Long Service Corporation

# ANNUAL REPORT 2016-17

## Long Service Corporation

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This annual report was produced wholly by Long Service Corporation officers. There were no external production costs and the annual report is available in electronic format only on the Long Service Corporation website www.longservice.nsw.gov.au.

31 October 2017

# LETTER OF SUBMISSION TO THE MINISTER

Long Service Corporation

The Hon. Dominic Perrottet MP
Minister of Industrial Relations
GPO Box 5341
SYDNEY NSW 2001

Dear Minister

It is my pleasure to submit the Annual Report of Long Service Corporation (LSC) for the financial year ended 30 June 2017, for presentation to the NSW Parliament in accordance with the *Annual Reports (Statutory Bodies) Act 1984.*

Yours sincerely

Michael Pratt AM
Chief Executive Officer

31 October 2017

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# CHIEF EXECUTIVE OFFICER'S REVIEW

MICHAEL PRATT AM
CHIEF EXECUTIVE OFFICER

Implementing a CLEAR STRATEGY AND VISION for Treasury.

I was delighted to take up the role of Chief Executive Officer (CEO) of Long Service Corporation (LSC) on 1 August this year. I would like to acknowledge and say thank you to Rob Whitfield who was CEO of LSC for the period of this review.

Under Rob's leadership, LSC's financial position remains in surplus, recording a surplus of $124.7 million for the financial year, and continues to strengthen with equity now at $366.3 million.

LSC's Investment Fund return of 10.8 per cent, or $114.5 million, was above the benchmark of 10.0 per cent. Levy revenue decreased by 2.6 per cent to $161.3 million. Total expenses increased by 4.4 per cent to $154.3 million.

In keeping with the Government's priorities, our focus is to improve services to our customers every year.

LSC has continued its strong improvements in online services with a new employer portal launched in April 2017, continuing the good work in improving our customers' experience.

I would like to thank Vicki Telfer, Executive Director, Industrial Relations Group, who chairs both Industry Committees, along with the members of those committees. I'd also like to thank the Chair and members of the Audit and Risk Committee for their contribution to the business.

Finally, thank you to Kathy Skuta, LSC Director, and team for your continued commitment to providing excellent service to our customers and a continued focus on our Treasury Goal One - being sought after for the quality of our people and our advice. I look forward to working with you in 2017-18 as we continue to focus on improving customer service and maintaining viable portable long service schemes.

Michael Pratt AM
Chief Executive Officer

# DIRECTOR'S REPORT

**KATHY SKUTA**
**DIRECTOR**

Implementing
CUSTOMER
SERVICE
IMPROVEMENTS.

In my first full financial year 2016-2017 as Director, Long Service Corporation (LSC) continued to administer portable long service leave schemes to an excellent standard. LSC focused on employee engagement and system changes to improve customer service, as well as consolidating its sound financial position. A restructure was announced to reorient LSC to meet new challenges and improve customer service.

The Building and Construction Industry (BCI) scheme alone saw claim payments totaling $72.5 million made to 10,889 workers or their representatives and $151.5 million in levies being collected. The Contract Cleaning Industry (CCI) scheme made 434 claim payments valued at $777,000 with $9.8 million in levies collected this year. LSC responded to approximately 113,000 enquiries.

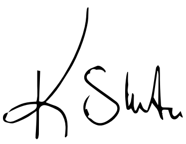
### Highlights

LSC has implemented strategies to lift employee engagement as we recognise that a highly engaged workforce is conducive to building better customer experience. Results from our *Public Sector People Matters Survey* have shown excellent improvements in employee engagement.

We have progressed a series of priority projects:

- Stage one of New Integrated Leave System (NILS) project - replacing LSC's finance system with cloud-based Microsoft Dynamics 365 in November 2017.
- The Government Data Centre (GovDC) project - migrating LSC's ICT infrastructure and systems out from the Department of Finance, Services and Innovation data centre into a purpose-built centralised NSW Government data centre in September 2017, with an uplift to more modern technology platforms and a move to commercially managed services providers.
- Transition to Microsoft Office 365 and SharePoint Online - allowing us to stay current with the most recent version of Microsoft Office, move our emails into a cloud-based environment and migrate our intranet to a SharePoint Online platform.

The new financial year brings with it many challenges and opportunities for LSC to build on the good work and excellent achievements of 2016-2017. I look forward to working in collaboration with our industry and other business partners to deliver improved services to workers and employers.



Kathy Skuta
Director

# ABOUT LONG SERVICE CORPORATION

Long Service Corporation (LSC), established in 1982, administers portable long service schemes for the building and construction as well as contract cleaning industries in NSW.

As at 30 June 2017, LSC provides portable long service schemes to approximately 347,998 active workers and 31,452 active employers in the building and construction industry and 58,409 active workers and 774 active employers in the contract cleaning industry.

## Our stakeholders

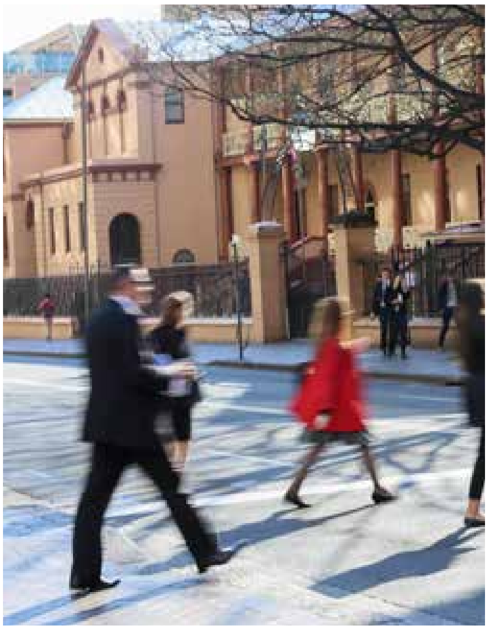
LSC has a diverse range of stakeholders in the building and construction industry and the contract cleaning industry. LSC engages with the New South Wales community, government, employers, workers and third parties. LSC monitors its engagement through a stakeholder engagement model program, customer satisfaction surveys and feedback.

| Stakeholders | Key Issues |
|---|---|
| NSW Community<br>(Levy payers and general community) | • Levy Payers: Levy payment of 0.35% on all building and construction work $25,000 and above; and 1.7% of ordinary wages for the contract cleaning scheme<br>• General Community: Information about levy rate and why we have it |
| Workers<br>(Workers, self employed workers, trade unions) | • Workers: Membership, recording service, claiming entitlements; other scheme related information and advice<br>• Self employed workers in the building and construction industry and contract cleaning industry: Registration, recording service, claiming entitlements, information and advice<br>• Trade Unions: Worker advocacy, scheme coverage, scheme entitlements and industry committee membership |
| Employers<br>(Employers, employer groups/industry associations) | • Employers: Responsibilities under the acts; registration, lodging worker service returns, claiming entitlements, compliance, levy contributions/payment plans/queries<br>• Employer Groups: Employer advocacy, scheme coverage, scheme entitlements and industry committee membership |
| Third Parties<br>(Private certifiers, Suppliers, Interstate schemes, Tax Agents) | • Private Certifiers: Regulation, policy and payment arrangements within the building and construction scheme<br>• Suppliers: Policy, procedures and payment arrangements<br>• Interstate Schemes: National Reciprocal Agreement (NRA), national cooperation initiatives<br>• Tax Agents: Submitting returns for self employed workers in the building and construction scheme |
| Government<br>(Local Government Councils, Government agencies) | • Local Government Councils: Levy collection agent, scheme information for the building and construction scheme<br>• Government Agencies contracting work in both industries: Responsibilities under the acts |

## Primary legislation administered by Long Service Corporation (LSC)

LSC administers acts and regulations on behalf of the Minister for Industrial Relations. The following acts constitute the primary legislation which governs our core business:

- *Building and Construction Industry Long Service Payments Act 1986 No 19*
- *Building and Construction Industry Long Service Payments Regulation 2011*
- *Contract Cleaning Industry (Portable Long Service Leave Scheme) Act 2010 No 122*
- *Contract Cleaning Industry (Portable Long Service Leave Scheme) Regulation 2011*
- *Long Service Corporation Act 2010 No 123*



# OUR FUNCTIONS AND SERVICES

### Our Functions

- Ensuring industry workers are registered in the scheme and recording service
- Ensuring industry employers are aware of their obligations and complying with the scheme
- Collecting the long service levy and managing the fund
- Paying claims to workers and employers
- Marketing the scheme to the participating NSW industries

### Our Services

The Services provided by Long Service Corporation (LSC) include:

- Helpline operating from 8.30am - 5.00pm Monday to Friday
- Interpreter services offering support to our many workers and employers from non-English speaking backgrounds
- Face to face customer service from our office located at Gosford
- Field advisory services - inspectors are available to do site and office visits to employers to explain long service obligations, benefits and coverage
- Presentations at industry events including trade evenings or association meetings
- Advisory service to other industry stakeholders such as accountancy firms
- Provision of an electronic return for councils

### Our Values

As part of NSW Treasury our employees work within a framework of clear values:

- Excellence in service
- Integrity
- Accountability
- Trust

### Our Vision

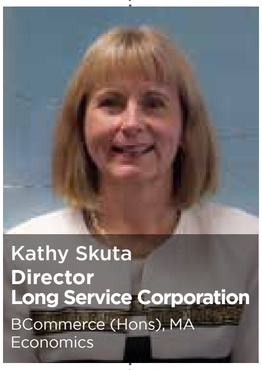
To deliver a world class customer service to employers and workers in the building and construction and contract cleaning industries, delivering on our promise that the state of NSW will always be a great place to live and work.

# LONG SERVICE CORPORATION'S STRUCTURE

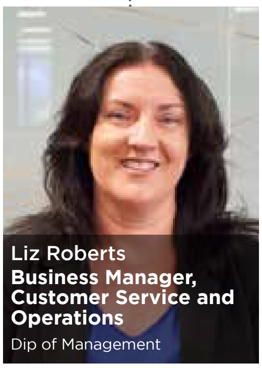
Long Service Corporation's (LSC) executive structure comprises the Chief Executive Officer (Secretary of NSW Treasury), Executive Director Industrial Relations Group, Director Long Service Corporation and five Managers as at August 2017.

Michael Pratt AM
**Chief Executive Officer**
GradDipOrgBeh, AMP

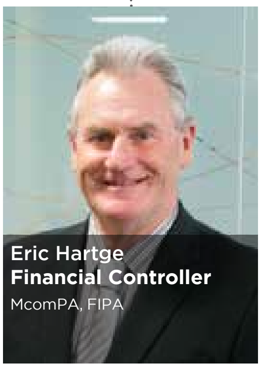
Vicki Telfer
**Executive Director**
**Industrial Relations Group**
BSc, DipEd, MPA, MALP, GAICD



Kathy Skuta
**Director**
**Long Service Corporation**
BCommerce (Hons), MA Economics



Liz Roberts
**Business Manager, Customer Service and Operations**
Dip of Management



Eric Hartge
**Financial Controller**
McomPA, FIPA

Paul Stalling
**Business Strategy and Policy Manager**
Dip Financial Markets, Dip Project Management

Monica Hu
**Business Systems Manager**
HDipSA, MBA, MIS, MACS (Snr) CP

Vacant
**Compliance Manager**
TBA

# STRUCTURE AND RESPONSIBILITIES

Long Service Corporation (LSC) is responsible for building a culture of highly engaged and talented people who deliver great outcomes for our customers within the following groups:

**Business Operations -** provides services and accurate information to our customers; quality assurance; and regular monitoring of our policies and procedures.

**Finance -** supports LSC to meet its legislative requirements, providing financial, asset and facilities management; procurement; and budgeting.

**Strategy and Policy -** supports the corporate governance of the business, providing marketing and communications services; internal audit; risk management; fraud and corruption control; and leads business planning.

**Business Systems -** provides the information, communications and technology (ICT) services and systems, managing third party service providers; ensuring systems availability; and implementing solutions to internal/external customers.

**Compliance -** develops and implements strategies ensuring that employers, workers, levy payers and other participants comply with their legal obligations under the respective acts, conducting targeted audit programs and investigations; encouraging voluntary compliance via education; and enforcing action in cases of repeated non-compliance.

### Long Service Corporation (LSC) Restructure

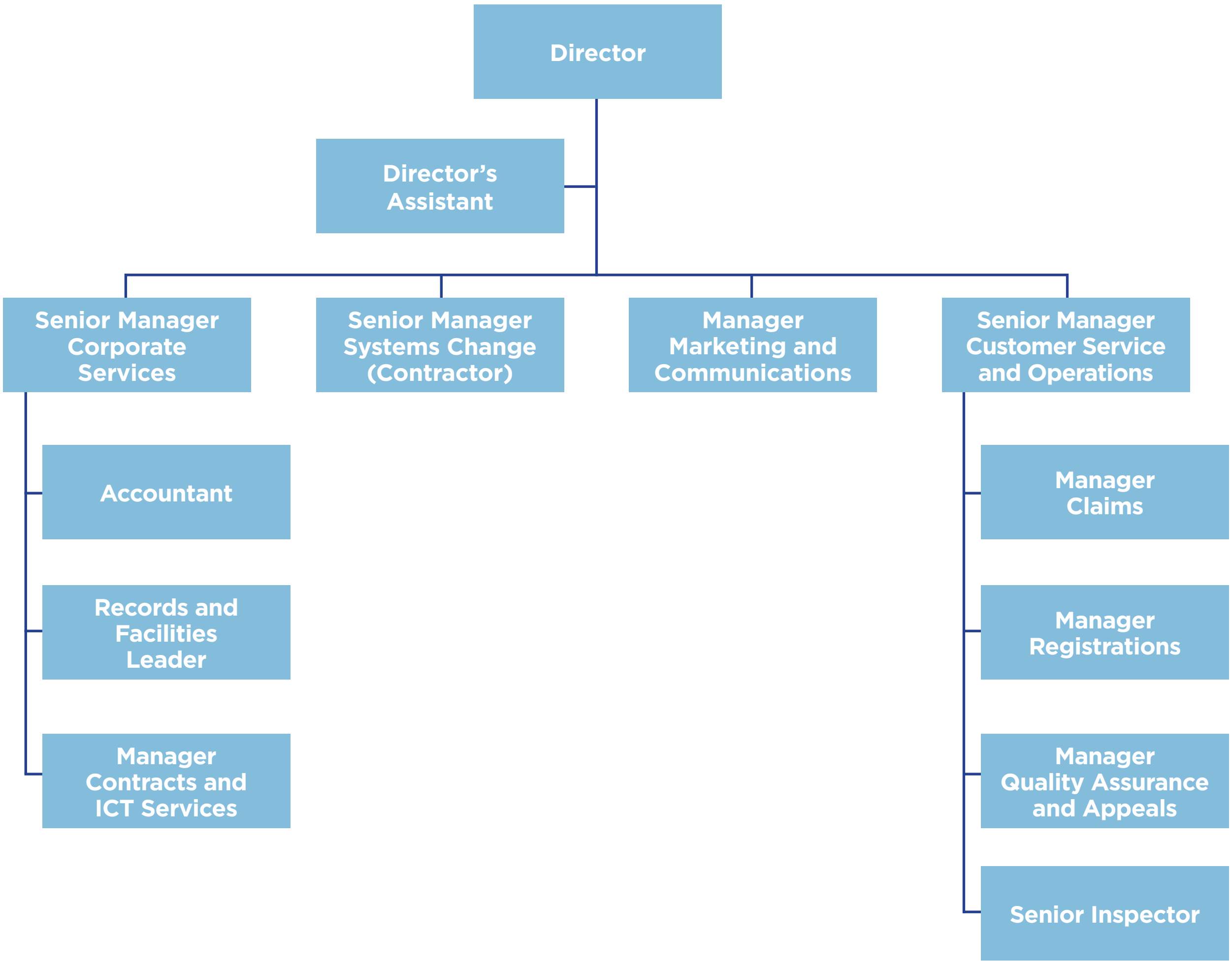
A restructure of the LSC was announced in June 2017 with a comprehensive Change Management Plan provided to staff and the union to facilitate consultation of the proposed new structure.

The primary objective underpinning the organisational change is to enhance the overall effectiveness and efficiency of LSC. This will be achieved by realigning resources to support strategic objectives and match recent customer service and operational improvements. It will also leverage Treasury corporate resources and explore the benefits of virtual teams across the Industrial Relations Group.

The new structure comprises four teams with the following distinct functions: service delivery direct to customers; corporate support service delivery to the business; systems change; and marketing and communication.

# STRUCTURE AND RESPONSIBILITIES

## Proposed Structure of the LSC




The role of Customer Services and Operations is frontline service delivery to customers including quality assurance; implementing initiatives to improve and streamline client services; and compliance.

The Corporate Services role is on-going support services of financial management; budgeting; levy collection; audit and risk management; committee secretariat; records, assets and facilities management; procurement and contract management; and information security management.

The role of Systems Change is to lead the implementation of new core ICT systems including finalising the data migration to GovDC, the NILS project and various interim improvements to current legacy systems to deliver service improvements in the short term.

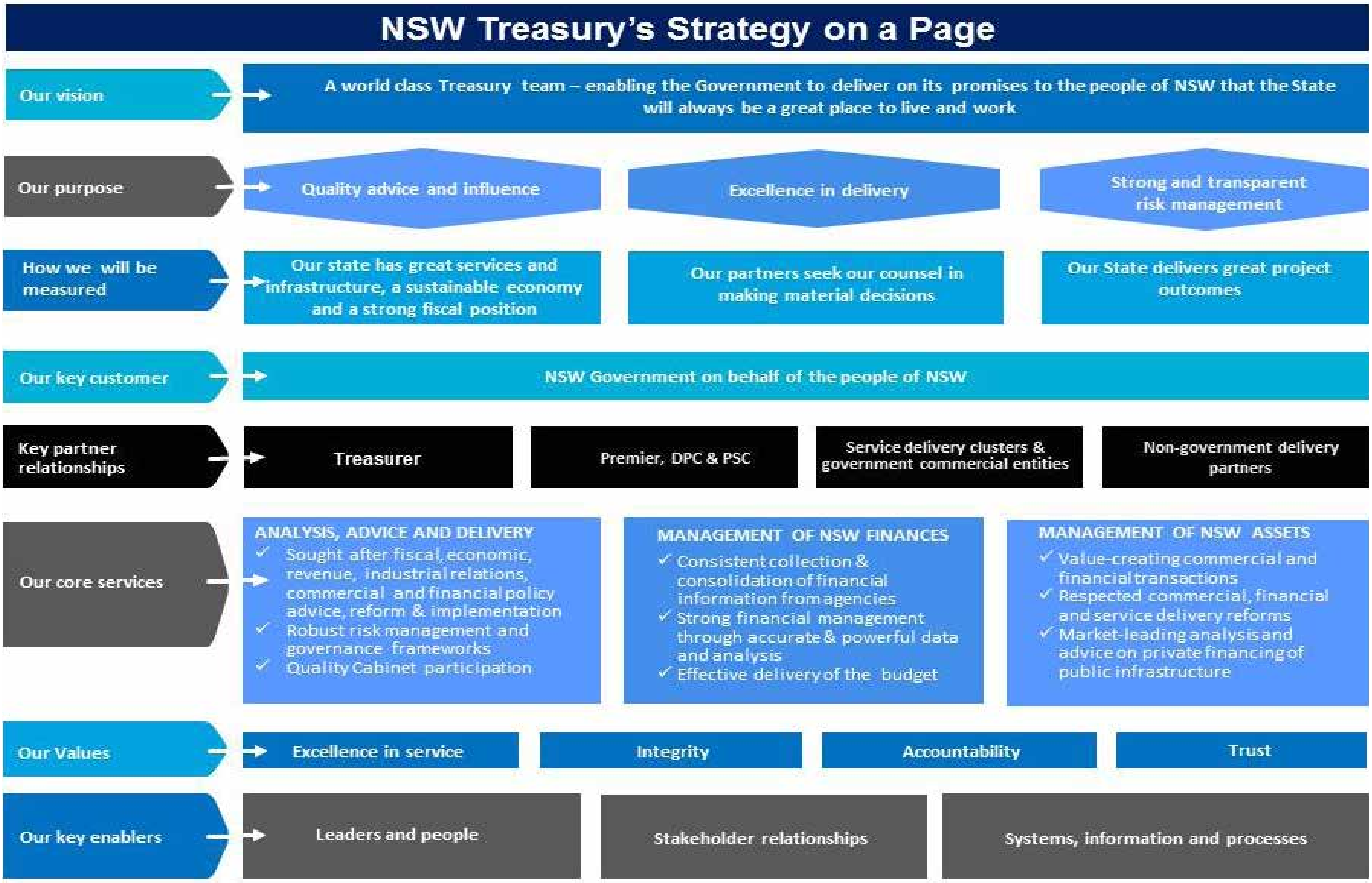
Marketing and Communications role is to undertake business planning; annual reporting; marketing campaigns; internal and external communication; and website management.

# STRATEGY AND GOALS

### Clarity of strategy and reorientation of Long Service Corporation (LSC) around four outcome-focused goals

As part of the NSW Treasury cluster, LSC adopts the clear and compelling Treasury strategy and goals driving measurable outcomes. The strategy was formed by taking a whole-of-government perspective with success measured through our ability to deliver positive outcomes for our customers. LSC is proud to be an integral component to building a world class Treasury.

### NSW Treasury's Strategy on a Page



## Key elements of the strategy

### Our customers

Our key customer is the NSW Government on behalf of the people of NSW. In addition, as Long Service Corporation (LSC) provides services directly to the public, participants in the building and construction and the contract cleaning industries are also our key customers.

