuation (continued)

Sensitivity Analysis

Scenarios A and B relate to sensitivity of the Total Accrued Benefits figure shown in the AASB1056 results.

	Base case	Scenario A -0.5% Discount rate	Scenario B +0.5% Discount rate
Expected rate of return on Fund assets backing current pension liabilities (discount rate)	7.0% pa	6.5% pa	7.5% pa
Expected rate of return on Fund assets backing other liabilities (discount rate)	6.0% pa	5.5% pa	6.5% pa
Rate of CPI increase	2.0% pa	as base case	as base case
Salary inflation rate	3.2% pa	as base case	as base case
Accrued Benefits ($'000)	**188,040**	**196,200**	**180,438**

Expected contributions - Para 147(b)

	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Expected employer contributions	10,093	-	-	10,093

Maturity profile of defined benefit obligation - Para 147(c)

The weighted average duration of the defined benefit obligation is 11.4 years.

Profit or Loss Impact

	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Current service cost	-	-	-	-
Net interest	2,435	(2)	395	2,828
Past service cost	-	-	-	-
(Gains)/ Loss on settlement	-	-	-	-
Profit or loss component of the Defined Benefit Cost	**2,435**	**(2)**	**395**	**2,828**

Other comprehensive income

	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Actuarial (gains) losses on liabilities	1,389	53	(158)	1,284
Actual return on Fund assets less Interest income	(1,208)	(7)	(190)	(1,405)
Change in the effect of asset ceiling	-	-	-	-
Total remeasurement in other comprehensive income	**181**	**46**	**(348)**	**(121)**

Note 21 Events occurring after reporting date

On 30 June 2021, TAHE entered into new commercial agreements with Sydney Trains and NSW Trains which is effective from 1 July 2021. The agreements set out the terms by which TAHE's assets are used, licenced and maintained. The impact of these agreements in future periods is net cash inflows of approximately $680m in 2021-22 and $11.9B over 10 years.

TAHE have assessed that there is no material impact on the profit /(loss) for the year and the carrying values of assets and liabilities as a result of COVID-19. The COVID-19 pandemic continues to impact revenue and expenses.

(End of audited financial statements)