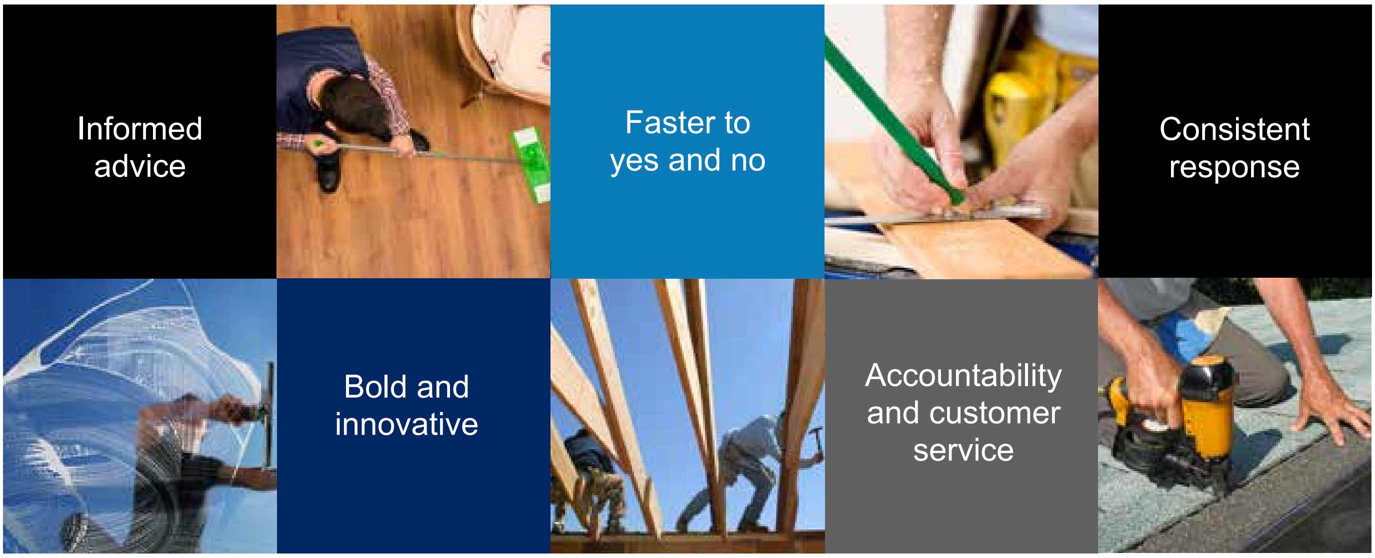
### Our partners

To achieve our key vision of enabling the NSW Government to deliver on its priorities and promises to the people of NSW, we work closely with industry committees that include employer associations and unions. At the same time we also have specialist advisors and investment agencies to help with strategic contracts that enable us to deliver on our goals.

### Our goals

To support the delivery of our strategy, LSC adopted Treasury's four goals as our own. LSC has developed its own Priority Projects to ensure alignment with and delivery of these goals.

### Long Service Corporation's Customer Promise



## GOAL ONE

### Be sought after for the quality of our people and our advice

## How

**Build a culture of highly engaged and talented people who deliver great outcomes for our customers.**

## Key actions

1. **Deliver a communication and engagement plan including workforce planning, employee recognition, mobility, talent and succession, diversity and inclusion.**
2. **Implement change management - embedding change as business as usual through champions, projects and coaching.**

To achieve Goal One: Be sought after for the quality of our people and our advice, we have focused on enhancing the skills and capability of our leaders and our people, as well as driving engagement to make the cultural shift required to deliver our strategy. As a result, the level of employee engagement as measured in the *NSW Public Sector Employee Survey* improved significantly, increasing 11 points to 68 per cent.

Long Service Corporation (LSC) consistently scored better than the Sector average in key themes including Senior Management, Communication, High Performance, Diversity and Inclusion.

## Recruitment, mobility and leadership development

### Talent framework

In 2016-17 LSC introduced the newly established talent framework (in line with NSW Treasury) to better manage the development and progression of our talent. This framework enables the business to take a more holistic view of its talent and embed targeted initiatives ensuring the business provides the most effective development initiatives for its people.

Throughout the past year and beyond, LSC will participate in the implementation of key talent initiatives including:

- Talent infrastructure - Embed talent practices into strategic and operational planning cycles.
- Leadership - Build the capability of our leaders.
- Employee experience - Enhance our reputation externally and cement Treasury and LSC as employers of choice to attract and retain a diverse workforce.
- Capability - Embed diversity awareness and interpersonal skills training as a key development focus.

### Human Resources

Long Service Corporation (LSC) staff are employees of NSW Treasury and all human resource services and support is provided by the Human Resources (HR) team at NSW Treasury (with the exception of Payroll which is managed by LSC).

There has been increased support from the NSW Treasury (HR) team particularly in relation to recruitment and business partnering.

## Learning and Development

With the implementation of the Performance and Development Planning tool for Treasury employees in 2015-16, further applications and resources have been rolled out to support the performance life-cycle for LSC employees. In December 2016 the learning platform, Lynda.com, was launched to all staff. Lynda.com is an extensive catalogue of online courses (covering topics such as Leadership and Management, Project Management, Emotional Intelligence, etc) which enables employees to learn anywhere and at any time. The broad range of content complements other development activities set for staff.

Additionally, a coordinated plan was put in place to support cross-skilling across the organisation. This has meant that people have been able to move around teams to build their knowledge and expertise in other parts of the scheme and support services. This cross-skilling approach will continue to form part of the learning culture at LSC.

Study assistance, study leave and other learning and development opportunities continue to be offered to staff to ensure ongoing development plays an important role in the culture at LSC.

## Diversity and inclusion

LSC aims to be inclusive and ensure accessibility of our core operations. LSC held a number of events to increase awareness of diversity issues and promoted communication and collaboration on many levels within LSC. The events included a Harmony Day morning tea and video, International Women’s Day breakfast and promotion of the JAWUN program.

## Change Management

An over-arching change management approach has been implemented with training provided to leaders and specific change management plans developed for all priority projects, including an integrated plan of activity to enable a smooth transition for our ICT projects. The *NSW Public Sector Employee Survey* showed a 40 point improvement in how effective senior managers lead and manage change.


## How

**Deliver high quality advice and services valued by our customers.**

## Key actions

1. **Review systems, policies and procedures to improve services provided to our customers.**

The employees of Long Service Corporation (LSC) are committed to customer service as demonstrated in the *NSW Public Sector Employer Survey*, scoring 91 per cent in relation to the question "My workgroup strives to achieve customer/client satisfaction".

## Strengthening our systems, policies and procedures

### Service Improvements

LSC's employer portal was upgraded in April 2017. A user survey of more than 1,000 unique employers rated the portal as providing "exceptional customer service".

We updated our Complaints Policy and centralised our feedback register. We also updated our Building and Construction Industry (BCI) Missing Service and Backdating Policy.

Our knowledge base was updated to ensure accurate and consistent advice to our customers.

The ability to pay levies by EFT is now offered to customers who have a value of works of over $10 million.

### Customer engagement

We continued our journey of driving improved customer engagement by enabling our customers to be able to view our LSC website across all devices.

Our industry committee members provided valuable insights in regards to our customers at our business planning day. These insights helped us make informed decisions on our priorities for the year ahead.

### Social media

LSC, in collaboration with NSW Industrial Relations, recently ran its first webinar to engage and improve awareness and knowledge of our schemes. The webinar attracted approximately 30 participants and was a great success. We are planning to hold further informative webinars in the next financial year.

We continue to build our social media presence through Facebook and YouTube as platforms to communicate with our stakeholders. We use our Facebook page to inform our customers of our up and coming campaigns. Our Facebook site continues to use an animation tool in tutorials to help provide guidance and awareness of our schemes.

Our website home page received the highest number of hits, with a total of 792,163, up 4.34 per cent from 759,206 over the previous 12 month period.


## How

**Build and implement a best practice project delivery methodology which delivers projects aligned with Government's goals.**

## Key actions

1. **Introduce a Program Board and a Program Management Office to govern Long Service Corporation's priority projects.**
2. **Implement the Treasury project prioritisation model which includes level of involvement, role articulation, risk tolerance and resource allocation.**

Long Service Corporation (LSC) has vastly improved its capacity to plan and deliver priority projects. These projects will enable us to improve service delivery to our customers in particular through more modern ICT infrastructure and applications.

## Leading the way in building excellence through our projects

### LSC's projects

LSC progressed key priority projects including the first phase of the New Integrated Leave System (NILS) project, and the Government Data Centre (GovDC) project. Contracts with competitively selected vendors were negotiated for both projects and work commenced in earnest to deliver these projects.

The NILS project has focused on transitioning from Sun Financial to Microsoft Dynamics 365 to ensure we have a robust finance system underpinning our business framework. Planning has also commenced to move the disparate systems LSC uses to manage the Schemes into the Dynamics 365 integrated platform as future phases of the NILS project. The NILS project will deliver a platform to improve customer service interactions and service delivery capability with a focus on delivering citizen-focused services anytime and anywhere.

The GovDC project migrates our ICT systems into two centralised NSW Government data centres. The upgrade of our customer contact centre infrastructure will assist us in providing a more robust framework to interact with our customers on a daily basis. As part of the GovDC project, LSC has upgraded to Microsoft Office 365 and progressed the conversion of its legacy systems to newer technologies, as an enabler of a smooth transition to the Government data centre.

## GOAL FOUR

### Develop a new approach to financial risk and balance sheet management

## How

**Build and implement a framework to drive value and manage risk for the portable long service schemes assets and liabilities.**

## Key actions

1. **Active funds management to ensure:**
    - **assets are able to meet the long term liabilities**
    - **sufficient liquidity to meet cash flow requirements**
    - **investment returns over the long term that exceed salary growth**

## Stronger balance sheet management

Long Service Corporation (LSC) manages invested assets in the order of $1.3 billion to ensure the future payment of long service leave claims.

### LSC ensures risk is managed appropriately

LSC continues to have strong financial risk and balance sheet management with the support of external reviews and guidance of key assets and liabilities.

As a NSW public sector agency, LSC's risk appetite is conservative and investment decisions are made with the appropriate level of prudence. It is recognised that short term investment fluctuations may result from LSC's long term investment objectives and strategy.

The New South Wales Treasury Corporation is LSC's investments manager as legislated under the *Public Authorities (Financial Arrangements) Act 1987.*

Policies to manage financial risk will be further developed with the introduction of a target Accrued Benefit Reserve Index (ARBI) of 115 per cent, with a range of 105 per cent to 120 per cent. This will set benchmark coverage of Long Term Investments over Scheme Liabilities.

# COMMITTEES

### The Building and Construction Industry (BCI) Long Service Payments Committee

(Referred to as Industry Committee)

The Industry Committee is constituted under the *Building and Construction Industry Long Service Payments Act 1986.* It is an advisory and appellate body, consisting of 10 part-time members appointed by the Minister and chaired by the Chief Executive Officer or his nominated representative. The Industry Committee is empowered under Section 9 of the Act to advise on administration of the Act including matters concerning publicity, the investment of funds and the rate of the long service levy.

The Industry Committee decides appeals lodged against Corporation decisions to:

- Reject an application for registration in the scheme made on behalf of or by workers
- Cancel registrations of workers in the scheme
- Refuse service credits to registered workers
- Apply a limitation to the minimum and maximum rates of pay applied to a claim.

The Industry Committee also decides appeals lodged by levy payers in respect of:

- An assessment made of the amount of a long service levy due in respect of the erection of a building
- A direction given, or refusal to give such direction, in relation to interest payable on a long service levy not paid before the due date, or extension of time for payment of a long service levy.

Apart from its legislated functions, the Committee also acts as 'Customer Council' in relation to customer service standards and helps ensure the quality and effectiveness of services meet customers' needs.

This year the Industry Committee met on three occasions.

During the year the Committee continued to provide support and advice to Long Service Corporation (LSC) regarding issues such as:

- The eligibility of Supervisors in the Scheme
- The eligibility of Fire Testers in the Scheme
- Scheme coverage of workers involved in the manufacture of aluminum windows
- Proposed regulatory amendments
- Proposed changes to internal policies relating to the restoration and backdating of worker registrations.

### Appeals

Sections 49-54 of the Act empower the Industry Committee to determine appeals lodged by workers and levy payers in respect of certain Corporation decisions. Appeals are considered and determined on the basis of documentary evidence submitted by the parties involved.

The Committee heard and gave consideration to 103 appeals lodged by workers.

There were no new appeals lodged by levy payers in the 2016-2017 financial year.

## BCI INDUSTRY COMMITTEE JULY 2016 - SEPTEMBER 2016

### CHAIRPERSON

**Vicki Telfer**
**BSc, DipEd, MPA, MALP, GAICD**

Executive Director,
Industrial Relations Group

**Meeting attendance:** 1 out of 1

### MEMBERS NOMINATED BY THE UNIONS NSW

**Keryn McWhinney**
**Dip Ind Law**

Senior Industrial Officer/Coordinator
Manager, Wage Claims Industrial Department
Construction Forestry Mining Energy Union (CFMEU),
(Construction & General Division) NSW Branch

**Meeting attendance:** 0 out of 1

**Paul Farrow**

Aircraft Maintenance Engineer
National Organiser,
Australian Workers Union NSW

**Meeting attendance:** 1 out of 1

**Robyn Fortescue**
**BA**

Assistant State Secretary
Australian Manufacturing Workers Union (AMWU)

**Meeting attendance:** 1 out of 1

### MEMBERS DIRECTLY APPOINTED BY THE MINISTER

**David Bare**
**BE (Mat.) Business Management Certificate (General Management)**

Executive Director NSW,
Housing Industry Australia (HIA)

**Meeting attendance:** 1 out of 1

**Melissa Adler**
**BCom, LLB**

Executive Director Workplace Relations
Housing Industry Association (HIA)

**Meeting attendance:** 1 out of 1

### MEMBERS DIRECTLY APPOINTED BY THE MINISTER (CONT)

**David Castledine**
**B. Eng, LL,B, GAICD**

CEO
Civil Contractors Federation (CCF) NSW

**Meeting attendance:** 0 out of 1

**Therese Lauriola**
**Dip Project Management**

Chief Executive Officer
Master Painters Association (MPA)

**Meeting attendance:** 0 out of 1

### MEMBERS NOMINATED JOINTLY BY THE MASTER BUILDERS ASSOCIATION (MBA) OF NSW AND THE AUSTRALIAN FEDERATION OF EMPLOYERS AND INDUSTRIES (AFEI)

**Brian Seidler**
**B.Build**

Executive Director,
Master Builders Association of NSW (MBA)

**Meeting attendance:** 1 out of 1

**Paula Thomson**
**B Law/Business**

Senior Workplace Relations Consultant,
Australian Federation of Employers and Industries (AFEI)
Associate Solicitor AFEI Legal

**Meeting attendance:** 0 out of 1

**Beverly Glover**
**Dip Management**

Secretary Industrial Relations Department
Master Builders Association of NSW (MBA)

**Meeting attendance:** 1 out of 1

## BCI INDUSTRY COMMITTEE FEBRUARY 2017 - JUNE 2017

### CHAIRPERSON

**Vicki Telfer**
**BSc, DipEd, MPA, MALP, GAICD**

Executive Director
Industrial Relations Group

**Meeting attendance:** 2* out of 2
***1 meeting was attended by Matt Roberts, Acting Executive Director Industrial Relations***

### MEMBERS NOMINATED BY THE UNIONS NSW

**Rita Mallia**
**B.Economics/Law**

State President
Construction Forestry Mining Energy Union (CFMEU),
(Construction & General Division) NSW Branch

**Meeting attendance:** 0 out of 2

**Con Tsiakoulas**
**Plumber**

Union Organiser
NSW Plumbers Union

**Meeting attendance:** 2 out of 2

**Kate Minter**
**BA Social Science, Masters Science**

Research Officer
Unions NSW

**Meeting attendance:** 0 out of 2

### MEMBERS DIRECTLY APPOINTED BY THE MINISTER

**David Bare**
**BE (Mat.) Business Management Certificate (General Management)**

Executive Director NSW
Housing Industry Australia (HIA)

**Meeting attendance:** 2 out of 2

**Melissa Adler**
**BCom, LLB**

Executive Director Workplace Relations
Housing Industry Association (HIA)

**Meeting attendance:** 1 out of 2

### MEMBERS DIRECTLY APPOINTED BY THE MINISTER (CONT)

**David Castledine**
**B. Eng, LL,B, GAICD**

CEO
Civil Contractors Federation (CCF) NSW

**Meeting attendance:** 1 out of 2

**Brian Seidler**
**B.Build**

Executive Director,
Master Builders Association of NSW (MBA)

**Meeting attendance:** 2 out of 2

### MEMBERS NOMINATED JOINTLY BY THE MASTER BUILDERS ASSOCIATION (MBA) OF NSW AND THE AUSTRALIAN FEDERATION OF EMPLOYERS AND INDUSTRIES (AFEI)

**Karen Kellock**
**DipHR, Cert IV WHS, Cert IV TAE**

Apprenticeship Services Manager
Master Builders Association NSW (MBA)

**Meeting attendance:** 2 out of 2

**Ian Jarman**
**Grad Dip Commerce (Industrial Relations), Grad Dip Corporate, Securities, Finance Law, Grad Cert Public Sector Management**

Industrial Officer
Master Builders Association of NSW (MBA)

**Meeting attendance:** 2 out of 2

**Liza Isho**
**B Laws (LLB)/B Business**

Senior Workplace Relations Consultant,
Australian Federation of Employers and Industries (AFEI)
Associate Solicitor AFEI Legal

**Meeting attendance:** 2 out of 2

## The Contract Cleaning Industry (CCI) Long Service Leave Committee

(Referred to as Industry Committee)

The Industry Committee is constituted under the *Contract Cleaning Industry (Portable Long Service Leave Scheme) Act 2010*. It is an advisory and appellate body, consisting of eight part-time members appointed by the Minister and chaired by the Chief Executive Officer or his nominated representative. The Industry Committee is constituted under Section 9 of the Act and is empowered to determine appeals under S77-84 of the Act.

The Industry Committee decides appeals lodged by workers against Corporation decisions to:

- Reject an application for registration in the scheme made on behalf of or by workers
- Cancel registrations of workers in the scheme
- Apply a limitation to the minimum and maximum rates of pay applied to a claim.

The Industry Committee also decides appeals lodged by employers against Corporation decisions to:

- Reject an application for registration in the scheme by an employer
- Cancel the registration of an employer in the scheme
- Refuse or reject an application to register a worker
- Refuse to grant an exemption or revocation of an exemption from lodging a return
- Refuse to grant an extension of time to pay a levy
- Refuse to waive or reduce interest on unpaid levies
- Make an assessment on an unpaid levy.

Apart from its legislated functions, the Committee also acts as 'Customer Council' in relation to customer service standards and helps ensure the quality and effectiveness of services meet customers' needs.

This year the Industry Committee met on two occasions.

During the year the Committee continued to provide support and advice to the Corporation regarding issues such as:

- Proposed regulatory amendments
- Assessment of claims from three major employers in the contract cleaning industry
- Comparative analysis of long service leave taken by cleaners from other long service schemes.

### Appeals

Sections 77-84 of the *Contract Cleaning Industry (Portable Long Service Leave Scheme) Act 2010* empowers the CCI Long Service Leave Committee to determine appeals lodged by workers and employers in respect of certain Corporation decisions. Appeals are considered and determined on the basis of documented evidence submitted by the parties involved.

There were 24 appeals lodged this financial year.

## CCI INDUSTRY COMMITTEE JULY 2016 - SEPTEMBER 2016

### CHAIRPERSON

**Vicki Telfer**
**BSc, DipEd, MPA, MALP, GAICD**

Executive Director
Industrial Relations Group

**Meeting attendance:** 1 out of 1

### MEMBERS NOMINATED BY THE UNIONS NSW

**Emma Maiden**
**BA Economics, Dip Law**

Assistant Secretary
Unions NSW

**Meeting attendance:** 0 out of 1

**Georgia Potter-Butler**
**LLB/BA Barrister and Solicitor NZ**

Industrial Officer
Unions NSW

**Meeting attendance:** 0 out of 1

### MEMBERS NOMINATED BY UNITED VOICE

**Mark Boyd**

Secretary
Unions NSW

**Meeting attendance:** 0 out of 1

**Mel Gatfield**
**BA Industrial Relations/Political Science**

Branch Secretary
United Voice

**Meeting attendance:** 1 out of 1

### MEMBERS NOMINATED BY THE BUILDING SERVICE CONTRACTORS ASSOCIATION OF AUSTRALIA (BSCAA)

**Ravindra Naidoo**
**BA (Hons) Economics, CPA**

Financial Controller
Quad Services

**Meeting attendance:** 1 out of 1

**Barbara Connolly**
**BA**

Executive Director
BSCAA NSW Division
National Officer BSCAA Ltd

**Meeting attendance:** 1 out of 1

### MEMBERS NOMINATED BY THE AUSTRALIAN CLEANING CONTRACTORS' ALLIANCE (ACCA)

**John Laws**
**Cert IV Assessment, Cert IV Finance Broking, Cert Personnel Administration**

Executive Director
ACCA,
Registered Contract Cleaning Manager

**Meeting attendance:** 1 out of 1

**Natalie Stephens**

General Manager
Procare Property Services Pty Ltd,
Vice President ACCA

**Meeting attendance:** 1 out of 1

## CCI INDUSTRY COMMITTEE FEBRUARY 2017 - JUNE 2017

### CHAIRPERSON

**Matt Roberts**
**BEc, MEc**

Acting Executive Director
Industrial Relations Group

**Meeting attendance:** 1 out of 1

### MEMBERS NOMINATED BY THE UNIONS NSW

**Emma Maiden**
**BA Economics, Dip Law**

Assistant Secretary
Unions NSW

**Meeting attendance:** 0 out of 1

**Georgia Potter-Butler**
**LLB/BA Barrister and Solicitor NZ**

Industrial Officer
Unions NSW

**Meeting attendance:** 0 out of 1

### MEMBERS NOMINATED BY UNITED VOICE

**Alex Morales**
**BA Communications**

Lead Organiser
United Voice

**Meeting attendance:** 1 out of 1

**Mel Gatfield**
**BA Industrial Relations/Political Science**

Branch Secretary
United Voice

**Meeting attendance:** 1 out of 1

### MEMBERS NOMINATED BY THE BUILDING SERVICE CONTRACTORS ASSOCIATION OF AUSTRALIA (BSCAA)

**Ravindra Naidoo**
**BA (Hons) Economics, CPA**

Financial Controller
Quad Services

**Meeting attendance:** 1 out of 1

**Barbara Connolly**
**BA**

Executive Director
BSCAA, NSW Division
National Officer BSCAA Ltd

**Meeting attendance:** 1 out of 1

### MEMBERS NOMINATED BY THE AUSTRALIAN CLEANING CONTRACTORS' ALLIANCE (ACCA)

**John Laws**
**Cert IV Assessment, Cert IV Finance Broking,**
**Cert Personnel Administration**

Executive Director
ACCA,
Registered Contract Cleaning Manager

**Meeting attendance:** 1 out of 1

**Natalie Stephens**

General Manager
Procare Property Services Pty Ltd,
Vice President ACCA

**Meeting attendance:** 0 out of 1

## Audit and Risk Management and Insurance activities within Long Service Corporation (LSC)

### Audit and Risk Committee

LSC has its own independent Audit and Risk Committee comprising of a chair and two members. The Committee met regularly to monitor identified risks and oversee audits and reviews of the activities of LSC.

### Business Continuity Management and Planning (BCM and BCP)

LSC's BCP plan and its associated supporting documentation was reviewed and updated in May 2017 by both management and members of the business continuity teams. Testing was conducted on the xMatters BCP communication system on a number of occasions throughout the year.

New members to the business continuity teams have been trained in their roles and responsibilities to ensure they are equipped to respond if an incident occurs.

### Compliance, Risk, Assurance Management System

LSC's identified risks and controls are maintained in the Protecht ERM Risk, Compliance and Assurance software management system.

### Risk Assessment

Similar to the previous year, strategic and operational risks workshops were conducted with management to identify and assess LSC's material risks and their associated controls.

All of LSC's major IT projects undergo monthly risk reviews and assessments, with updates being provided to the relevant Steering Committee members and the Audit and Risk Committee on changes to risk ratings and the progress of any mitigation strategies and actions.

A quarterly risk report is also provided to the Audit and Risk Committee on risks rated significant and above and on new and emerging risks.

### Insurance

LSC has insurance in place to cover all its assets and major risks. Its insurance policies include workers' compensation, building contents (including office equipment), motor vehicles and public liability. These policies are with the NSW Government's self-insurance scheme, the Treasury Managed Fund.

To minimise the likelihood and impact of workplace injury, LSC's workers compensation risks are actively managed with pre-emptive workplace inspections, early intervention and a Work Health and Safety Committee. The Treasury Managed Fund Premium Incentive Scheme encourages effective risk management. Agencies that manage risk well will receive lower premiums, while those with poor risk management are penalised.

LSC's initial insurance premiums for 2016-17 totalled $32,289. Its effective management of risk over previous periods resulted in better performance than originally anticipated. This led to retrospective adjustments being made to an amount of $5861. Consequently, in total, LSC's actual insurance costs decreased in 2016-17 to $26,427.

## Internal Audit and Risk Management Attestation Statement for the 2016-17 Financial Year for Long Service Corporation (LSC)

I, Michael Pratt, am of the opinion that the LSC has internal audit and risk management processes in operation that are compliant with the eight core requirements set out in the *Internal Audit and Risk Management Policy for the NSW Public Sector*, specifically:

| Core requirements | For each requirement please specify whether compliant, non-compliant, or in transition |
|---|---|
| **Risk Management Framework** | |
| 1.1 The agency head is ultimately responsible and accountable for risk management in the agency | Compliant |
| 1.2 A risk management framework that is appropriate to the agency has been established and maintained and the framework is consistent with AS/NZS ISO 31000:2009 | Compliant |
| **Internal Audit Function** | |
| 2.1 An internal audit function has been established and maintained | Compliant |
| 2.2 The operation of the internal audit function is consistent with the International Standards for the Professional Practice of Internal Auditing | Compliant |
| 2.3 The agency has an Internal Audit Charter that is consistent with the content of the 'model charter' | Compliant |
| **Audit and Risk Committee** | |
| 3.1 An independent Audit and Risk Committee with appropriate expertise has been established | Compliant |
| 3.2 The Audit and Risk Committee is an advisory committee providing assistance to the agency head on the agency's governance processes, risk management and control frameworks, and its external accountability obligations | Compliant |
| 3.3 The Audit and Risk Committee has a Charter that is consistent with the content of the 'model charter' | Compliant |

### Membership

The chair and members of the Audit and Risk Committee are:

- Independent Chair, Victor Lewis, appointed July 2013 to 30 June 2017
- Independent member, Felicity Barr, appointed July 2013, extended in February 2015 to 31 July 2019
- Independent member, Neal O'Callaghan, appointed July 2013, extended in July 2016 to 1 August 2020

Michael Pratt, Chief Executive Officer
Date: 22.9.17

4/9/17
Virginia Tinson
Director of Risk
Telephone: 02 9228 3783

04/09/17
Alan Pasfield
F/Chief Audit Executive
Telephone: 02 9228 5295

## Digital Information Security Annual Attestation Statement for the 2016-2017 Financial Year for the Long Service Corporation

I, Michael Pratt, am of the opinion that the Long Service Corporation had an Information Security Management System in place during the 2016-2017 financial year that is consistent with the Core Requirements set out in the NSW Government Digital Information Security Policy.

The controls in place to mitigate identified risks to the digital information and digital information systems of the Long Service Corporation are adequate, subject to deficiencies relating to LSC's policies and procedures identified during an independent assessment. The policies and procedures were revised after 30 June 2017 and deficiencies are being addressed.

Risks to the digital information and digital information systems of the Long Service Corporation have been assessed against the ISMS being developed in accordance with the NSW Government Digital Information Security Policy.

Michael Pratt
Chief Executive Officer
Long Service Corporation
13.10.17

# FINANCIAL PERFORMANCE SUMMARY

## REVENUE AND EXPENSES

During the financial year, revenue from all sources amounted to $279.0 million, whilst expenditure amounted to $154.3 million. This resulted in a net result of $124.7 million.

The actual net result was greater than budget by $93 million, primarily due to the following:

| | $'000 |
|---|---|
| • Increased return on TCorp Hour-Glass investment facilities, including LSCIFT | 46,389 |
| • Increased collection of levies from both Schemes | 27,764 |
| • Decreased Finance Cost due to changes in discount rate | - |
| • Decreased Finance Cost due to unwinding of discount rate | 4,514 |
| • Decreased Long Service expense | 11,689 |
| • Decreased Personnel services expense | 3,380 |
| • Increase in Consulting and Contractor expenses | (899) |
| • Decreased other expenses | 524 |
| | 93,361 |

| BUDGET FORECAST AND RESULT | Actual 2016/2017 $'000 | Budget 2016/2017 $'000 | Budget 2017/2018 $'000 |
|---|---|---|---|
| **Expenses excluding losses** | | | |
| Operating expenses | | | |
| Personnel services | 4,226 | 7,606 | 7,860 |
| Other operating expenses | 94,332 | 105,551 | 124,222 |
| Depreciation and amortisation | 122 | 175 | 225 |
| Finance costs | 55,623 | 60,137 | 61,167 |
| **TOTAL EXPENSES EXCLUDING LOSSES** | **154,303** | **173,469** | **193,474** |
| **Revenue** | | | |
| Investment revenue | 117,565 | 71,176 | 76,084 |
| Retained taxes, fees and fines | 161,282 | 133,518 | 149,345 |
| Other revenue | 173 | 102 | 132 |
| **Total Revenue** | **279,020** | **204,796** | **225,561** |
| Gain/(loss) on disposal | (29) | - | - |
| **NET RESULT** | **124,688** | **31,327** | **32,087** |

## FINANCIAL PERFORMANCE SUMMARY

| FINANCIAL TRENDS | Actual 2012/2013 $'000 | Actual 2013/2014 $'001 | Actual 2014/2015 $'002 | Actual 2015/2016 $'000 | Actual 2016/2017 $'000 |
|---|---|---|---|---|---|
| **Expenses excluding losses** | | | | | |
| Operating expenses | | | | | |
| Personnel services | 3,370 | 6,779 | 7,514 | 11,992 | 4,226 |
| Other operating expenses | 126,646 | 66,623 | 68,151 | 74,869 | 94,332 |
| Depreciation and amortisation | 226 | 224 | 233 | 152 | 122 |
| Finance costs | (31,952) | 53,416 | 56,684 | 60,781 | 55,623 |
| **TOTAL EXPENSES EXCLUDING LOSSES** | **98,290** | **127,042** | **132,582** | **147,794** | **154,303** |
| **Revenue** | | | | | |
| Investment revenue | 121,652 | 97,659 | 94,436 | 30,231 | 117,565 |
| Retained taxes, fees and fines | 110,883 | 121,374 | 144,498 | 165,630 | 161,282 |
| Other revenue | 18 | 87 | 112 | 140 | 173 |
| **Total Revenue** | **232,553** | **219,120** | **239,046** | **196,001** | **279,020** |
| Gain/(loss) on disposal | - | - | 15 | | (29) |
| **NET RESULT (DEFICIT)SURPLUS** | **134,263** | **92,078** | **106,479** | **48,207** | **124,688** |

**FINANCIAL POSITION**

The principal assets continue to be investments of $1303.3 million in TCorp Long Term Growth Facility and the principal liabilities are the estimates for the Provision for Scheme Liabilities of $998.9 million as assessed by actuarial consultants. Equity improved significantly by $124.7 million from an accumulated funds of $241.6 million at 30 June 2016 to accumulated funds of $366.3 million as at 30 June 2017. Please refer to Note 15 to the Financial Statements for details of significant non cash gains affecting this year's result.

**INVESTMENTS**

The Corporation invested its funds in the "Long Term Growth" Long Service Corporation Facilities Trust administered by NSW Treasury Corporation (TCorp) utilising external managers under contract to Tcorp and the Treasury Banking System (TBS).

The following table shows the movement in funds within these facilities and indicates the rate of return compared with the benchmark return.

| | BALANCE ON HAND AS AT | | INVESTMENT PERFORMANCE | | BENCH MARK |
|---|---|---|---|---|---|
| FUND CATEGORIES | 30 JUNE 2017 $'000 | 30 JUNE 2016 $'000 | INCOME $'000 | RETURN % | RETURN % |
| Long term growth | 1,082,280 | 1,137,719 | 114,561 | 10.81% | 10.00% |
| Term Deposits | 221,000 | - | 2,290 | 2.63% | 2.63% |
| Cash | 64,229 | 36,805 | 714 | 1.50% | 1.50% |
| TOTAL | 1,367,509 | 1,174,524 | 117,565 | | |
| Represented by: | | | | | |
| TCorp | 1,303,280 | 1,137,719 | 116,851 | | |
| TBS | 64,229 | 36,805 | 714 | | |
| | 1,367,509 | 1,174,524 | 117,565 | | |

## ACCOUNTS PAYABLE PERFORMANCE

| Aged analysis at end of each quarter | | Current (within due date) $'000 | Less than 30 days overdue $'000 | Between 30 and 60 days overdue $'000 | Between 61 and 90 days overdue $'000 | More than 90 days overdue $'000 |
|---|---|---|---|---|---|---|
| **All suppliers** | | | | | | |
| | Sep-16 | 717,661 | - | - | - | - |
| | Dec-16 | 990,478 | - | - | - | - |
| | Mar-17 | 1,000,510 | - | - | - | - |
| | Jun-17 | 1,041,600 | - | - | - | - |
| **Small business suppliers** | | | | | | |
| | Sep-16 | 84,997 | - | - | - | - |
| | Dec-16 | 89,929 | - | - | - | - |
| | Mar-17 | 74,063 | | - | - | - |
| | Jun-17 | 25,917 | - | - | - | - |

Note: Although Small business registration with the Corporation commenced in January 2012 in accordance with NSWTC 11/12, payments have been tracked from July 2011. A small business is defined as an Australian or New Zealand business with annual turnover of less than $2 Million dollars.

**Accounts due or paid within each quarter**

| Measure | Sep-16 | Dec-16 | Mar-17 | Jun-17 |
|---|---|---|---|---|
| **All suppliers** | | | | |
| Number of accounts due for payment | 241 | 284 | 232 | 263 |
| Number of accounts paid on time | 241 | 284 | 232 | 263 |
| Actual percentage of accounts paid on time (based on number of accounts) | 100% | 100% | 100% | 100% |
| Dollar amount of accounts due for payment | 717,661 | 990,478 | 1,000,510 | 1,041,600 |
| Dollar amount of accounts paid on time | 717,661 | 990,478 | 1,000,510 | 1,041,600 |
| Actual percentage of accounts paid on time (based on $) | 100% | 100% | 100% | 100% |
| Number of payments for interest on overdue accounts | Nil | Nil | Nil | Nil |
| Interest paid on overdue accounts | Nil | Nil | Nil | Nil |
| **Small business suppliers** | | | | |
| Number of accounts due for payment | 44 | 36 | 28 | 28 |
| Number of accounts paid on time | 44 | 36 | 28 | 28 |
| Actual percentage of accounts paid on time (based on number of accounts) | 100% | 100% | 100% | 100% |
| Dollar amount of accounts due for payment | 84,997 | 89,929 | 74,063 | 25,917 |
| Dollar amount of accounts paid on time | 84,997 | 89,929 | 74,063 | 25,917 |
| on $) | 100% | 100% | 100% | 100% |
| Number of payments for interest on overdue accounts | Nil | Nil | Nil | Nil |
| Interest paid on overdue accounts | Nil | Nil | Nil | Nil |

**Commentary**

The Corporation has a policy of payments to all suppliers within 14 days from receipt of a correctly rendered invoice. This is better than the Government directive of 30 days per NSWTC11/12.

The Corporation has not been required to make interest payments to small business in the financial year.

# FINANCIAL STATEMENTS

## Contents

## LONG SERVICE CORPORATION

### FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

### STATEMENT BY CHIEF EXECUTIVE OFFICER
### LONG SERVICE CORPORATION

Under Section 41C of the *Public Finance and Audit Act, 1983*, I state that in my opinion:

The accompanying financial statements and notes thereto exhibit a true and fair view of the financial position and financial performance of the Long Service Corporation as at 30 June 2017.

The financial statements have been prepared in accordance with the provisions of applicable Australian Accounting Standards (which include Australian Accounting Interpretations), the *Public Finance and Audit Act* 1983, the *Public Finance and Audit Regulation*, 2015 and the Treasurer's Directions.

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

Michael Pratt
Chief Executive Officer, Long Service Corporation

**Dated 18th September 2017 at Sydney**

# INDEPENDENT AUDITOR'S REPORT

**Long Service Corporation**

To Members of the New South Wales Parliament

## Opinion

I have audited the accompanying financial statements of Long Service Corporation (the Corporation), which comprise the statement of financial position as at 30 June 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

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

## Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report.

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

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

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

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

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

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

## The Chief Executive Officer's Responsibility for the Financial Statements

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

In preparing the financial statements, the Chief Executive Officer must assess the Corporation's ability to continue as a going concern except where the Corporation will be dissolved by an Act of Parliament or otherwise cease operations. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

## Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

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

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

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

My opinion does *not* provide assurance:

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

A Oyetunji
Director, Financial Audit Services

20 September 2017
SYDNEY

# FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 30 JUNE 2017**

LONG SERVICE CORPORATION

## Statement of comprehensive income for the year ended 30 JUNE 2017

| | Notes | Actual 2017 $'000 | Budget 2017 $'000 | Actual 2016 $'000 |
|---|---|---|---|---|
| **Expenses excluding losses** | | | | |
| Operating expenses | | | | |
| Personnel services | 2(a) | 4,226 | 7,606 | 11,992 |
| Other operating expenses | 2(b) | 94,332 | 105,551 | 74,869 |
| Depreciation and amortisation | 2(c) | 122 | 175 | 152 |
| Finance costs | 2(d) | 55,623 | 60,137 | 60,781 |
| **TOTAL EXPENSES EXCLUDING LOSSES** | | **154,303** | **173,469** | **147,794** |
| **Revenue** | | | | |
| Investment revenue | 3(a) | 117,565 | 71,176 | 30,231 |
| Retained taxes, fees and fines | 3(b) | 161,282 | 133,518 | 165,630 |
| Other revenue | 3(c) | 173 | 102 | 140 |
| **Total Revenue** | | **279,020** | **204,796** | **196,001** |
| Gain/(losses) on disposal | 4 | (29) | - | - |
| **NET RESULT** | | 124,688 | 31,327 | 48,207 |
| Other comprehensive income | | - | - | - |
| **Total other comprehsive income** | | - | - | - |
| **TOTAL COMPREHENSIVE INCOME** | | **124,688** | **31,327** | **48,207** |

The accompanying notes form part of these financial statements.

# FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2017

LONG SERVICE CORPORATION

### Statement of financial position as at 30 JUNE 2017

| | Notes | Actual 2017 $'000 | Budget 2017 $'000 | Actual 2016 $'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | 5 | 64,229 | 41,080 | 36,805 |
| Receivables | 6 | 10,047 | 10,606 | 9,731 |
| Financial assets at fair value | 7 | 221,000 | - | - |
| **Total Current Assets** | | **295,276** | **51,686** | **46,536** |
| **Non-Current Assets** | | | | |
| Financial assets at fair value | 7 | 1,082,280 | 1,226,253 | 1,137,719 |
| Property, plant and equipment | | | | |
| - Plant and equipment | 8 | 189 | 408 | 63 |
| Intangible assets | 9 | 458 | 5,804 | 156 |
| **Total Non-Current Assets** | | **1,082,927** | **1,232,465** | **1,137,938** |
| **Total Assets** | | **1,378,203** | **1,284,151** | **1,184,474** |
| **LIABILITIES** | | | | |
| **Current Liabilities** | | | | |
| Payables | 11 | 2,664 | 2,483 | 1,914 |
| Provisions | 12 | 860,262 | 644,423 | 802,984 |
| **Total Current Liabilities** | | **862,926** | **646,906** | **804,898** |
| **Non-Current Liabilities** | | | | |
| Provisions | 12 | 148,941 | 370,310 | 137,928 |
| **Total Non-Current Liabilities** | | **148,941** | **370,310** | **137,928** |
| **Total Liabilities** | | **1,011,867** | **1,017,216** | **942,826** |
| **Net Assets** | | **366,336** | **266,935** | **241,648** |
| **EQUITY** | | | | |
| Accumulated Funds | | 366,336 | 266,935 | 241,648 |
| **Total Equity** | | **366,336** | **266,935** | **241,648** |

The accompanying notes form part of these financial statements.

# FINANCIAL STATEMENTS
**FOR THE YEAR ENDED 30 JUNE 2017**
LONG SERVICE CORPORATION

## Statement of changes in equity for the year ended 30 JUNE 2017

| | Accumulated Funds $'000 |
|---|---|
| **Balance at 1 July 2016** | **241,648** |
| **Net result for the year** | **124,688** |
| **Other comprehensive income:** | **-** |
| **Total other comprehensive income for the year** | **-** |
| **Total comprehensive income for the year** | **124,688** |
| **Balance at 30 June 2017** | **366,336** |
| | |
| **Balance at 1 July 2015** | 193,441 |
| **Net result for the year** | 48,207 |
| **Other comprehensive income:** | - |
| **Total other comprehensive income for the year** | - |
| **Total comprehensive income for the year** | 48,207 |
| **Balance at 30 June 2016** | 241,648 |

The accompanying notes form part of these financial statements.

# FINANCIAL STATEMENTS
**FOR THE YEAR ENDED 30 JUNE 2017**
LONG SERVICE CORPORATION

## Statement of cash flows for the year ended 30 JUNE 2017

| | Notes | Actual 2017 $'000 | Budget 2017 $'000 | Actual 2016 $'000 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| **Payments** | | | | |
| Personnel services | | (7,280) | (7,606) | (7,707) |
| Finance costs | | - | - | - |
| Other | | (78,987) | (84,283) | (77,673) |
| **Total Payments** | | **(86,267)** | **(91,889)** | **(85,380)** |
| **Receipts** | | | | |
| Interest received | | 917 | 1,546 | 708 |
| Retained taxes, fees and fines | | 162,349 | 133,990 | 164,256 |
| Other | | 2,004 | 1,271 | 1,436 |
| **Total Receipts** | | **165,270** | **136,807** | **166,400** |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | 17 | **79,003** | **44,918** | **81,020** |
| **CASH FLOWS FROM/(TO) INVESTING ACTIVITIES** | | | | |
| Proceeds from sale of plant and equipment | | - | 7 | - |
| Purchases of plant and equipment | | (171) | (250) | (3) |
| Purchases of investments | | (51,000) | (84,584) | (109,863) |
| Other | | (408) | (5,206) | (63) |
| **NET CASH FLOWS FROM(TO) INVESTING ACTIVITIES** | | **(51,579)** | **(90,033)** | **(109,929)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from borrowing and advances | | - | - | - |
| Repayment of borrowing and advances | | - | - | - |
| **NET CASH FLOWS FROM FINANCING ACTIVITIES** | | **-** | **-** | **-** |
| **NET INCREASE/(DECREASE) IN CASH** | | **27,424** | **(45,115)** | **(28,909)** |
| Opening cash and cash equivalents | | 36,805 | **86,195** | 65,714 |
| **CLOSING CASH AND CASH EQUIVALENTS** | 5 | **64,229** | **41,080** | **36,805** |

The accompanying notes form part of these financial statements.

# FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2017
LONG SERVICE CORPORATION

## Notes to the financial statements

### 1. *Summary of Significant Accounting Policies*

*(a)* Reporting entity

The Long Service Corporation (Corporation) is a NSW government entity and is controlled by the State of New South Wales, which is the ultimate parent. The Corporation is a not-for-profit entity (as profit is not its principal objective) and it has no cash generating units.

The Corporation has its principal office at 19-21 Watt Street, Gosford, and administers the *Building and Construction Industry Long Service Payments Act 1986* and *Contract Cleaning Industry (Portable Long Service Leave Scheme) Act 2010*. These Acts provide portable long service payments schemes to building and construction workers and contract cleaning workers in NSW.

The Corporation holds 100% of units issued by the Long Service Corporation Investment Facility Trust (LSCIFT), an Hour-Glass investment facility managed by the New South Wales Treasury Corporation (TCorp) at its principal office at Level 22, Governor Phillip Tower, 1 Farrer Place, Sydney. The Corporation controls the LSCIFT, making the Corporation a parent entity for reporting purposes.

These financial statements for the year ended 30 June 2016 have been authorised for issue by the Chief Executive Officer on 18 September 2017.

*(b)* Basis of preparation

The Corporation's financial statements are general purpose financial statements which have been prepared on an accruals basis and in accordance with:

- applicable Australian Accounting Standards(AAS) (which include Australian Accounting Interpretations)
- the requirements of the *Public Finance and Audit Act 1983* and *Public Finance and Audit Regulation 2015,* and
- the Financial Reporting Directions mandated by the Treasurer.

The Corporation's financial statements are separate financial statements in accordance with AASB 127 'Separate Financial Statements'. The Corporation has applied the exemption from producing consolidated financial statements available under paragraphs 4(a) and Aus4.1 of AASB 10 'Consolidated Financial Statements'.

The Corporation accounts for its investment in its subsidiary, the LSCIFT, by initially measuring the investment at fair value and subsequently classifying the investment as measured at fair value on the basis of the Corporation's business model for managing the investment. Gains or losses are recognised in profit or loss.

Plant and equipment, and financial assets at 'fair value through profit or loss' are measured at fair value. Other financial statement items are prepared in accordance with the historical cost convention except where specified otherwise.

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements.

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

*(c)* Statement of compliance

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

*(d)* Insurance

The entity's insurance activities are conducted through the NSW Treasury Managed Fund Scheme of self insurance for Government entities. The expense (premium) is determined by the Fund Manager based on past claim experience.

*(e)* Accounting for the Goods and Services Tax (GST)

Income, expenses and assets are recognised net of the amount of GST, except that the:

- amount of GST incurred by the entity as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of an asset's cost of acquisition or as part of an item of expense and
- receivables and payables are stated with the amount of GST included.

Cash flows are included in the Statement of Cash Flows on a gross basis. However, the GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

*(f)* Income Recognition

Income is measured at the fair value of the consideration or contribution received or receivable. Additional comments regarding the accounting policies for the recognition of income are discussed below.

(i) Investment Revenue

New South Wales Treasury Corporation (TCorp) administers the Corporation's investment funds through its Hour-Glass Investment Facilities. Investment income comprises interest and changes in the unit value of the Corporation's investments in TCorp Hour-Glass investment facilities, including the LSCIFT.

Interest income is recognised using the effective interest method as set out in *AASB 139* Financial Instruments: Recognition and Measurement.

(ii) Retained taxes, fees and fines

Long service levy income

In relation to the Building and Construction Industry a levy is applied at the rate of 0.35% on the cost of building and construction of $25,000 or above. Long Service Levy income is recognised when it is received or receivable by the Corporation or the Local Government Councils acting in their capacity as agents.

In relation to the Contract Cleaning Industry, a levy is applied at the rate of 1.7% of the cost of wages paid to workers in that industry. Employers are required to lodge returns on a quarterly basis. Long service levy income is recognised as these returns are lodged with the Corporation on an accruals basis, e.g. income applicable to employer returns received in July for the June quarter are recognised as levy income in June.

(iii) Other Revenue

Other revenue consists of miscellaneous income that is recognised as it accrues.

*(g)* Plant and equipment

(i) Acquisitions of plant and equipment

Plant and equipment are initially recognised at cost. 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 its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the requirements of other Australian Accounting Standards.

Assets acquired at no cost, or for nominal consideration, are initially recognised at their fair value at the date of acquisition.

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at measurement date.

Where payment for an asset is deferred beyond normal credit terms, its cost is the cash price equivalent; i.e. deferred payment amount is effectively discounted over the period of credit.

(ii) Capitalisation thresholds

Plant, equipment and intangible assets costing $5,000 and above individually (or forming part of a network costing more than $5,000) are capitalised.

(iii) Revaluation of plant and equipment

Physical non-current assets are valued in accordance with the 'Valuation of Physical Non-Current Assets at Fair Value' Policy and Guidelines Paper (TPP 14-01). This policy adopts fair value in accordance with AASB 13 *Fair Value Measurement and* AASB 116 *Property, Plant and Equipment*.

All of the Corporation's assets are non-specialised assets with short useful lives and are measured at depreciated historical cost, as an approximation of fair value. The Corporation has assessed that any difference between fair value and depreciated historical cost is unlikely to be material. Also refer Note 10 for further information regarding fair value.

(iv) Impairment of plant and equipment

As a not-for-profit entity with no cash generating units, impairment under AASB 136 *Impairment of Assets* is unlikely to arise. As property, plant and equipment is carried at fair value or an amount that approximates fair value, impairment can only arise in rare circumstances such as where the costs of disposal are material. Specifically, impairment is unlikely for not-for-profit entities given that AASB 136 modifies the recoverable amount test for non-cash generating assets for not-for-profit entities to the higher of fair value less costs of disposal and depreciated replacement cost, where depreciated replacement cost is also fair value.

(v) Depreciation of plant and equipment

Depreciation is provided for on a straight-line basis for all depreciable assets so as to write off the depreciable amount of each asset as it is consumed over its useful life to the Corporation.

All material separately identifiable components of assets are depreciated over their useful lives.

Motor vehicles and plant and equipment are depreciated over five years and computer equipment is depreciated over three years. The Corporation's leasehold improvements are considered to have a useful life equivalent to the un-expired period of the lease.

(vi) Maintenance

Day-to-day servicing costs or maintenance are charged as expenses as incurred, except where they relate to the replacement of a part or component of an asset, in which case the costs are capitalised and depreciated.

(h) Leases

Operating lease payments are recognised as an expense on a straight line basis over the lease term. The Corporation has no finance leases.

Existing operating leases relate to leasing premises at 19-21 Watt Street, Gosford, 2-10 Valentine Avenue Parramatta and small items of plant and equipment.

The Corporation is not a party to any finance lease.

(i) Intangible assets

The entity recognises intangible assets only if it is probable that future economic benefits will flow to the entity and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. Where an asset is acquired at no or nominal cost, the cost is its fair value as at the date of acquisition.

The useful lives of intangible assets are assessed to be finite.

Intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for the entity's intangible assets, the assets are carried at cost less any accumulated amortisation and impairment losses.

The entity's intangible assets which comprise computer software are amortised using the straight line method over a period of three or five years.

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.

(j) Financial Instrument

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in net result.

The entity determines the classification of its financial assets and liabilities after initial recognition and, when allowed and appropriate, re-evaluates this at each financial year end.

(i) Financial assets

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available--for--sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

**Financial assets at fair value through profit or loss**

The entity subsequently measures investments classified as 'held for trading' or designated upon initial recognition 'at fair value through profit or loss' at fair value. Financial assets are classified as 'held for trading' if they are acquired for the purpose of selling in the near term. Gains or losses on these assets are recognised in the net result for the year.

With the exception of the LSCIFT, Hour-Glass Investment Facilities are designated at fair value through profit or loss as these financial assets are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy, and information about these assets is provided internally on that basis to the entity's key management personnel.

The risk management strategy of the Corporation has been developed consistent with the investment powers granted under the provision of the *Public Authorities (Financial Arrangements) Act 1987 No 33.*

The accounting treatment applied to the LSCIFT Hour-Glass investment facility described in Note 1(b) is effectively the same as that applied to other Hour-Glass investment facilities, that is, carried at fair value with movements in fair value recognised in profit or loss.

The movement in the fair value of the Hour-Glass investment facilities, including LSCIFT, incorporates distributions received as well as unrealised movements in fair value and is reported in the line item 'investment revenue'.

**Receivables**

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are recognised initially at fair value. Subsequent measurement is at amortised cost using the effective interest method, less an allowance for any impairment of receivables. Any changes are recognised in the net result for the year when impaired, derecognised or through the amortisation process.

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

**Impairment of financial assets**

All financial assets, except those measured at fair value through profit and loss, are subject to an annual review for impairment. An allowance for impairment is established when there is objective evidence that the entity will not be able to collect all amounts due.

For financial assets carried at amortised cost, the amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the impairment loss is recognised in the net result for the year.

(ii) **Financial liabilities**

Financial liabilities are classified as either 'at fair value through profit or loss' or 'at amortised cost'.

**Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in the net result.

**Financial liabilities at amortised cost (including borrowings and trade payables)**

Financial liabilities at amortised cost are initially measured at fair value, net of transaction costs. These are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

**Payables**

These amounts represent liabilities for goods and services provided to the entity and other amounts. Payables are recognised initially at fair value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

**Provision for Scheme Liabilities**

The liability is determined by annual actuarial valuation. The assumptions used in arriving at that valuation are set out in note 12(b).

**Finance costs**

Scheme liabilities are valued using AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, which provides that the increase in a provision resulting from the unwinding of the discount rate is to be recognised as a borrowing cost.

**Provision for Levy Refund**

The liability is determined from assumptions based on past experience of the Corporation's levy refunds resulting from requests for determination of the leviable costs.

(iii) De-recognition of financial assets and financial liabilities

A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire; or if the entity transfers the financial asset:

• where substantially all the risks and rewards have been transferred or

• where the entity has not transferred substantially all the risks and rewards, if the entity has not retained control.

Where the entity has neither transferred nor retained substantially all the risks and rewards or transferred control, the asset is recognised to the extent of the entity's continuing involvement in the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged or cancelled or expires.

(iv) Personnel Services

The Corporation's staff and human resource administration were provided by NSW Treasury. Payroll processing is performed by the Corporation.

The NSW Treasury is not a Special Purpose Service Entity controlled by the Corporation. In accordance with NSW Treasury Circular 15/07 "Financial Reporting and Annual Reporting Requirements arising from personnel service arrangements", a liability representing the total amount payable to NSW Treasury is recognised in the Statement of Financial Position.

As the Corporation is not the employer, the disclosure requirements of AASB 119 *Employee Benefits* in respect of employee benefits do not apply. However, for clarity and transparency, the Personnel Services Provision is disaggregated in the notes to the financial statements into its major components which include Annual Leave, Long Service Leave and Unfunded Superannuation.

(a) Salaries and wages, recreation leave, sick leave and on-costs

Salaries and wages (including non-monetary benefits) and paid sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the service are recognised and measured at the undiscounted amount of the benefits.

Annual leave is not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. As such, it is required to be measured at present value in accordance with AASB 119 *Employee Benefits* (although short-cut methods are permitted).

Actuarial advice obtained by Treasury has confirmed that using the nominal annual leave balance plus the annual leave entitlements accrued while taking annual leave (calculated using 7.9% of the nominal value of annual leave) can be used to approximate the present value of the annual leave liability. The Corporation has assessed the actuarial advice based on the Corporation's circumstances and has determined that the effect of discounting is immaterial to annual leave.

Unused non-vesting sick leave does not give rise to a liability as it is not considered probable that sick leave taken in the future will be greater than the benefits accrued in the future.

(b) Long service leave and superannuation

Long service leave is measured at present value in accordance with AASB 119 *Employee Benefits*. This is based on the application of certain factors (specified in NSWTC 15/09) to employees with five or more years of service, using current rates of pay. These factors were determined based on an actuarial review to approximate present value.

The superannuation expense for the financial year is determined by using the formula specified in the Treasurer's Directions. The expense for certain superannuation schemes (i.e. Basic Benefit and First State Super) is calculated as a percentage of the employees' salary. For other superannuation schemes (i.e. State Superannuation Scheme and State Authorities Superannuation Scheme), the expense is calculated as a multiple of the employees' contributions.

(c) Consequential on-costs

Consequential costs to employment are recognised as liabilities and expenses where the employee benefits to which they relate have been recognised. This includes outstanding amounts of payroll tax, workers' compensation insurance premiums and fringe benefits tax.

*(k)* Equity

Accumulated Funds

The category 'Accumulated Funds' includes all current and prior period retained funds and losses.

*(l)* Fair value hierarchy

A number of the Corporation's 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 *Fair Value Measurement* , the Corporation categorises, for disclosure purposes, the valuation techniques based on the inputs used in the valuation techniques as follows:

- Level 1 - quoted prices in active markets for identical assets / liabilities that the Corporation can access at the measurement date.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- Level 3 - inputs that are not based on observable market data (unobservable inputs).

The Corporation recognises transfers between levels of fair value hierarchy at the end of the reporting period during which the change occurred.

Refer Note 10 and Note 19(e) for further disclosures regarding fair value measurements of financial and non-financial assets.

*(m)* Budgeted amounts

The budgeted amounts are drawn from the original budgeted financial statements presented to Parliament in respect of the reporting period. Subsequent amendments to the original budget (e.g. adjustments for transfers of functions between entities as a result of Administrative Arrangements Orders) are not reflected in the budgeted amounts. Major variances between the original budget amounts and the actual amounts disclosed on the primary financial statements are explained in Note 15.

(n) Comparative information

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

(n) Going Concern

The Corporation has adopted the going concern basis, as it is cash flow positive and has adequate resources to pay its liabilities as and when they become payable. In addition to this the Government has the ability to alter the levy rates and legislation in order to increase revenue streams.

An actuarial review was conducted by Professional Financial Solutions in June 2017. The review estimates that the Corporation will remain in surplus in the forward years.

*(o)* Changes in accounting policies, including new and revised Australian Accounting Standards

(i) Effective for the first time in 2016-17

The Corporation has adopted all new, revised or amended Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant and effective for the current reporting year.

The adoption of these Standards and Interpretations did not have any impact on the financial performance or position of the Corporation.

Any impacts on the accounting policies of the Corporation from the adoption of these accounting standards and interpretations are disclosed in the relevant accounting policy.

- AASB 124 Related Party Dislosures

(ii) Issued but not yet effective

Certain new standards and interpretations have recently been issued or amended but are not yet effective for the current reporting year. It is considered impracticable to presently determine the impact of adopting those new standards and interpretations.

The following new Accounting Standards have not been applied and are not yet effective:

- AASB 9 *Financial Instruments*
- AASB 16 *Leases*
- AASB 1058 *Income of Not-for-profit Entities*
- AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB107*
- AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not for-Profit Entities*

# FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2017
## LONG SERVICE CORPORATION

## Notes to the financial statements

### 2. *Expenses Excluding Losses*

#### (a) Personnel services expenses

The Corporation received personnel services from NSW Treasury to resource the Corporation. The Corporation recognises the relevant employee related expenses associated with this arrangement as follows:

| | 2017 | 2016 |
|---|---|---|
| | $'000 | $'000 |
| Salaries and wages (including annual leave) | **5,950** | 5,968 |
| Salaries - voluntary redundancy | **635** | 242 |
| Superannuation – defined benefit plans * | **(3,409)** | 4,457 |
| Superannuation – defined contribution plans | **478** | 494 |
| Long service leave provision | **180** | 421 |
| Payroll tax and fringe benefits tax | **384** | 394 |
| Workers' compensation insurance | **8** | 16 |
| **Total Personnel services expense** | **4,226** | 11,992 |

The amount of Personnel services expense that has been capitalised, and therefore excluded from the above is $0.00 (2016 $24,486)

| | 2017 | 2016 |
|---|---|---|
| * Superannuation – defined benefit plans | | |
| Defined benefit plans – contributions | **201** | 244 |
| Defined benefit plans – liability adjustments | **(3,610)** | 4,213 |
| Total Superannuation – defined benefit plans | **(3,409)** | 4,457 |

Superannuation net actuarial gain of $2.5 million (2016: $4.3 m loss) in respect of personnel who are members of defined benefit superannuation plans, are recognised directly in the Net Result. The actuarial gain and loss in the respective years was impacted by changes in the discount rate used to determine the present value of the defined benefit obligations. AASB 119 together with TC 11/17 mandate the yield on Commonwealth Bond (10yr) as the discount rate.This rate decreased from 3.01% at 30 June 2015 to 1.99% at 30 June 2016 then increased to 2.62% at 30 June 2017.

**(b) Other operating expenses including the following:**

| | Notes | 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| Auditors remuneration - audit of financial statements | | **82** | 87 |
| Long service expense | 12 (b) | **89,473** | 70,987 |
| Operating lease rental expense | | | |
| - minimum lease payment | | **346** | 368 |
| Insurance | | **10** | 11 |
| Consultants | | **1,361** | 679 |
| Contractors | | **280** | 231 |
| Computing | | **994** | 743 |
| Marketing | | **75** | 82 |
| Travel | | **23** | 27 |
| Occupancy - outgoings, electricity, cleaning and maintenance | | **157** | 152 |
| Long service levy commissions | | **458** | 512 |
| Service agreements | | **125** | 119 |
| Other administrative expenses | | **948** | 871 |
| **Total other operating expenses** | | **94,332** | 74,869 |

**(c) Depreciation and amortisation expense**

| | 2017 | 2016 |
|---|---|---|
| Depreciation | | |
| - Plant and equipment | **7** | 6 |
| - Computer equipment | **23** | 49 |
| - Motor vehicles | **14** | 15 |
| - Leasehold improvements | **1** | 34 |
| | **45** | 104 |
| Amortisation | | |
| - Computer software | **77** | 48 |
| | **77** | 48 |
| **Total depreciation and amortisation expense** | **122** | 152 |

**(d) Finance costs**

| | Notes | 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| Interest NSW Treasury advance | | **-** | - |
| Unwinding of discount rate | 12 (b) | **55,623** | 60,781 |
| | | **55,623** | 60,781 |

Refer Note 12(b)(i) for detail on changes to the discount rate used for the 2017 and 2016 years.

**3. *Revenue***

(a) Investment revenue

| | 2017 | 2016 |
|---|---|---|
| Interest revenue from financial assets not at fair value through profit or loss - Bank interest | **3,004** | 1,450 |
| Interest income from financial assets not at fair value through profit or loss - TCorp cash facility | **-** | 3 |
| Fair value movements from financial assets at fair value - TCorp Hour-Glass investment facilities, including LSCIFT | **114,561** | 28,778 |
| | **117,565** | 30,231 |

(b) Retained taxes, fees and fines

| | 2017 | 2016 |
|---|---|---|
| Long service levy income | **163,007** | 167,292 |
| Long service levy refunds | **(1,725)** | (1,662) |
| | **161,282** | 165,630 |

(c) Other income

| | 2017 | 2016 |
|---|---|---|
| Miscellaneous income | **173** | 140 |
| | **173** | **140** |

**4. *Gain / (Loss) on disposal***

| | 2017 | 2016 |
|---|---|---|
| Gain / (Loss) on disposal of plant and equipment | **(29)** | - |
| | **(29)** | - |

**5. *Current Assets - Cash and Cash Equivalents***

| | 2017 | 2016 |
|---|---|---|
| Cash at bank and on hand | **64,229** | 36,805 |

For the purpose of the statement of cash flows, cash and cash equivalents include cash at bank, cash on hand and TCorp Hour-Glass cash facility.

Cash and cash equivalent assets recognised in the statement of financial position are reconciled at the end of the financial year to the statement of cash flows as follows:

| | 2017 | 2016 |
|---|---|---|
| Cash and cash equivalents (per statement of financial position) | **64,229** | 36,805 |
| Closing Cash and cash equivalents (per statement of cash flows) | **64,229** | 36,805 |

Refer Note 19 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.

### 6. *Current Assets - Receivables*

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Current** | | |
| Retained taxes, fees and fines | **7,652** | 8,754 |
| Other | **2,272** | 911 |
| Less: Allowance for impairment | **(53)** | (53) |
| Prepayments | **176** | 119 |
| | **10,047** | **9,731** |

| | | |
|---|---|---|
| Movement in the allowance for impairment | | |
| Balance at 1 July | **(53)** | (33) |
| Amounts written off | **2** | 25 |
| (Increase) / decrease in allowance recognised in profit and loss | **(2)** | (45) |
| Balance at 30 June | **(53)** | **(53)** |

Refer Note 19 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.

### 7. *Current/Non-Current Assets - Financial Assets at Fair Value*

| | | |
|---|---|---|
| **Current** | | |
| TCorp - investments | | |
| Bank term deposits | **221,000** | - |
| **Non-Current** | | |
| TCorp - Hour-Glass investments | | |
| LSC investment facility trust - LSCIFT | **1,082,280** | 1,137,719 |
| | **1,303,280** | **1,137,719** |

Refer Note 19 for further information regarding fair value measurement, credit risk, liquidity risk and market risk arising from financial instruments.

8. ***Non-Current Assets - Plant and Equipment***

| | Plant and Equipment $'000 | Leasehold Improvements $'000 | Computer Equipment $'000 | Motor Vehicles $'000 | Total $'000 |
|---|---|---|---|---|---|
| **At 1 July 2016 - fair value** | | | | | |
| Gross carrying amount | **282** | **961** | **205** | **99** | **1,547** |
| Accumulated depreciation and impairment | **(274)** | **(961)** | **(181)** | **(68)** | **(1,484)** |
| Net carrying amount | **8** | **-** | **24** | **31** | **63** |
| **At 30 June 2017 - fair value** | | | | | |
| Gross carrying amount | **282** | **968** | **368** | **99** | **1,717** |
| Accumulated depreciation and impairment | **(281)** | **(962)** | **(203)** | **(82)** | **(1,528)** |
| Net carrying amount | **1** | **6** | **165** | **17** | **189** |

**Reconciliation**

A reconciliation of the carrying amount of each class of plant and equipment at the beginning and end of the current reporting period is set out below:

| | | | | | |
|---|---|---|---|---|---|
| **Year ended 30 June 2017** | | | | | |
| Net carrying amount at beginning of year | **8** | **-** | **24** | **31** | **63** |
| Additions | **-** | **7** | **164** | **-** | **171** |
| Disposals | **-** | **-** | **-** | **-** | **-** |
| Adjustments for disposals | **-** | **-** | **-** | **-** | **-** |
| Depreciation expense | **(7)** | **(1)** | **(23)** | **(14)** | **(45)** |
| Net carrying amount at end of year | **1** | **6** | **165** | **17** | **189** |

| | Plant and Equipment $'000 | Leasehold Improvements $'000 | Computer Equipment $'000 | Motor Vehicles $'000 | Total $'000 |
|---|---|---|---|---|---|
| **At 1 July 2015 - fair value** | | | | | |
| Gross carrying amount | 336 | 1,122 | 210 | 99 | 1,767 |
| Accumulated depreciation and impairment | (324) | (1,088) | (138) | (53) | (1,603) |
| Net carrying amount | 12 | 34 | 72 | 46 | 164 |
| **At 30 June 2016 - fair value** | | | | | |
| Gross carrying amount | 282 | 961 | 205 | 99 | 1,547 |
| Accumulated depreciation and impairment | (274) | (961) | (181) | (68) | (1,484) |
| Net carrying amount | 8 | - | 24 | 31 | 63 |

**Reconciliation**

A reconciliation of the carrying amount of each class of plant and equipment at the beginning and end of the previous reporting period is set out below:

| | Plant and Equipment | Leasehold Improvements | Computer Equipment | Motor Vehicles | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Year ended 30 June 2016** | | | | | |
| Net carrying amount at beginning of year | 12 | 34 | 72 | 46 | 164 |
| Additions | 2 | - | 1 | - | 3 |
| Disposals | - | - | - | - | - |
| Adjustments for disposals | - | - | - | - | - |
| Depreciation expense | (6) | (34) | (49) | (15) | (104) |
| Net carrying amount at end of year | 8 | - | 24 | 31 | 63 |

Further details regarding the fair value measurement of plant and equipment are disclosed in Note 10.

## 9. *Intangible Assets*

**Software**

| | $'000 |
|---|---|
| **At 1 July 2016** | |
| Cost (gross carrying amount) | **2,485** |
| Accumulated amortisation and impairment | **(2,329)** |
| Net carrying amount | **156** |
| | |
| **At 30 June 2017** | |
| Cost (gross carrying amount) | **2,835** |
| Accumulated amortisation and impairment | **(2,377)** |
| Net carrying amount | **458** |
| | |
| **Year ended 30 June 2017** | |
| Net carrying amount at beginning of year | **156** |
| Additions - externally acquired | **408** |
| - internally developed | **-** |
| Disposals | **-** |
| Adjustments for disposals | **(29)** |
| Amortisation | **(77)** |
| Net carrying amount at end of year | **458** |

| | |
|---|---|
| **At 1 July 2015** | |
| Cost (gross carrying amount) | 2,423 |
| Accumulated amortisation and impairment | (2,282) |
| Net carrying amount | 141 |
| | |
| **At 30 June 2016** | |
| Cost (gross carrying amount) | 2,485 |
| Accumulated amortisation and impairment | (2,329) |
| Net carrying amount | 156 |
| | |
| **Year ended 30 June 2016** | |
| Net carrying amount at beginning of year | 141 |
| Additions - externally acquired | 39 |
| - internally developed | 24 |
| Disposals | - |
| Adjustments for disposals | - |
| Amortisation | (48) |
| Net carrying amount at end of year | 156 |

### 10. *Fair value measurement of Non-Financial Assets*

All of the Corporation's Plant and Equipment assets are measured at historical cost less accumulated depreciation as a surrogate for fair value because the assets are non-specialised assets and any difference between fair value and depreciated historical cost is unlikely to be material.

The fair value measurement base for these assets do not require fair value hierachy disclosure.

### 11. *Current Liabilities - Payables*

| | **2017** | **2016** |
|---|---|---|
| | **$'000** | **$'000** |
| **Current** | | |
| Personnel Services | | |
| - Accrued salaries, wages and on costs | **673** | 242 |
| | **673** | **242** |
| Creditors and other accruals | **974** | 603 |
| Long Service Payments | **973** | 1,011 |
| Long Service Levy commissions | **44** | 58 |
| | **2,664** | **1,914** |

Refer Note 19 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.

## 12. *Current / Non-Current Liabilities - Provisions*

| **Current** | **Note** | **2017** | **2016** |
|---|---|---|---|
| Other Provisions | | **$'000** | **$'000** |
| Personnel services | | | |
| - Annual leave * | | **686** | 617 |
| - Long service leave ** | | **2,562** | 2,492 |
| | 12(a)(i) | **3,248** | **3,109** |
| | | | |
| Scheme liability *** | 12(b)(i) | **856,935** | 799,761 |
| Provision for levy refund | 12(c)(i) | **79** | 114 |
| | | **857,014** | **799,875** |
| | | **860,262** | **802,984** |

* The current Other Provisions Personnel services included $142,342 (2016: $62,443) of annual leave entitlements accrued but not expected to be taken within 12 months

** The current Other Provisions Personnel services included $1.3 million (2016: $1.5 million) of long service leave entitlements accrued but not expected to be taken within 12 months

*** The current Other Provisions includes $856.9 million (2016: $799.7million) for scheme liability and although this amount represents the value for which the Corporation does not have an unconditional right to defer settlement for at least twelve months, the Corporation only expects to pay claims of $78.3 million over the next twelve months.

| **Non-current** | **Note** | | |
|---|---|---|---|
| Other Provisions | | | |
| Personnel Services | | | |
| - Long service leave | | **39** | 53 |
| - Unfunded superannuation liability | | **6,969** | 10,579 |
| | 12(a)(ii) | **7,008** | **10,632** |
| | | | |
| Scheme liability | 12(b)(ii) | **141,933** | 127,296 |
| | | **141,933** | **127,296** |
| | | **148,941** | **137,928** |

| | | |
|---|---|---|
| Aggregate Personnel services and related on costs | | |
| Payables - current | **673** | 242 |
| Provisions - current | **3,248** | 3,109 |
| Provisions - non-current | **7,008** | 10,632 |
| | **10,929** | **13,983** |

Refer Note 19 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.

**(a) Provision for Personnel services**

| | | 2017<br>$'000 | 2016<br>$'000 |
|---|---|---|---|
| **(i)** | **Current** | **3,248** | 3,109 |
| **(ii)** | **Non-Current** | **7,008** | 10,632 |
| | | **10,256** | 13,741 |

**Movement in Provision**

| | 2017 | 2016 |
|---|---|---|
| Carrying amount at 1 July 2016 | **13,741** | 9,433 |
| Net actuarial changes to defined benefit plan | **(3,610)** | **4,213** |
| Additional provisions recognised | **1,156** | 953 |
| Amounts paid | **(1,031)** | (858) |
| **Carrying amount at 30 June 2017** | **10,256** | 13,741 |

**(b) Provision for Scheme liability**

| | | 2017 | 2016 |
|---|---|---|---|
| (i) | Current | **856,935** | 799,761 |
| (ii) | Non-current | **141,933** | 127,296 |
| | | **998,868** | 927,057 |

**Movement in Provision**

| **30 June 2017** | Notes | Building and Construction Industry<br>$'000 | Contract Cleaning Industry<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|
| Carrying amount at 1 July 2016 | | 897,500 | 29,557 | **927,057** |
| Additional provisions recognised | | 82,631 | 6,842 | **89,473** |
| Increase in provision due to change in discount rate | | - | - | **-** |
| | 2 (b) | 82,631 | 6,842 | 89,473 |
| Unwinding of discount rate | 2 (d) | 53,850 | 1,773 | **55,623** |
| Claims paid | | (72,508) | (777) | **(73,285)** |
| **Carrying amount at 30 June 2017** | | 961,473 | 37,395 | 998,868 |

| **30 June 2016** | Notes | Building and Construction Industry<br>$'000 | Contract Cleaning Industry<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|
| Carrying amount at 1 July 2015 | | 846,109 | 22,193 | 868,302 |
| Additional provisions recognised | | 32,529 | 5,277 | 37,806 |
| Increase in provision due to change in discount rate | | 32,307 | 874 | 33,181 |
| | 2 (b) | 64,836 | 6,151 | 70,987 |
| Unwinding of discount rate | 2 (d) | 59,227 | 1,554 | 60,781 |
| Claims paid | | (72,672) | (341) | (73,013) |
| **Carrying amount at 30 June 2016** | | 897,500 | 29,557 | 927,057 |

The *Long Service Corporation Act 2010* , under section 16, requires that actuarial investigations be undertaken to determine the sufficiency of the Funds and the adequacy of the long service levy rates at intervals not exceeding:

- 3 years for the *Building and Construction Industry Long Service Payments Act, 1986*
- 2 years for the *Contract Cleaning Industry (Portable Long Service Leave Scheme) Act 2010*

***Building and Construction Industry Long Service Payments Act, 1986***

A full actuarial investigation was undertaken by Professional Financial Solutions as at 30 June 2015. They have further updated this to 30 June 2017 and estimated the scheme liabilities to be as follows:

| | Note | 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| AASB Valuation | (i) | **961,473** | 897,500 |
| Accrued Benefit Reserve | (ii) | **961,473** | 897,500 |
| Vested Benefits | (iii) | **916,107** | 864,866 |

(i) The AASB Valuation is the expected benefit payments from the Scheme arising from service up to the valuation date and payable over the future working lifetime of the current workers, which are then discounted to the date of the valuation. In determining these payments as at 30 June 2017, the following key assumptions were made:
* Future wage increase 3.0% (2016: 3.0%)
* Rate of future accrual of service (only used to determine if workers qualify for benefit): 195 days per year (2016: 195 days per year)
* Exits due to withdrawal, retirement, death and disability: based on historical evidence (2016: based on historical evidence)
* In service claims: based on historical evidence (2016: based on historical evidence)
* Incurred But Not Recorded Service (IBNR): 7% for active workers only (2016: 6%)
* Inforce Inactive Worker: their vested benefits
* Out of force Workers: 80% of their vested benefit (2016: 80%)
* Discount Rate 6% (2016: 6.0%). The scheme liability has been discounted at a rate that reflects current market assessment of the time value of money and the risks specific to the liability. The discount rate is considered to be the long term rate of return on the Scheme assets properly invested to fund the growth in the Schemes liabilities.

(ii) The Accrued Benefit Reserve is the calculation of scheme liabilities, taking into consideration an allowance for unreported service of active workers, and discounted by the projected rate of return on the Scheme assets as determined by the actuary. The actuary uses the Accrued Benefit Reserve to assess the Corporation's funding position and for purposes of setting the recommended rate of levy payable to the Fund.

The financial assumptions used to calculate the Accrued Benefit Reserve were:
*rate of increase in wages 3.0% per annum (2016: 3.0%)
*rate of return on assets 6.% (2016: 6.0%)

(iii) The Vested Benefit is the amount of benefits payable if service ceased on the valuation date. Workers qualify for a vested benefit if they have attained age 55 and have at least 55 days of accumulated service credits or if they are under 55 and have at least 1,100 days of accumulated service credits.

For the purpose of the above valuations the following:

Numbers of workers were valued:

| | 2017 | 2016 |
|---|---|---|
| Active within last two years | **236,640** | 223,562 |
| Inactive for last two years but active within two prior years | **53,233** | 53,351 |
| Inactive for four or more years | **15,731** | 14,770 |
| Total number of workers valued | **305,604** | **291,683** |

Expected timing of settlement:

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Not later than one year | **74,854** | 72,718 |
| Later than one year and not later than five years | **286,775** | 273,413 |
| Later than five years | **599,844** | 551,369 |
| Total | **961,473** | **897,500** |

Sensitivity analysis for valuation

The liability represents the best estimate by the actuary of the present value of benefits accrued by service to date, using appropriate actuarial techniques and financial and demographic assumptions.  The table below illustrates the uncertainty associated with this liability, by providing the change which would  arise from using a range of more and less optimistic assumptions.

| | | Impact on Net Result | |
|---|---|---|---|
| Assumptions | Carrying amount $'000 | +10% $'000 | -10% $'000 |
| Discount Rate | 961,473 | 20,959 | (22,123) |
| Wage for claims | 961,473 | (96,147) | 96,147 |
| Demographic | 961,473 | (6,806) | 7,689 |
| IBNR | 961,473 | (5,467) | 5,467 |
| | | (87,461) | 87,180 |

***Contract Cleaning Industry (Portable Long Service Leave Scheme) Act 2010***

A full actuarial investigation was undertaken by Professional Financial Solutions as at 30 June 2016. They have further updated this to the 30 June 2017 and estimated the scheme liabilities to be as follows:

| | Note | 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| AASB Valuation | (i) | **37,395** | 29,911 |
| Accrued Benefit Reserve | (ii) | **37,395** | 29,911 |
| Vested Benefits | (iii) | **33,312** | 26,597 |

(i) The AASB Valuation is the expected benefit payments from the Scheme arising from service up to the valuation date and payable over the future working lifetime of the current workers, which are then discounted to the date of the valuation. In determining these payments as at 30 June 2017, the following key assumptions were made:
* Future wage increase: 2.5% pa plus 1% for each increasing year of age up to 40 (2016: 2.5% plus 1% for each increasing year of age up to 40)
* Rate of future accrual of service (only used to determine if a worker qualifies for a benefit): 365 days per year (2015: 365 days per year)
* Exits due to withdrawal, retirement, death and disability: based on historical evidence
* In service claims: based on historical evidence
* Incurred But Not Recorded Service (IBNR): Nil (2016:Nil)
* In Force Inactive Workers: their vested benefit (2016: Nil)
* Discount Rate 6% (2016: 6.0%). The scheme liability has been discounted at a rate that reflects current market assessment of the time value of money and the risks specific to the liability. The discount rate is considered to be the long term rate of return on the Scheme assets properly invested to fund the growth in the Schemes liabilities.

(ii) The Accrued Benefit Reserve is the calculation of scheme liabilities, taking into consideration the items mentioned in (i) above and discounted by the projected rate of return on the Scheme assets as determined by the actuary. The actuary uses the Accrued Benefit Reserve to assess the Corporation's funding position and for purposes of setting the recommended rate of levy payable to the Fund.

The financial assumptions used to calculate the Accrued Benefit Reserve were:
* rate of increase in wages 2.5% pa plus 1% for each increasing year of age up to 40 (2015: 2.5% plus 1% for each increasing year of age up to 40)
* rate of return on assets 6.0% (2016: 6.0%).

(iii) The Vested Benefit is the amount of benefits payable if service ceased on the valuation date and the worker has more than five years eligible service (including service prior to the commencement date).

For the purpose of the above valuations the following:

Numbers of workers were valued:

| | 2017 | 2016 |
|---|---|---|
| Active | **25,657** | 26,511 |
| Inactive | **40,757** | 36,626 |
| Total number of workers valued | **66,414** | 63,137 |

| | | |
|---|---|---|
| Expected timing of settlement: | | |
| Not later than one year | **1,456** | 4,369 |
| Later than one year and not later than five years | **9,433** | 18,390 |
| Later than five years | **26,506** | 6,798 |
| Total | **37,395** | 29,557 |

Sensitivity analysis for valuation

The liability represents the best estimate by the actuary of the present value of benefits accrued by service to date, using appropriate actuarial techniques and financial and demographic assumptions. The table below illustrates the uncertainty associated with this liability, by providing the change which would arise from using a range of more and less optimistic assumptions.

| | | Impact on Net Result | |
|---|---|---|---|
| | **Carrying amount** | **+10%** | **-10%** |
| Asumptions | **$'000** | **$'000** | **$'000** |
| Discount Rate | 37,395 | 572 | (590) |
| Wages | 37,395 | (282) | 311 |
| Demographic | 37,395 | 233 | (248) |
| | | 523 | (527) |

**(c) Provision for Levy Refund**

| | **2017** | **2016** |
|---|---|---|
| | **$'000** | **$'000** |
| **(i) Current** | **79** | 114 |
| | **79** | 114 |

| **Movement in Provision** | | |
|---|---|---|
| Carrying amount at 1 July 2016 | **114** | 205 |
| Additional provisions recognised | **1,725** | **1,662** |
| Claims paid | **(1,760)** | (1,753) |
| **Carrying amount t 30 June 2017** | **79** | 114 |

The Corporation has an obligation under section 42 of the *Building and Construction Industry Long Service Payments Act 1986* to refund monies where, upon application in the approved form, it considers the cost of erection of the building is less than previously determined.

The liability is determined from assumptions based on past experience of the Corporation's calculation of levy refunds resulting from requests for determination of the leviable costs. The provision is based on an analysis of levies paid where the value of works were significant and no determination or refund requests had been received to date.

There is a degree of uncertainty surrounding the timing of refund requests. However based on past experience of the Corporation and discussions with major levy payers there is a high likelihood that there will be an economic outflow of funds from the Corporation within the next twelve months.

## 13. *Commitments*

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **(a) Capital Commitments** | | |
| Aggregate capital expenditure for the acquisition of software contracted for at balance date and not provided for: | | |
| Not later than one year | **262** | - |
| Total (including GST) | **262** | - |

The total capital commitments above include input tax credits of $23,801 (2016: $Nil) that are expected to be recoverable from the ATO.

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **(b) Operating Lease Commitments** | | |
| Future non-cancellable operating lease rentals not provided for and payable: | | |
| Not later than one year | **370** | 441 |
| Later than one year and not later than five years | **61** | 416 |
| Later than five years | **-** | - |
| Total (including GST) | **431** | **857** |

The total operarting lease commitments above include input tax credits of $39,213 (2016: $Nil) that are expected to be recoverable from the ATO.

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **(c) Other Expenditure Commitments** | | |
| Not later than one year | **1,674** | 353 |
| Later than one year and not later than five years | **2,985** | - |
| Total (including GST) | **4,659** | 353 |

The Corporation has entered into a number of service agreements to enable it to manage IT infrustructure. The total commitments above include input tax credits of $423,545 (2016: $32,150) that are expected to be recoverable from the ATO.

## 14. *Contingent Liabilities and Contingent Assets*

There were no known contingent liabilities or assets as at reporting date (2016: Nil).

## 15. *Budget Review*

**Net result**

The actual net result was greater than budget by $93.4 million, primarily due to the following:

| | 2017 $'000 |
|---|---|
| • Increased return on TCorp Hour-Glass investment facilities, including LSCIFT | 46,389 |
| • Increased collection of levies from both Schemes | 27,764 |
| • Decreased Finance cost due to unwinding of discount rate | 4,514 |
| • Decreased Long service expense | 11,689 |
| • Decreased Personnel services expense * | 3,380 |
| • Increase in Consulting and Contractor expenses | (899) |
| • Decreased other expenses | 524 |
| | 93,361 |

* Refer to note 2 (a) Superannuation – defined benefit plans

**Assets and liabilities**

Total assets were greater than budget by $94.1 million and total liabilities were less than budget by $5.3 million. This resulted in an increase in the Corporation's equity of $99.4 million over budget. This was primarily due to the following:

| | 2017 $'000 |
|---|---|
| • Increase in fair value of TCorp Hour-Glass investment facilities, including LSCIFT | 77,027 |
| • Increase in cash, receivable, plant and equipment | 17,025 |
| • Decrease in Scheme liability and personnel services | 5,349 |
| | 99,401 |

**Cash flows**

| | |
|---|---|
| Net Increase in cash flows from operating activities due to: | |
| • Decrease in scheme payments and operating expenses | 5,622 |
| • Better than expected levy receipts due to increased compliance and increased activity in the building and construction industry | 28,359 |
| • Better than expected returns from bank interest and miscellaneous items | 104 |
| Net decrease in cash flows from investing activities due to: | |
| • Lower than expected Capital Expenditure | 4,870 |
| • Purchase of TCorp Hour-Glass investment facilities, including LSCIFT | 33,584 |
| Changes in opening cash position | (49,390) |
| | 23,149 |

### 16. *Comparison with published budget information*

The following budget items are aggregated differently in the Statement of Comprehensive Income:

| (i) Total Expenses including Losses | 2017 Items **$'000** | Budget Items **$'000** |
|---|---|---|
| Employee Related | - | 195 |
| Other operating expenses | 105,551 | 11,799 |
| Subsidies and grants | - | 101,163 |
| Personnel services | 7,606 | - |
| | 113,157 | 113,157 |
| Depreciation and amortisation | 175 | 175 |
| Finance Costs | 60,137 | 60,137 |
| Total Expenses including Losses | 173,469 | 173,469 |

### 17. *Reconciliation of Cash Flows from Operating Activities to Net Result*

| | **2017** **$'000** | **2016** **$'000** |
|---|---|---|
| Net cash flows from operating activities | **79,003** | 81,020 |
| Plus/(minus) non-cash items: | | |
| Depreciation and amortisation expense | **(122)** | (152) |
| Investment (gains) / losses | **116,648** | 29,523 |
| Long service payments liability expense | **(16,150)** | 1,997 |
| Provision for Levy refund | **1,725** | 1,662 |
| Finance costs | **(55,623)** | (60,781) |
| Net (profit) on disposal of plant and equipment | **(29)** | - |
| Change in asset and liabilities: | | |
| Increase/(decrease) in receivables | **57** | 7 |
| (Increase)/decrease in payables | **(4,306)** | (761) |
| (Increase)/decrease in provisions | **3,485** | (4,308) |
| Net result | **124,688** | 48,207 |

**18. *Fund information***

| Fund | Building & Construction Industry | | Contract Cleaning Industry | | Total | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **Expenses excluding losses** | | | | | | |
| Operating expenses | | | | | | |
| Personnel services expenses | **3,565** | 11,300 | **661** | 692 | **4,226** | 11,992 |
| Other operating expenses | **86,753** | 68,027 | **7,579** | 6,842 | **94,332** | 74,869 |
| Depreciation and amortisation | **111** | 137 | **11** | 15 | **122** | 152 |
| Finance costs | **53,850** | 59,227 | **1,773** | 1,554 | **55,623** | 60,781 |
| **Total expenses excluding losses** | **144,279** | **138,691** | **10,024** | **9,103** | **154,303** | **147,794** |
| **Revenue** | | | | | | |
| Investment revenue | **113,850** | 29,283 | **3,715** | 948 | **117,565** | 30,231 |
| Retained taxes, fees and fines | **151,451** | 155,994 | **9,831** | 9,636 | **161,282** | 165,630 |
| Other revenue | **173** | 140 | **-** | - | **173** | 140 |
| **Total Revenue** | **265,474** | **185,417** | **13,546** | **10,584** | **279,020** | **196,001** |
| Gain/(loss) on disposal | **(29)** | - | **-** | - | **(29)** | - |
| **Total comprehensive income** | **121,166** | **46,726** | **3,522** | **1,481** | **124,688** | **48,207** |

| Fund | Notes | Building & Construction Industry | | Contract Cleaning Industry | | Total | |
|---|---|---|---|---|---|---|---|
| | | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| | | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **ASSETS** | | | | | | | |
| **Current Assets** | | | | | | | |
| Cash and cash equivalents | 5 | **59,254** | 35,317 | **4,975** | 1,488 | **64,229** | 36,805 |
| Receivables | 6 | **7,339** | 7,192 | **2,708** | 2,539 | **10,047** | 9,731 |
| Financial assets at fair value | 7 | **211,993** | | **9,007** | - | **221,000** | - |
| **Total Current Assets** | | **278,586** | **42,509** | **16,690** | **4,027** | **295,276** | **46,536** |
| **Non-Current Assets** | | | | | | | |
| Financial assets at fair value | 7 | **1,048,516** | 1,102,509 | 33,764 | 35,210 | **1,082,280** | 1,137,719 |
| Plant and equipment | 8 | **189** | 63 | **-** | - | **189** | 63 |
| Intangible assets | 9 | **458** | 156 | **-** | - | **458** | 156 |
| **Total Non-Current Assets** | | **1,049,163** | **1,102,728** | **33,764** | **35,210** | **1,082,927** | **1,137,938** |
| **Total Assets** | | **1,327,749** | **1,145,237** | **50,454** | **39,237** | **1,378,203** | **1,184,474** |

| Fund | | Building & Construction Industry | | Contract Cleaning Industry | | Total | |
|---|---|---|---|---|---|---|---|
| | Notes | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **LIABILITIES** | | | | | | | |
| **Current Liabilities** | | | | | | | |
| Payables | 11 | **2,355** | 1,451 | **309** | 463 | **2,664** | 1,914 |
| Provisions | 12 | **827,182** | 779,912 | **33,080** | 23,072 | **860,262** | 802,984 |
| **Total Current Liabilities** | | **829,537** | **781,363** | **33,389** | **23,535** | **862,926** | **804,898** |
| **Non-Current Liabilities** | | | | | | | |
| Provisions | 12 | **144,299** | 131,127 | **4,642** | 6,801 | **148,941** | 137,928 |
| **Total Non-Current Liabilities** | | **144,299** | **131,127** | **4,642** | **6,801** | **148,941** | **137,928** |
| **Total Liabilities** | | **973,836** | **912,490** | **38,031** | **30,336** | **1,011,867** | **942,826** |
| **Net Assets** | | **353,913** | **232,747** | **12,423** | **8,901** | **366,336** | **241,648** |
| **EQUITY** | | | | | | | |
| Accumulated Funds (Losses) | | **353,913** | 232,747 | **12,423** | 8,901 | **366,336** | 241,648 |
| **Total Equity** | | **353,913** | **232,747** | **12,423** | **8,901** | **366,336** | **241,648** |

### 19. *Financial instruments*

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

The Corporation’s main risks arising from financial instruments are outlined below, together with the Corporation’s objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included throughout these financial statements.

The Chief Executive Officer has overall responsibility for the establishment and oversight of risk management and reviews and agrees policies for managing each of these risks. Risk management policies are established to identify and analyse the risks faced by the Corporation, to set risk limits and controls and to monitor risks. Compliance with policies is reviewed by the Corporation's management, Audit and Risk Committee and external asset consultants on a continual basis.

**(a) Financial instrument categories**

| Financial Assets<br>Class: | Note | Category | Carrying Amount 2017 $'000 | Carrying Amount 2016 $'000 |
|---|---|---|---|---|
| Cash and cash equivalents | 5 | N/A | **64,229** | 36,805 |
| Receivables * | 6 | Receivables (at amortised cost) | **-** | - |
| Financial Assets at fair value | 7 | Bank term deposits | **221,000** | - |
| | 7 | Financial assets at fair value through profit or loss | **1,082,280** | 1,137,719 |

* Excludes statutory receivables and prepayments (not within scope of AASB 7)

| Financial Liabilities<br>Class: | Note | Category | Carrying Amount 2017 $'000 | Carrying Amount 2016 $'000 |
|---|---|---|---|---|
| Payables * | 11 | Financial liabilities measured at amortised cost. | **1,691** | **861** |

* Excludes statutory payables (not within scope of AASB 7)

**(b) Credit risk**

Credit risk arises when there is a possibility that the counterparties will default on their contractual obligations, resulting in a financial loss to the Corporation. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

Credit risk arises from the financial assets of the Corporation, including cash, receivables and deposits. No collateral is held by the Corporation. The Corporation has not granted any financial guarantees.

Credit risk associated with the Corporation's financial assets, other than receivables, is managed through the selection of counterparties and establishment of minimum credit rating standards.

**Cash and cash equivalents**

Cash comprises cash on hand, balances within the NSW Treasury Banking System and deposits in the NSW Treasury Corporation (TCorp) Hour-Glass cash facility.Interest is earned on daily bank balances at the monthly average TCorp 11 am unoffical cash rate, adjusted for a management fee to NSW Treasury. The TCorp Hour-Glass cash facility is further discussed in paragraph (d) below.

**Receivables**

All debtors are recognised as amounts receivable at balance date. Collectability of debtors is reviewed on an ongoing basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectable are written off. An allowance for impairment is raised when there is objective evidence that the Corporation will not be able to collect all amounts due. This evidence includes past experience, and current and expected changes in economic conditions. No interest is earned on debtors.

The Corporation is not materially exposed to concentrations of credit risk to a single debtor or group of debtors. Based on past experience, debtors that are not past due (2017: $Nil; 2016: Nil) and less than three months past due (2017: $2,087,000; 2016: $745,000) are not considered impaired.

The only financial assets that are past due or impaired are 'retained taxes fees and fines', and 'other' in the 'receivable' category of the statement of financial position.

| Receivables | Total $'000 | Past Due but not impaired $'000 | | | Considered impaired $'000 |
|---|---|---|---|---|---|
| | | <3 months overdue | 3-6 month overdue | >6 months overdue | |
| 2017 | 2,087 | 2,087 | - | - | 0 |
| 2016 | 745 | 745 | - | - | 0 |

*The aging analysis excludes statutory receivables. (not within scope of AASB 7)

**(c) Liquidity risk**

Liquidity risk is the risk that the Corporation will be unable to meet its payment obligations when they fall due. The Corporation continuously manages risk through monitoring future cash flows and maturities planning to ensure adequate holding of high quality liquid assets.

The Corporation does not have any credit standby arrangements. No assets have been pledged as collateral. The Corporation’s exposure to liquidity risk is deemed insignificant based on prior periods’ data and current assessment of risk.

Liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in NSW TC 11/12. For small business suppliers, if trade terms are not specified, payment is made not later than 30 days from date of receipt of a correctly rendered invoice. For other suppliers, if trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received. For small business suppliers the NSW TC 11/12 allows the Minister to award interest for late payment.

The table below summarises the maturity profile of the Corporation’s financial liabilities based on contractual undiscounted payments, together with the interest rate exposure.

| | Nominal Amount | Interest Rate Exposure | Maturity Dates | | |
|---|---|---|---|---|---|
| | | | <1 yr. | 1-5 yrs. | >5 yrs. |
| **2017** | **$'000** | | **$'000** | **$'000** | **$'000** |
| Payables | **1,691** | Non Interest Bearing | **1,691** | **-** | **-** |
| **2016** | | | | | |
| Payables | 861 | Non Interest Bearing | 861 | - | - |

The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities.

**(d) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Corporation's exposures to market risk are primarily through price risks associated with the movement in the unit price of the Hour-Glass Investment facilities.

The effect on profit and equity due to a reasonably possible change in risk variable is outlined in the information below, for interest rate risk and other price risk. A reasonably possible change in risk variable has been determined after taking into account the economic environment in which the Corporation operates and the time frame for assessment (i.e. until the end of the next annual reporting period). The sensitivity analysis is based on risk exposures in existence at the Statement of Financial Position reporting date. The analysis is performed on the same basis as for 2016. The analysis assumes that all other variables remain constant.

**Interest rate risk**

The Corporation's exposure to interest rate risk arises primarily through interest bearing assets. A reasonable possible change of +/- 1% has been used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility. The Corporation's exposure to interest rate risk is set out below.

There is no interest rate risk on term deposits as interest rates are fixed over the term of the deposit.

| | | $'000 | | | |
|---|---|---|---|---|---|
| | | -1% | | 1% | |
| | Carrying Amount | Net Result | Equity | Net Result | Equity |
| **2017** | | | | | |
| Cash and cash equivalents | 64,229 | (642) | - | 642 | - |
| Bank term deposits | 221,000 | (2,210) | - | 2210 | - |
| **2016** | | | | | |
| Cash and cash equivalents | 36,805 | (368) | - | 368 | - |
| Bank term deposits | - | - | - | - | - |

**Currency risk**

The Corporation has some foreign currency risk exposure from its investments in the TCorp Hour-Glass Investment facilities, including the LSCIFT. The Hour-Glass investments in emerging markets, indexed and actively managed international share sector are denominated in currencies other than Australian Dollars. The agreement between the Corporation and TCorp requires the manager to effectively review the currency exposure when it arises.

**Other price risk – TCorp Hour-Glass facilities**

Exposure to 'other price risk' primarily arises through investment in the TCorp Hour-Glass investment facilities, including the LSCIFT, which are held for strategic rather than trading purposes. The Corporation's only direct equity investment is in the LSCIFT. The Corporation holds units in the following Hour-Glass cash and investment facility trusts:

| Facility | Investment Sectors | Investment Horizon | 2017 $'000 | 2016 $'000 |
|---|---|---|---|---|
| Cash Facility | Cash and money market instruments | Up to 1.5 years | **-** | - |
| Long Service Corporation Investment Facility Trust | Cash, money market instruments, Australian bonds, listed property, Australian and international shares | 7 years and over | **1,082,280** | **1,137,719** |

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

NSW TCorp as trustee and manager for each of the above facilities is required to act in the best interest of the unit holders and to administer the trusts in accordance with the trust deeds. As trustee, TCorp has appointed external managers to manage the performance and risks of each facility in accordance with a mandate agreed by the parties. TCorp has also leveraged off internal expertise to manage certain fixed income assets for the Hour-Glass facilities. A significant portion of the administration of the facilities is outsourced to an external custodian.

Investment in the Hour-Glass facilities limits the Corporation's exposure to risk, as it allows diversification across a pool of funds with different investment horizons and a mix of investments.

NSW TCorp provides sensitivity analysis information for each of the Investment facilities, using historically based volatility information collected over a ten-year period, quoted at two standard deviations (i.e. 95% probability). Any change in unit price for the TCorp Hour-Glass investment facilities impacts directly on Net Result (rather than equity). A reasonably possible change is based on the percentage change in the unit price (as advised by TCorp) multiplied by the redemption value as at 30 June each year for each facility (balance from Hour-Glass statement).

| | Impact on Profit/Loss | | |
|---|---|---|---|
| | Change in Unit price | 2017 $'000 | 2016 $'000 |
| Long Service Corporation Investment Facility Trust (LSCIFT) | +/-16% | 173,165 | 182,035 |

**(e) Fair Value measurement**

**(i) Fair value compared to carrying amount**

Financial instruments are generally recognised at cost, with the exception of the TCorp Hour-Glass investment facilities, which are measured at fair value. The amortised cost of financial instruments recognised in the statement of financial position approximates the fair value, because of the short-term nature of many of the financial instruments.

There are no financial instruments where the fair value differs from the carrying amount.

**(ii) Fair Value recognised in the statement of financial position**

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

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

| | 2017 | | | 2016 |
|---|---|---|---|---|
| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | $'000 |
| **Financial assets at fair value** | | | | |
| Bank term deposits | | 221,000 | | - |
| TCorp Hour Glass investment facility - LSCIFT | - | 1,082,280 | - | 1,137,719 |
| Total | - | 1,303,280 | - | 1,137,719 |

The table above only includes financial assets, as no financial liabilities were measured at fair value in the statement of financial position.

There were no transfers between level 1 and 2 during the year ended 30 June 2017.

The value of the Hour-Glass investment facility is based on the market value of the underlying assets of the facility.

**20. Related Party Disclosures**

The Corporation received personnel services from NSW Treasury (a related entity - refer note 1(j)(iv)) to resource the Corporation. During the year it incurred $4.2 million and had balances owing at year end of $10.9 million.

During the year, the Corporation incurred $407,828 in respect of the key management personnel services that were provided by the NSW Treasury.

***21. Events after the reporting date***

The Corporation is not aware of any events that have occurred after balance date which are of such a significance that they need disclosure or recognition in these financial statements.

**End of Audited Financial Accounts**

# LONG SERVICE CORPORATION INVESTMENT FUND

## Financial report for the year ended 30 June 2017



This financial report covers Long Service Corporation Investment Fund as an individual entity.

The Trustee of Long Service Corporation Investment Fund (ABN 73 631 375 853) is New South Wales Treasury Corporation (ABN 99 095 235 825)

**Long Service Corporation Investment Fund**
**Statement of comprehensive income**
**For the year ended 30 June 2017**

| | Notes | Year ended 30 June 2017 $ | 30 June 2016 $ |
|---|---|---|---|
| **Investment income** | | | |
| Interest income | | 53,249 | 743 |
| Trust distribution income | | 68,015,867 | 53,138,668 |
| Net foreign exchange gains/(losses) | | 18,809 | (953) |
| Net gains/(losses) on financial instruments held at fair value through profit or loss | 6 | 46,348,895 | (24,114,345) |
| Other operating income | | 1,015 | - |
| **Total net investment income** | | 114,437,835 | 29,024,113 |
| **Expenses** | | | |
| Interest expense | | 7,107 | - |
| Trustee fees | 14 | 142,789 | 158,701 |
| Expense recovery fees | 14 | 30,898 | 30,882 |
| Custody fees | | 43,652 | 19,468 |
| Other operating expenses | | 51,484 | 8,421 |
| **Total operating expenses** | | 275,930 | 217,472 |
| **Operating profit** | | 114,161,905 | 28,806,641 |
| **Finance costs attributable to unitholders** | | | |
| Distributions to unitholders | | (72,302,150) | (53,766,188) |
| (Increase)/decrease in net assets attributable to unitholders | 7 | (41,859,755) | 24,959,547 |
| **Profit/(loss) for the year** | | - | - |
| Other comprehensive income | | - | - |
| **TOTAL COMPREHENSIVE INCOME** | | - | - |

*The above Statement of comprehensive income should be read in conjunction with the accompanying notes.*

**Long Service Corporation Investment Fund**
**Balance sheet**
**As at 30 June 2017**

| | Notes | As at 30 June 2017 $ | 30 June 2016 $ |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 8 | **1,188,186** | 1,412,064 |
| Margin accounts | | **4,339,927** | 3,056,196 |
| Receivables | 9 | **4,429,503** | 3,969 |
| Financial assets designated at fair value through profit or loss | 10 | **1,071,002,105** | 1,132,615,005 |
| Financial assets held for trading | 13 | **1,273,670** | 834,316 |
| **Total assets** | | **1,082,233,391** | 1,137,921,550 |
| **Liabilities** | | | |
| Payables | 12 | **34,398** | 33,247 |
| Financial liabilities held for trading | 13 | **398,466** | 249,681 |
| **Total liabilities (excluding net assets attributable to unitholders)** | | **432,864** | 282,928 |
| **Net assets attributable to unitholders - liability** | 7 | **1,081,800,527** | 1,137,638,622 |

*The above Balance sheet should be read in conjunction with the accompanying notes.*

**Long Service Corporation Investment Fund**
**Statement of changes in equity**
**For the year ended 30 June 2017**

Under Australian Accounting Standards, 'Net assets attributable to unitholders' is classified as a liability rather than equity. As a result, there was no equity at the start or end of the year.

**Long Service Corporation Investment Fund**
**Statement of cash flows**
**For the year ended 30 June 2017**

| | Notes | Year ended 30 June 2017 $ | 30 June 2016 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Proceeds from sale of financial instruments held at fair value through profit or loss | | **334,389,585** | 126,605,561 |
| Purchase of financial instruments held at fair value through profit or loss | | **(164,797,178)** | (237,186,597) |
| Amount (paid to)/received from brokers | | **(1,283,731)** | (3,056,196) |
| Trust distributions received | | **1,670,109** | 5,342,291 |
| Interest received | | **52,515** | 380 |
| Interest expense paid | | **(7,107)** | - |
| GST paid | | **(223)** | (2,247) |
| Other income received | | **1,015** | - |
| Trustee fees paid | | **(141,636)** | (127,699) |
| Expense recovery fees paid | | **(30,900)** | (30,882) |
| Auditor's remuneration paid | | **-** | (8,899) |
| Custody fees paid | | **(43,652)** | (19,468) |
| Payment of other operating expenses | | **(51,484)** | (13,568) |
| **Net cash inflow/(outflow) from operating activities** | 15(a) | **169,757,313** | (108,497,324) |
| **Cash flows from financing activities** | | | |
| Proceeds from applications by unitholders | | **-** | 109,862,208 |
| Payments for redemptions by unitholders | | **(170,000,000)** | - |
| **Net cash (outflow)/inflow from financing activities** | | **(170,000,000)** | 109,862,208 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(242,687)** | 1,364,884 |
| Cash and cash equivalents at the beginning of the year | | **1,412,064** | 48,133 |
| Effect of foreign currency exchange rate changes on cash and cash equivalents | | **18,809** | (953) |
| **Cash and cash equivalents at the end of the year** | 8 | **1,188,186** | 1,412,064 |

*The above Statement of cash flows should be read in conjunction with the accompanying notes.*

# CONTENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

## 1 General information

This financial report covers Long Service Corporation Investment Fund ("the Fund") as an individual entity.

The Trustee of the Fund is New South Wales Treasury Corporation (ABN 99 095 235 825) (the "Trustee"). The Trustee's registered office is Level 22, Governor Phillip Tower, 1 Farrer Place, Sydney, NSW 2000.

The Fund aims to achieve a maximum total return by investing in unlisted unit trusts as per the objectives stated in the TCorpIM Brochure and in accordance with the provisions of the Fund Constitution.

The financial statements were authorised for issue by the Trustee on 22 September 2017. The Trustee has the power to amend and reissue the financial report.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied, unless otherwise stated in the following text.

### (a) Basis of preparation

This financial report is a general purpose financial report which have been prepared on an accruals basis and in accordance with applicable Australian Accounting Standards (which include Australian Accounting Interpretations), and the requirements of the Public Finance and Audit Act 1983 and Public Finance and Audit Regulation 2015.

The directors have determined that accounting policies adopted are appropriate to meet the needs of the unitholders.

The financial report has been prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The Balance sheet presents assets and liabilities in decreasing order of liquidity and does not distinguish between current and non current items. The Fund manages financial assets at fair value through profit or loss based on the economic circumstances at any given point in time, as well as to meet any liquidity requirements. As such, it is expected that a portion of the portfolio will be realised within 12 months, however, an estimate of that amount cannot be determined as at balance date. In the case of net assets attributable to unitholders, the units are redeemed on demand at the unitholder's option. As such, the amount expected to be settled within 12 months cannot be reliably determined. All other assets and liabilities are expected to be recovered or settled within 12 months. The amounts presented in the financial statements have been rounded to the nearest dollar.

### (b) Financial instruments

*(i) Classification*

The Fund's investments are categorised as at fair value through profit or loss. They comprise:

- Financial instruments designated at fair value through profit or loss upon initial recognition

  These include financial assets that are not held for trading purposes and which may be sold. These are investments in unlisted managed investment funds.

  Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Trustee to evaluate the information about these financial instruments on a fair value basis with other related financial information.

- Financial instruments held for trading

  These include derivative financial instruments including including futures and forward foreign exchange contracts. The Fund does not designate any derivatives as hedges in a hedging relationship.

*(ii) Recognition/derecognition*

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cashflows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

## 2 Summary of significant accounting policies (continued)

### (b) Financial instruments (continued)

*(iii) Measurement*

**Financial assets and liabilities held at fair value through profit or loss**

At initial recognition, the Fund measures a financial asset at its fair value in accordance with AASB13: *Fair Value Measurement*. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the Statement of comprehensive income.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the Statement of comprehensive income within net gains/(losses) on financial instruments held at fair value through profit or loss in the period in which they arise.

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Fund is the current bid price and the quoted market price for financial liabilities is the current asking price.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. Accordingly, there may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Fund recognises the difference in profit or loss to reflect a change in factors, including time, that market participants would consider in setting a price.

Further details on how the fair values of financial instruments are determined are disclosed in Note 3(e).

*(iv) Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the Balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously (refer to Note 4 for further details).

### (c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are classified as financial liabilities. The units can be redeemed at any time for cash equal to a proportionate share of the Fund's net asset value subject to the terms of the Fund Constitution. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the Balance sheet date if unitholders exercised their right to put the units back to the Fund. Changes in the value of this financial liability are recognised in the Statement of comprehensive income as they arise.

### (d) Cash and cash equivalents

For the Statement of cash flows presentation purposes, cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Fund's main income generating activity.

### (e) Investment income

Interest income earned on cash and cash equivalents is recognised on an accrual basis.

Interest income earned on interest bearing securities is recognised using the effective interest method. This method determines the rate that discounts estimated future cash receipts through the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying value of the amount of the financial instrument.

Trust distributions are recognised on an entitlements basis.

### (f) Expenses

All expenses are recognised in the Statement of comprehensive income on an accruals basis.

## 2 Summary of significant accounting policies (continued)

### (g) Income tax

Under current legislation, the Fund is not subject to income tax as unitholders are presently entitled to the income of the Fund.

The benefit of any imputation credits and foreign tax paid are passed on to unitholders as their individual circumstances allow for these to be passed on.

### (h) Distributions

In accordance with the Fund Constitution, the Fund distributes income to unitholders by cash or reinvestment. The distributions are recognised in the Statement of comprehensive income as finance costs attributable to unitholders.

### (i) Increase/decrease in net assets attributable to unitholders

Non-distributable income is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in the Statement of comprehensive income as finance costs.

### (j) Foreign currency translation

*(i) Functional and presentation currency*

Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Fund competes for capital and is regulated. The Australian dollar is also the Fund's presentation currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive income.

The Fund does not isolate that portion of gains or losses on securities and derivative financial instruments which is due to changes in foreign exchange rates from that which is due to changes in the market price of securities. Such fluctuations are included with the net gains or losses on financial instruments at fair value through profit or loss.

### (k) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. Trades are recorded on trade date, and normally settled within three business days. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker.

### (l) Receivables

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of the last payment in accordance with the policy set out in Note 2(e) above. Amounts are generally received within 30 days of being recorded as receivables.

### (m) Payables

Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at the end of the reporting period.

### (n) Applications and redemptions

Applications for and redemptions of units in the Fund are transacted at the prevailing unit price of the Fund in accordance with the provisions of the Fund Constitution.

## 2 Summary of significant accounting policies (continued)

### (o) Goods and services tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as custodial services and investment management fees has been passed on to the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC), hence investment management fees, custodial fees and other expenses have been recognised in the Statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Balance sheet. Cash flows relating to GST are included in the Statement of cash flows on a gross basis.

### (p) Use of estimates and significant judgements

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Fund's investments are measured at fair value through profit or loss. Where available, quoted market prices for the same or similar instrument are used to determine fair value. Where there is no market price available for an instrument, a valuation technique is used. Judgement is applied in selecting valuation techniques and setting valuation assumptions and inputs. Further details on the determination of fair value of financial assets and derivative financial instruments is set out in Note 2(b).

The Fund holds units in other unlisted managed investment funds (refer to Note 14). The Trustee has determined that the Fund does not control these entities as the Fund does not have the power over their relevant activities.

### (q) Margin accounts

Margin accounts comprise cash held as collateral for derivative transactions. The cash is held by the broker and is only available to meet margin calls.

### (r) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2017 reporting period. The Trustee's assessment of the impact of these standards (to the extent relevant to the Fund) and interpretations is set out below:

AASB 9 *Financial Instruments* (and applicable amendments) (effective for the periods commencing from 1 January 2018)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, revised rules around hedge accounting and impairment. The standard is not applicable until 1 January 2018 but is available for early adoption. The Trustee does not expect this to have a significant impact on the recognition and measurement of the Fund's financial instruments as they are carried at fair value through profit or loss. The derecognition rules have not been changed from the previous requirements, and the Fund does not apply hedge accounting. AASB 9 also introduces a new impairment model. However, as the Fund's investments are held at fair value through profit or loss, the change in impairment rules will not impact the Fund.

There are no other standards issued that are not yet effective and that are expected to have a material impact on the Fund in the current or future reporting periods and on foreseeable future transactions.

## 3 Financial risk management

The Fund is exposed to credit risk, liquidity risk and market risk arising from the financial instruments it holds. The Trustee is responsible for managing these risks and does so through a process of ongoing identification, measurement and monitoring.

Risks are measured using a method that reflects the expected impact on the results and net assets attributable to unitholders of the Fund from reasonably foreseeable changes in the relevant risk variables. Information about these risk exposures at the reporting date, measured on this basis, is disclosed below. Information about the total fair value of financial instruments exposed to risk, as well as compliance with established investment mandate limits, is also monitored by the Trustee. These mandate limits reflect the investment strategy and market environment of the Fund, as well as the level of risk that the Fund is willing to accept.

This information is prepared and regularly reported to relevant parties within the Trustee.

As part of its risk management strategy, the Fund may use derivatives to manage certain risk exposures.

Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

In order to avoid excessive concentration of risk, the Trustee monitors the Fund's exposures to ensure concentrations of risk remain within acceptable levels and either reduces exposure or uses derivative instruments to manage the excessive risk concentrations when they arise.

### (a) Market risk

Market risk is defined as the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Fund's investment activities are undertaken in accordance with established mandate limits and investment strategies.

The Fund buys and sells derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks.

*(i) Price risk*

The Fund is exposed to equity securities price risk. This arises from investments held by the Fund for which prices in the future are uncertain. These investments are classified on the Balance sheet at fair value through profit or loss. The fair value of the investments represents the Fund's maximum price risk. The Fund mitigates price risk by diversifying exposure across a range of investment managers and markets. Benchmarks are established for each investment manager and the Trustee monitors performance and tracking errors relative to those benchmarks.

*(ii) Foreign exchange risk*

The Fund may hold monetary and non-monetary assets denominated in currencies other than the Australian dollar. The Fund is also exposed to foreign exchange risk through foreign currency assets and liabilities held by its underlying managed investments funds (TCorpIM Indexed International Share (Unhedged) Fund, TCorpIM International Share (Unhedged) Fund, TCorpIM Listed Property Fund, TCorpIM Emerging Market Share Fund and TCorpIM International Share (Hedged) Fund) to the extent such exposures remain unhedged. The Foreign exchange risk relating to non-monetary assets and liabilities is a component of equity price risk. Foreign exchange risk arises as the value of monetary securities denominated in other currencies will fluctuate due to changes in foreign exchange rates.

The table below summarises the Fund's assets and liabilities that are denominated in a currency other than the Australian dollar.

| | 30 June 2017 | 30 June 2016 |
|---|---|---|
| **Assets** | **AUD equivalent in exposure by currency $** | **AUD equivalent in exposure by currency $** |
| Euro | **152,901** | 20,214 |
| British Pounds | **107,677** | 110,283 |
| Japanese Yen | **-** | 32,295 |
| US Dollars | **63,008** | 206,084 |
| Other Currencies | **72,598** | 17,554 |
| | **396,184** | 386,430 |

## 3 Financial risk management (continued)

### (a) Market risk (continued)

*(ii) Foreign exchange risk (continued)*

| Liabilities | 30 June 2017<br>AUD equivalent in exposure by currency<br>$ | 30 June 2016<br>AUD equivalent in exposure by currency<br>$ |
|---|---|---|
| Euro | **(340,048)** | (1,164) |
| British Pounds | **(67,690)** | - |
| Japanese Yen | **(168,663)** | (21,992) |
| US Dollars | **(1,360,655)** | (41,125) |
| Swiss Francs | **(126,819)** | (83) |
| Other Currencies | **(185,067)** | (91) |
| | **(2,248,942)** | (64,455) |

*(iii) Interest rate risk*

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. This risk is primarily measured and managed using duration.

The Fund is exposed to interest rate risk on cash and cash equivalents which is not considered material.

### (b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unitholders to market risk. The reasonably possible movements in the risk variables have been determined based on the Trustee's best estimates, having regard to a number of factors, including historical levels of changes in the correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

| | Impact on operating profit/net assets attributable to unitholders | | | |
|---|---|---|---|---|
| | Price risk | | Foreign exchange risk | |
| | -16%<br>$ | +16%<br>$ | -9%<br>$ | +9%<br>$ |
| **30 June 2017** | **(171,433,824)** | **171,433,824** | **(195,098)** | **195,098** |
| | -16%<br>$ | +16%<br>$ | -12%<br>$ | +12%<br>$ |
| 30 June 2016 | (181,309,419) | 181,309,419 | (6,091) | 6,091 |

## 3 Financial risk management (continued)

### (c) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss.

The Fund's maximum credit risk exposure at the end of the reporting period in relation to each class of recognised financial asset, other than equity and derivative financial instruments, is the carrying amount of those assets as indicated in the Balance sheet. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

In relation to equity and derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The risk associated with these contracts is minimised by undertaking transactions with counterparties on recognised exchanges, or where applicable ensuring that transactions are undertaken with a large number of counterparties.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values.

There are no financial assets that are past due or impaired, or would otherwise be past due or impaired except for the terms having been renegotiated.

The Fund may obtain, or provide, collateral to support amounts due under derivative transactions with certain counterparties. These arrangements are agreed between the Fund and each counterparty and take the form of annexures to the standard industry agreement governing the underlying derivative transaction.

The exposure to credit risk for cash and cash equivalents are low as all counterparties have a rating of A-1 (as determined by Standard and Poor's) or higher.

### (d) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. Cash flow risk is the risk that future cash flows associated with financial instruments will fluctuate in amount or timing.

These risks are controlled through the Fund's investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Fund maintains sufficient cash and cash equivalents to meet normal operating requirements.

Financial liabilities of the Fund comprise trade and other payables, derivative financial instruments and net assets attributable to unitholders. Trade and other payables and distributions payable have no contractual maturities but are typically settled within 30 days of the obligation arising. Payment obligations in respect of derivative financial instruments arise and are met pursuant to their terms of issue.

Note 7 sets out how the Trustee manages net assets attributable to unitholders.

The table below details the Fund's non-derivative financial liabilities into the relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts in the table are contractual undiscounted cash flows.

| | Less than 1 month | 1-6 months | 6-12 months | Over 12 months |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **At 30 June 2017** | | | | |
| Payables | 34,398 | - | - | - |
| Net assets attributable to unitholders | 1,081,800,527 | - | - | - |
| | 1,081,834,925 | - | - | - |

| | Less than 1 month | 1-6 months | 6-12 months | Over 12 months |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **At 30 June 2016** | | | | |
| Payables | 33,247 | - | - | - |
| Net assets attributable to unitholders | 1,137,638,622 | - | - | - |
| | 1,137,671,869 | - | - | - |

The table below analyses the Fund's derivative financial instruments into relevant maturity groupings based on the remaining period to the contractual maturity date at the year end date. The amounts disclosed in the table are the estimated undiscounted cash flows.

## 3 Financial risk management (continued)

### (d) Liquidity risk (continued)

| | Less than 1 month | 1-6 months | 6-12 months | Over 12 months | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **At 30 June 2017** | | | | | |
| Forward foreign exchange contracts | | | | | |
| Inflows | **54,519,172** | - | - | - | **54,519,172** |
| (Outflows) | **(53,841,579)** | - | - | - | **(53,841,579)** |
| Equity futures | | | | | |
| Inflows | **33,674** | **493,014** | - | - | **526,688** |
| (Outflows) | - | **(67,391)** | - | - | **(67,391)** |
| Interest rate futures | | | | | |
| (Outflows) | - | **(244,287)** | - | - | **(244,287)** |
| | **711,267** | **181,336** | - | - | **892,603** |

| | Less than 1 month | 1-6 months | 6-12 months | Over 12 months | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **At 30 June 2016** | | | | | |
| Forward foreign exchange contracts | | | | | |
| Inflows | 34,631,455 | - | - | - | 34,631,455 |
| (Outflows) | (34,592,694) | - | - | - | (34,592,694) |
| Equity futures | | | | | |
| Inflows | 1,300 | 554,426 | - | - | 555,726 |
| (Outflows) | - | (35,284) | - | - | (35,284) |
| Interest rate futures | | | | | |
| Inflows | - | 13,136 | - | - | 13,136 |
| | 40,061 | 532,278 | - | - | 572,339 |

### (e) Fair value estimation

The carrying amounts of the Fund's assets and liabilities at the end of each reporting period approximate their fair values.

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in fair value recognised in the Statement of comprehensive income.

- Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the Balance sheet date without any deduction for estimated future selling costs. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets held by the Fund is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. A financial instrument is regarded as quoted in an investment market if quoted prices are readily available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

- Fair value in an inactive or unquoted market

The fair value of derivatives that are not exchange traded is estimated at the amount that the Fund would receive or pay to terminate the contract at the Balance sheet date taking into account current market conditions (volatility and appropriate yield curves) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date.

## 3 Financial risk management (continued)

### (f) Fair value measurement

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes "observable" requires significant judgement by the Trustee. The Trustee considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable.

Investments in unlisted managed investment funds are recorded at the redemption value per unit as reported by the managers of such funds.

The table below sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy:

| 30 June 2017 | Level 1<br>$ | Level 2<br>$ | Level 3<br>$ | Total<br>$ |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets held for trading: | | | | |
| Derivatives | 526,688 | 746,982 | - | 1,273,670 |
| Financial assets designated at fair value through profit or loss: | | | | |
| Unlisted managed investment funds | - | 976,346,277 | 94,655,828 | 1,071,002,105 |
| **Total** | 526,688 | 977,093,259 | 94,655,828 | 1,072,275,775 |
| **Financial liabilities** | | | | |
| Financial liabilities held for trading: | | | | |
| Derivatives | (311,678) | (86,788) | - | (398,466) |
| **Total** | (311,678) | (86,788) | - | (398,466) |

| 30 June 2016 | Level 1<br>$ | Level 2<br>$ | Level 3<br>$ | Total<br>$ |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets held for trading: | | | | |
| Derivatives | 568,862 | 265,454 | - | 834,316 |
| Financial assets designated at fair value through profit or loss: | | | | |
| Unlisted managed investment funds | - | 1,132,615,005 | - | 1,132,615,005 |
| **Total** | 568,862 | 1,132,880,459 | - | 1,133,449,321 |
| **Financial liabilities** | | | | |
| Financial liabilities held for trading: | | | | |
| Derivatives | (35,284) | (214,397) | - | (249,681) |
| **Total** | (35,284) | (214,397) | - | (249,681) |

The Fund recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred.

During the year ended 30 June 2017, there were transfers of $94,655,828 from Level 2 to Level 3 of the fair value hierarchy.

## 3 Financial risk management (continued)

### (f) Fair value measurement (continued)

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. Level 3 instruments include the investments in unlisted managed investment funds that hold direct assets such as unlisted property and unlisted infrastructure, given the estimation and judgement involved in the valuation of these assets by the fund manager and their valuer.

**Valuation techniques**

The valuation techniques and inputs used in measuring the fair value of financial assets and liabilities are outlined in Note 2(b).

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

The following table shows a reconciliation of the movement in the fair value of financial instruments categorised within Level 3 between the beginning and the end of the year:

| 30 June 2017 | Opening balance | Purchases | Sales | Net transfers in/(out) | Net changes in the fair value of financial instruments measured at fair value through profit or loss | Closing balance | Total gain/(loss) for the year included in net changes in the fair value of financial instruments attributable to Level 3 instruments held at financial year end |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| Unlisted managed investment funds | - | - | - | 94,655,828 | - | 94,655,828 | 1,735,809 |
| Total | - | - | - | 94,655,828 | - | 94,655,828 | 1,735,809 |

The Fund's investment in these unlisted managed investment funds is carried at fair value based on redemption value per unit reported by the manager of such funds. The Trustee regularly monitors performance of such funds including its underlying assets.

The table below summarises the quantitative information about the significant unobservable inputs used in Level 3 fair value measurements:

| Description | Fair Value at 30 June 2017 | Unobservable input | Sensitivity used +/- | Effect on fair value |
|---|---|---|---|---|
| | $ | | | $ |
| Unlisted managed investment fund | 94,655,828 | Published redemption prices | +/-10% | 9,465,583/(9,465,583) |

## 4 Offsetting financial assets and financial liabilities

Financial assets and liabilities are permitted to be offset and the net amount reported in the Balance sheet where the Fund currently has a legally enforceable right to set off the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

The Fund enters into derivative transactions governed by master netting arrangements set out in International Swaps and Derivatives Association (ISDA) agreements between the Fund and market counterparties. In certain circumstances, such as a credit default, all outstanding transactions under the ISDA agreement are terminated, the termination value is determined and only a single net amount is payable to/receivable from a counterparty in settlement of all transactions. The Fund's ISDA agreements do not currently meet the criteria for offsetting in the Balance Sheet. This is because the Fund does not currently have a legally enforceable right to offset recognised amounts, as the right to offset is enforceable only on the occurrence of future events. These amounts have therefore not been offset in the Balance sheet, but have been presented separately in the following table. The table also presents the gross amounts of financial assets and financial liabilities that are offset in the Balance sheet. The column "Net amount" shows the impact on the Fund's Balance sheet if all set-off rights were exercised.

## 4 Offsetting financial assets and financial liabilities (continued)

| 30 June 2017 | Effects of offsetting on the Balance sheet | | | Related amounts not offset | | |
|---|---|---|---|---|---|---|
| | Gross amounts | Gross amounts set off in the Balance sheet | Net amounts presented in the Balance sheet | Amounts subject to master netting arrangements | Financial instrument collateral/ margins | Net amount |
| | $ | $ | $ | $ | $ | $ |
| **Financial assets** | | | | | | |
| Financial assets held for trading | | | | | | |
| Equity futures | 526,688 | - | 526,688 | - | - | 526,688 |
| Foreign exchange contracts | 746,982 | - | 746,982 | (86,788) | - | 660,194 |
| Margin account | 4,339,927 | - | 4,339,927 | - | (311,678) | 4,028,249 |
| **Total** | 5,613,597 | - | 5,613,597 | (86,788) | (311,678) | 5,215,131 |
| **Financial liabilities** | | | | | | |
| Financial liabilities held for trading | | | | | | |
| Equity futures | (67,391) | - | (67,391) | - | 67,391 | - |
| Interest rate futures | (244,287) | - | (244,287) | - | 244,287 | - |
| Foreign exchange contracts | (86,788) | - | (86,788) | 86,788 | - | - |
| **Total** | (398,466) | - | (398,466) | 86,788 | 311,678 | - |

| 30 June 2016 | Effects of offsetting on the Balance sheet | | | Related amounts not offset | | |
|---|---|---|---|---|---|---|
| | Gross amounts | Gross amounts set off in the Balance sheet | Net amounts presented in the Balance sheet | Amounts subject to master netting arrangements | Financial instrument collateral/ margins | Net amount |
| | $ | $ | $ | $ | $ | $ |
| **Financial assets** | | | | | | |
| Financial assets held for trading | | | | | | |
| Equity futures | 555,726 | - | 555,726 | - | - | 555,726 |
| Interest rate futures | 13,136 | - | 13,136 | - | - | 13,136 |
| Foreign exchange contracts | 265,454 | - | 265,454 | (214,397) | - | 51,057 |
| Margin account | 3,056,196 | - | 3,056,196 | - | (23,157) | 3,033,039 |
| **Total** | 3,890,512 | - | 3,890,512 | (214,397) | (23,157) | 3,652,958 |
| **Financial liabilities** | | | | | | |
| Financial liabilities held for trading | | | | | | |
| Equity futures | (35,284) | - | (35,284) | - | 23,157 | (12,127) |
| Foreign exchange contracts | (214,397) | - | (214,397) | 214,397 | - | - |
| **Total** | (249,681) | - | (249,681) | 214,397 | 23,157 | (12,127) |

## 5 Auditor's remuneration

The following fees were paid or payable for services provided by the auditor of the Fund:

| | Year ended | |
|---|---|---|
| | 30 June 2017 | 30 June 2016 |
| | $ | $ |
| **Audit services** | | |
| *Audit services* | | |
| Audit of the Financial Statements of the Fund | 11,647 | 10,264 |
| Total remuneration for audit services | 11,647 | 10,264 |

Auditor's remuneration disclosed is inclusive of GST.

From 1 July 2015, audit fees are being paid for by the Trustee. To cover this and certain other expenses paid by the Trustee on behalf of the Fund, the Trustee receives expense recovery fees from the Fund as discussed in Note 14.

## 6 Net gains/(losses) on financial instruments held at fair value through profit or loss

Net gains/(losses) recognised in relation to financial assets and financial liabilities held at fair value through profit or loss:

| | Year ended | |
|---|---|---|
| | **30 June 2017** | 30 June 2016 |
| **Financial instruments** | **$** | $ |
| Net gain on financial instruments held for trading | **1,356,263** | 906,378 |
| Net gains/(losses) on financial instruments designated as at fair value through (profit)/loss | **44,992,632** | (25,020,723) |
| Total net gains/(losses) on financial instruments held at fair value through (profit)/loss | **46,348,895** | (24,114,345) |

## 7 Net assets attributable to unitholders

Movements in the number of units and net assets attributable to unitholders during the year were as follows:

| | Year ended | | | |
|---|---|---|---|---|
| | **30 June 2017 Units** | 30 June 2016 Units | **30 June 2017 $** | 30 June 2016 $ |
| Opening balance | **1,228,624,936** | 1,057,058,024 | **1,137,638,622** | 998,969,773 |
| Applications | **-** | 113,580,470 | **-** | 109,862,208 |
| Redemptions | **(174,005,342)** | - | **(170,000,000)** | - |
| Units issued upon reinvestment of distributions | **75,392,488** | 57,986,442 | **72,302,150** | 53,766,188 |
| Increase/(decrease) in net assets attributable to unitholders | **-** | - | **41,859,755** | (24,959,547) |
| Closing balance | **1,130,012,082** | 1,228,624,936 | **1,081,800,527** | 1,137,638,622 |

As stipulated in the Fund Constitution, each unit represents a right to an equal undivided interest in the Fund and does not extend to a right to the underlying assets in the Fund.

**Capital risk management**

The Fund considers its net assets attributable to unitholders as capital, notwithstanding 'net assets attributable to unitholders' is classified as a financial liability. Net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the Trustee. Under the terms of the Fund Constitution, the Trustee has the discretion to reject an application for units and may defer or adjust a redemption of units in certain circumstances.

## 8 Cash and cash equivalents

| | As at | |
|---|---|---|
| | **30 June 2017 $** | 30 June 2016 $ |
| Cash at bank | **1,188,186** | 1,412,064 |
| | **1,188,186** | 1,412,064 |

## 9 Receivables

| | As at 30 June 2017 $ | 30 June 2016 $ |
|---|---|---|
| Distributions receivable | 4,424,577 | - |
| Interest receivable | 1,110 | 376 |
| GST receivable | 3,816 | 3,593 |
| | 4,429,503 | 3,969 |

## 10 Financial assets designated at fair value through profit or loss

| | As at 30 June 2017 Fair value $ | 30 June 2016 Fair value $ |
|---|---|---|
| **Designated at fair value through profit or loss** | | |
| Unlisted managed investment funds | 1,071,002,105 | 1,132,615,005 |
| **Total designated at fair value through profit or loss** | 1,071,002,105 | 1,132,615,005 |

## 11 Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, and the relevant activities are directed by means of contractual arrangements. Structured entities of the Fund include investments in related party unlisted managed investment funds as disclosed in Note 14.

The Fund has no other involvement with the structured entity other than the securities it holds as part of trading activities and its maximum exposure to loss is restricted to the carrying value of the asset. Income from the structured entities are in the form of distributions. Exposure to trading assets are managed in accordance with financial risk management practices as set out in Note 3, which includes an indication of changes in risk measures compared to prior year.

## 12 Payables

| | As at 30 June 2017 $ | 30 June 2016 $ |
|---|---|---|
| Trustee fees payable | 32,155 | 31,002 |
| Expense recovery fees payable | 2,243 | 2,245 |
| | 34,398 | 33,247 |

## 13 Financial instruments held for trading

In the normal course of business, the Fund may enter into transactions in various derivative financial instruments. A derivative is a financial instrument or other contract which is settled at a future date whose value changes in response to a change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions include a wide assortment of instruments, such as forwards, futures and options. Derivatives are considered to be part of the investment process. The use of derivatives is an essential part of the Fund's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- to protect an asset or liability of the Fund against a fluctuation in market values or to reduce volatility
- a substitution for trading of physical securities
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

While derivatives are used for trading purposes, they are not used to gear (leverage) the Fund. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Fund's net assets attributable to unitholders.

The Fund holds the following derivative instruments:

**(a) Futures**

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts' values are usually settled net daily with the exchange.

Equity futures are contractual obligations to receive or pay a net amount based on changes in underlying securities at a future date at a specified price, established in an organised financial market.

Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in an organised financial market.

**(b) Forward foreign exchange contracts**

Forward foreign exchange contracts are primarily used by the Fund to hedge against foreign currency exchange rate risks on its non Australian dollar denominated securities. The Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Forward foreign exchange contracts are valued at the prevailing bid price at the reporting date. The Fund recognises a gain or loss equal to the change in fair value at the reporting date.

The Fund's derivative financial instruments at year end are detailed below:

**30 June 2017**

| | | Fair Value | |
|---|---|---|---|
| | Contract/notional | Assets | Liabilities |
| | $ | $ | $ |
| Equity futures | **(65,505,613)** | **526,688** | **(67,391)** |
| Interest rate futures | **25,125,773** | **-** | **(244,287)** |
| Forward foreign exchange contracts | **54,519,172** | **746,982** | **(86,788)** |
| | | **1,273,670** | **(398,466)** |

**30 June 2016**

| | | Fair Value | |
|---|---|---|---|
| | Contract/notional | Assets | Liabilities |
| | $ | $ | $ |
| Equity futures | 42,654,183 | 555,726 | (35,284) |
| Interest rate futures | 3,512,493 | 13,136 | - |
| Forward foreign exchange contracts | 34,631,455 | 265,454 | (214,397) |
| | | 834,316 | (249,681) |

An overview of the risk exposures relating to derivatives is included in Note 3.

## 14 Related party transactions

### Trustee

The Trustee of Long Service Corporation Investment Fund is New South Wales Treasury Corporation. Accordingly, transactions with entities related to the Trustee are disclosed below.

### Ultimate parent entity

The ultimate parent entity and controlling party of the Fund is the New South Wales Government.

### Key management personnel

Key management personnel includes persons who were directors of the Trustee at any time during the financial year.

### Key management personnel compensation

Key management personnel compensation is paid by the Trustee. Payments made from the Fund to the Trustee do not include any amounts directly attributable to the compensation of key management personnel.

### Key management personnel loan disclosures

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

### Other transactions

During the year and up until his resignation on 21 July 2017, the Director of the Trustee, R Whitfield also held the position of Chief Executive Officer of Long Service Corporation. Long Service Corporation holds 100% of the units in the Fund.

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund during the financial year and there were no material contracts involving key management personnel's interests existing at year end.

### Cabinet Ministers

Cabinet Ministers of the New South Wales Government are considered to be related parties of the Fund and each State-controlled entity. There were no related party transactions with the Cabinet Ministers.

### Other New South Wales Government entities

All investors of the Fund are New South Wales public sector entities. The Fund transacts with these investors in accordance with the provisions of the Fund Constitution.

### Trustee fees and other transactions

Under the terms of the Fund Constitution for the Fund, the Trustee is entitled to receive trustee fees monthly.

The Trustee pays certain expenses incurred for services provided to the Fund. To cover these costs, the Trustee receives expense recovery fees from the Fund.

Transactions with related parties have taken place at arm's length and in the ordinary course of business. The transactions during the year and amounts at year end between the Fund and the Trustee were as follows:

| | **30 June 2017** | 30 June 2016 |
|---|---|---|
| | **$** | $ |
| Expense recovery fees for the year | **30,898** | 30,882 |
| Trustee fees for the year | **142,789** | 158,701 |
| Aggregate amounts payable to the Trustee at the reporting date | **34,398** | 33,247 |

## 14 Related party transactions (continued)

### Investments

Details of related parties investments held by the Fund, which New South Wales Treasury Corporation acts as Trustee, are set out below:

| | Fair value of investment $ | | Interest held % | | Distributions received or receivable during year $ | |
|---|---|---|---|---|---|---|
| | 30 June 2017 | 30 June 2016 | 30 June 2017 | 30 June 2016 | 30 June 2017 | 30 June 2016 |
| TCorpIM Indexed International Share (Unhedged) Fund (formerly Hour-Glass Indexed International Share (Unhedged) Fund) | **76,167,276** | 66,177,492 | **15.89** | 13.81 | **7,037,251** | 1,827,631 |
| TCorpIM International Share (Unhedged) Fund (formerly Hour-Glass International Share (Unhedged) Fund) | **230,402,445** | 187,028,594 | **4.61** | 5.66 | **16,873,810** | 20,349,482 |
| TCorpIM Listed Property Fund (formerly Hour-Glass Listed Property Fund) | **55,374,094** | 62,219,879 | **27.75** | 22.36 | **4,051,793** | 60,160 |
| TCorpIM Australian Share Fund (formerly Hour-Glass Australian Share Fund) | **298,339,762** | 258,502,716 | **6.84** | 8.05 | **16,910,654** | 12,694,398 |
| TCorpIM Indexed Australian Share Fund (formerly Hour-Glass Indexed Australian Share Fund) | **38,137,637** | 33,399,825 | **21.08** | 10.94 | **6,460,979** | 1,515,214 |
| TCorpIM Australian Bond Fund (formerly Hour-Glass Australian Bond Fund) | **124,943,456** | 112,487,327 | **25.35** | 25.42 | **3,654,142** | 6,300,164 |
| TCorpIM Liquidity Cash Fund (formerly Hour-Glass Liquidity Cash Fund) | **18,798,905** | 182,281,252 | **1.18** | 13.25 | **1,661,818** | 2,999,734 |
| TCorpIM Strategic Cash Fund (formerly Hour-Glass Strategic Cash Fund) | **10,412,754** | 128,320,823 | **0.62** | 10.22 | **1,666,558** | 3,401,039 |
| TCorpIM Emerging Market Share Fund (formerly Hour-Glass Emerging Market Share Fund) | **66,695,229** | 53,941,693 | **5.58** | 6.57 | **3,372,726** | 1,638,720 |
| TCorpIM Unlisted Property Fund (formerly Hour-Glass Unlisted Property Fund) | **51,920,019** | 48,255,404 | **3.66** | 3.66 | **2,368,307** | 2,352,127 |
| TCorpIM Unlisted Infrastructure Fund (formerly Hour-Glass Unlisted Infrastructure Fund) | **42,735,809** | - | **5.31** | - | **1,436,356** | - |
| TCorpIM Multi-Asset Class Fund (formerly Hour-Glass Multi-Asset Class Fund) | **51,859,553** | - | **5.00** | - | **2,290,023** | - |
| TCorpIM International Share (Hedged) Fund (formerly Hour-Glass International Share (Hedged) Fund) | **5,215,166** | - | **0.53** | - | **231,450** | - |

## 15 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

| | Year ended | |
|---|---|---|
| | **30 June 2017 $** | 30 June 2016 $ |
| **(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities** | | |
| Profit/(loss) for the year | - | - |
| Increase/(decrease) in net assets attributable to unitholders | **41,859,755** | (24,959,547) |
| Distributions to unitholders | **72,302,150** | 53,766,188 |
| Proceeds from sale of financial instruments held at fair value through profit or loss | **334,389,585** | 126,605,561 |
| Purchase of financial instruments held at fair value through profit or loss | **(164,797,178)** | (237,186,597) |
| Net (gains)/losses on financial instruments held at fair value through profit or loss | **(46,348,895)** | 24,114,345 |
| Investment income reinvested | **(61,921,181)** | (47,796,377) |
| Net foreign exchange (gains)/losses | **(18,809)** | 953 |
| Net change in deposits held with brokers | **(1,283,731)** | (3,056,196) |
| Net change in receivables | **(4,425,534)** | (2,610) |
| Net change in payables | **1,151** | 16,956 |
| **Net cash inflow/(outflow) from operating activities** | **169,757,313** | (108,497,324) |

| | | |
|---|---|---|
| **(b) Non-cash financing and operating activities** | | |
| During the year the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan | **72,302,150** | 53,766,188 |
| During the year, the following acquisitions were satisfied by participation in dividend and distribution reinvestment plans | **61,921,181** | 47,796,377 |
| | **134,223,331** | 101,562,565 |

## 16 Events occurring after the reporting period

No significant events have occurred since the reporting period which would impact on the financial position of the Fund disclosed in the Balance sheet as at 30 June 2017 or on the results and cash flows of the Fund for the year ended on that date.

## 17 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2017 and 30 June 2016.

## Statement by the Trustee

In the opinion of the directors of the Trustee

(a) The financial statements and notes of the Fund are in accordance with the requirements of the Fund Constitution, the Public Finance and Audit Act 1983 and the Public Finance and Audit Regulation 2015, and:

  (i) are properly drawn up so as to present fairly the Fund's financial position as at 30 June 2017 and of its performance, as represented by the results of its operations, changes in equity and its cash flows for the year ended on that date; and

  (ii) comply with Australian Accounting Standards and other mandatory professional reporting requirements.

(b) There are reasonable grounds to believe the Fund will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

| | |
|---|---|
| P W Chronican<br>Director | D M Deverall<br>Director |

Sydney
22 September 2017

AUDITOR-GENERAL
NEW SOUTH WALES

# INDEPENDENT AUDITOR'S REPORT

**Long Service Corporation Investment Fund**

To Members of the New South Wales Parliament

## Opinion

I have audited the accompanying financial statements of the Long Service Corporation Investment Fund (the Fund), which comprise the balance sheet as at 30 June 2017, the statement of comprehensive income and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Fund as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015
- are in accordance with the requirement of the Fund's constitution.

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

## Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

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

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

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

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

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

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

Level 15, 1 Margaret Street, Sydney NSW 2000 | GPO Box 12, Sydney NSW 2001 | t 02 9275 7101 | f 02 9275 7179 | e mail@audit.nsw.gov.au | audit.nsw.gov.au

## The Trustee's Responsibility for the Financial Statements

The Directors of the Fund's Trustee, New South Wales Treasury Corporation are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors must assess the Fund's ability to continue as a going concern except where the Fund will be dissolved by an Act of Parliament or otherwise cease operations. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

## Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

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

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

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

My opinion does *not* provide assurance:

- that the Fund carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented.

A Oyetunji
Director, Financial Audit Services

22 September 2017
SYDNEY

# APPENDICES

## Contents

## Customer Feedback

Long Service Corporation (LSC) recorded a total of 60 complaints during the year. The majority of these resulted from a redesign of two of LSC's portals. Remediation action was taken to enhance the navigation of the portals. Nineteen compliments were recorded with 16 of these complimenting LSC staff. Seven suggestions were recorded on a variety of matters. Where practical, LSC enhances its online portals and communication material and is reviewing its Complaints Framework to improve the customer experience.

During the year there were three customer complaints addressed via Ministers' offices.

## Legislative Change

There were no changes during the year to the *Long Service Corporation Act 2010,* the *Building and Construction Industry Long Service Payments Act 1986* or the *Contract Cleaning Industry (Portable Long Service Leave Scheme) Act 2010* or to the regulations.

## Senior Executive grades and remuneration

| Senior executives | 2015-16 | | 2016-17 | |
|---|---|---|---|---|
| | Female | Male | Female | Male |
| Band 4 (Secretary) | - | - | - | - |
| Band 3 (Deputy Secretary) | - | - | - | - |
| Band 2 (Executive Director) | - | - | - | - |
| Band 1/Senior Officer (Director) | - | 2 | 1 | - |
| **Total** | **0** | **2** | **1** | **0** |
| | **2** | | **1** | |

| Executive – average remuneration | 2015-16 | 2016-17 |
|---|---|---|
| Band 4 (Secretary) | N/A | N/A |
| Band 3 (Deputy Secretary) | N/A | N/A |
| Band 2 (Executive Director) | N/A | N/A |
| Band 1/Senior Officer (Director) | $195,874 | $209,151 |

## Human Resources statistics

In June 2017 Long Service Corporation (LSC) had 64.84 full-time equivalent (FTE) staff. This equates to a headcount of 67 staff.

| Staff by age | | |
|---|---|---|
| Age range | 2015-16 | 2016-17 |
| 20 – 24 years | 0 | 0 |
| 25 – 29 years | 1 | 2 |
| 30 – 34 years | 11 | 9 |
| 35 – 39 years | 10 | 10 |
| 40 – 44 years | 9 | 8 |
| 45 – 49 years | 9 | 14 |
| 50 – 54 years | 9 | 6 |
| 55 – 59 years | 10 | 12 |
| 60+ years | 8 | 6 |

Note: Data at Census Date

| Non-executive staff by classification and grade | | |
|---|---|---|
| Grade | Actual staff numbers | Full-time equivalent |
| Clerk Grade 1-2 | 0 | 0 |
| Clerk Grade 3-4 | 13 | 13 |
| Clerk Grade 5-6 | 26 | 24.89 |
| Clerk Grade 7-8 | 15 | 13.96 |
| Clerk Grade 9-10 | 8 | 8 |
| Clerk Grade 11-12 | 4 | 4 |

Note: Data at Census Date

## Government Information (Public Access)

### Accessing information held by Long Service Corporation

Information held by Long Service Corporation (LSC) is made available in a variety of ways, including publishing information on LSC's website. This is consistent with the provisions and principles of the *Government Information (Public Access) Act 2009* (GIPA Act). LSC "About Us" is updated regularly and is available on LSC's website. It describes the structure and functions of LSC.

LSC's website contains open-access information, as required by section 18 of the Act and clause 5 of the *Government Information (Public Access) Regulation 2009.*

Details about how to apply for access to information are available on LSC's website at http://www.longservice.nsw.gov.au/right-to-information. Further assistance can also be provided by emailing your query to gipaa@longservice.nsw.gov.au.

### Review of proactive release program

In accordance with Section 7 of the GIPA Act, LSC has reviewed its programs for the release of government information to identify the kinds of information that can be made publicly available.

LSC's program for the proactive release of information involves considering the type of information held that may be suitable for release as well as specific information requested under formal GIPA applications. Following the review of information, an assessment is made as to whether there are any public interest considerations against disclosure of the information, whether consultation is required, and whether this would impose unreasonable costs to LSC.

During the 2016-17 reporting period LSC proactively released a range of information including; advice to customers on using LSC's redesigned online portals; revised customer forms and publications; reports on matters of fraud and corruption; links to webinars; guidelines, policies and procedures.

### Number of access applications received

During the reporting period, LSC received no formal access applications under the GIPA Act, including withdrawn applications but not invalid applications.

### Number of refused applications for Schedule 1 information

During 2016-17 no formal access applications were refused because the information requested was information referred to in Schedule 1 of the GIPA Act (Information for which there is conclusive presumption of overriding public interest against disclosure).

### Statistical information about access applications

The tables following are set out according to Schedule 2 of the *Government Information (Public Access) Regulation 2009.*

### Table A: Number of applications by type of applicant and outcome*

| | Access granted in full | Access granted in part | Access refused in full | Information not held | Information already available | Refuse to deal with application | Refuse to confirm/ deny whether information is held | Application withdrawn |
|---|---|---|---|---|---|---|---|---|
| Media | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Members of Parliament | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Private sector business | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Not for profit organisations or community groups | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Members of the public (application by legal representative) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Members of the public (other) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

*More than one decision can be made in respect of a particular access application. If so, a recording must be made in relation to each such decision. This also applies to Table B.

### Table B: Number of applications by type of application and outcome*

| | Access granted in full | Access granted in part | Access refused in full | Information not held | Information already available | Refuse to deal with application | Refuse to confirm/ deny whether information is held | Application withdrawn |
|---|---|---|---|---|---|---|---|---|
| Personal information applications** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Access applications (other than personal information applications) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Access applications that are partly personal information applications and partly other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

* A personal information application is an access application for personal information (as defined in clause 4 of Schedule 4 to the Act) about the applicant (the applicant being an individual).

### Table C: Invalid applications

| Reason for invalidity | Number of applications |
|---|---|
| Application does not comply with formal requirements (section 41 of the Act) | 0 |
| Application is for excluded information of the agency (section 43 of the Act) | 0 |
| Application contravenes restraint order (section 110 of the Act) | 0 |
| Total number of invalid applications received | 0 |
| Invalid applications that subsequently became valid applications | 0 |

### Table D: Conclusive presumption of overriding public interest against disclosure: Matters listed in Schedule 1 of the Act

| | Number of times consideration used* |
|---|---|
| Overriding secrecy laws | 0 |
| Cabinet information | 0 |
| Executive Council information | 0 |
| Contempt | 0 |
| Legal professional privilege | 0 |
| Excluded information | 0 |
| Documents affecting law enforcement and public safety | 0 |
| Transport safety | 0 |
| Adoption | 0 |
| Care and protection of children | 0 |
| Ministerial code of conduct | 0 |
| Aboriginal and environmental heritage | 0 |

*More than one public interest consideration may apply in relation to a particular access application and, if so, each such consideration is to be recorded (but only once per application). This also applies in relation to Table E.

### Table E: Other public interest considerations against disclosure: matters listed in table to section 14 of Act

| Matters listed in table to section 14 of the Act | Number of occasions when application not successful |
|---|---|
| Responsible and effective government | 0 |
| Law enforcement and security | 0 |
| Individual rights, judicial processes and natural justice | 0 |
| Business interests of agencies and other persons | 0 |
| Environment, culture, economy and general matters | 0 |
| Secrecy provisions | 0 |
| Exempt documents under interstate Freedom of Information legislation | 0 |

### Table F: Timelines

| | Number of applications |
|---|---|
| Decided within the statutory timeframe (20 days plus any extensions) | 0 |
| Decided after 35 days (by agreement with applicant) | 0 |
| Not decided within time (deemed refusal) | 0 |

### Table G: Number of applications reviewed under Part 5 of the Act (by type of review and outcome)

| | Decision varied | Decision upheld | Total |
|---|---|---|---|
| Internal review | 0 | 0 | 0 |
| Review by Information Commissioner | 0 | 0 | 0 |
| Internal review following recommendation under section 93 of Act | 0 | 0 | 0 |
| Review by NCAT | 0 | 0 | 0 |
| Total | 0 | 0 | 0 |

*The Information Commissioner does not have the authority to vary decisions, but can make recommendations to the original decision-maker. The data in this case indicates that a recommendation to vary or uphold the original decision has been made by the Information Commissioner.

### Table H: Applications for review under Part 5 of the Act (by type of applicant)

| | Number of applications for review |
|---|---|
| Applications by access applicants | 0 |
| Applications by persons to whom information the subject of access application relates (see section 54 of the Act) | 0 |

### Table I: Applications transferred to other agencies under Division 2, Part 4 of the Act (by type of transfer)

| | Number of applications transferred |
|---|---|
| Agency-initiation transfers | 0 |
| Applicant-initiated transfers | 0 |

## Public interest disclosures

All staff have a responsibility to report suspected wrongdoing, including corruption; maladministration; serious and substantial waste of public money; and breaches of the *Government Information (Public Access) Act 2009* (GIPA Act).

*The Public Interest Disclosures Act 1994* (PID Act) is aimed at encouraging and facilitating the disclosure, in the public interest, of wrongdoing in the public sector. The reporting of suspected wrongdoing is vital to the integrity of the public sector and its ability to provide the services the NSW public deserves. Long Service Corporation (LSC) is committed to protecting staff that make public interest disclosures.

LSC adopts the Treasury cluster Public Interest Disclosures Internal Reporting Policy for the Management of Public Interest Disclosures, which is consistent with the NSW Ombudsman's model policy. The policy sets out the manner in which LSC meets its obligations under the PID Act and the roles and responsibilities of staff in making and receiving public interest disclosures. The policy is available to all staff on LSC's intranet and is also published on LSC's website.

The Secretary of NSW Treasury has ensured that all Treasury staff are made aware of their responsibilities under the PID by:

- Written endorsement of internal reporting policy and commitment to the objectives of the PID Act
- Maintenance of a Public Interest Disclosures portal on Treasury's intranet providing staff with guidance material and links to additional external and internal PID resources
- Facilitation of the NSW Ombudsman's online training program access through Treasury's intranet for all staff
- Online training program made available to all staff
- Publication of a plain English brochure advising staff how to make a public interest disclosure and publishing this information on the intranet
- Display of promotional posters that outline 'How to report wrongdoing in Treasury'.

In accordance with Section 4 of the *Public Interest Disclosures Regulation 2011,* the following information is provided on public interest disclosures for the period 1 July 2016 to 30 June 2017:

| Section 4 of the Public Interest Disclosures Regulation 2011: | |
|---|---|
| No of public officials who made public interest disclosures to Long Service Corporation | 0 |
| No of public interest disclosures received by Long Service Corporation | 0 |
| **Of public interest disclosures received, how many were primarily about:** | |
| Corrupt conduct | 0 |
| Maladministration | 0 |
| Serious and substantial waste | 0 |
| Government information contravention | 0 |
| Local government pecuniary interest contravention | 0 |
| No of public interest disclosures (received since 1 Jan 2012) that have been finalised in this reporting period | 0 |

* Public interest disclosures made by public officials in performing their day to day functions as public officials.

## Other disclosures

Long Service Corporation (LSC) has no subsidiaries and has not entered into joint ventures or partnerships with other organisations. LSC does not own real estate property nor was any real estate property disposed of during the year.

- There were no agreements entered into, with the Community Relations Commission
- There were no grants made to non government community organisations
- Officers made no overseas visits during the year
- No research or development programs were undertaken

## Exemptions from the report provision

As a small statutory body LSC need only report on a triennial basis in relation to:

- Aboriginal and Torres Strait Islanders
- Disability Inclusion Action Plan
- Multicultural Policies and Services Program
- Work Health and Safety
- Workforce Diversity and Inclusion

## Protecting privacy and personal information

NSW Treasury respects the privacy of members of the public who use our services and of our employees. As a NSW Government agency, NSW Treasury must comply with the requirements of the *Privacy and Personal Information Protection Act 1998* (PPIP Act) and the *Health Records and Information Privacy Act 2002.*

In compliance with the provisions of the PPIP Act, NSW Treasury has a Privacy Management Plan. The Privacy Management Plan is published on the Treasury and Long Service Corporation (LSC) intranet and websites.

Treasury employees, including those working at LSC, are informed and educated with respect to the privacy legislation and its requirements through online privacy training modules and advice provided through the Information Access and Governance Unit.

Employees are also alerted to privacy requirements through the Privacy Guidelines on Treasury's and LSC's Privacy intranet page, which provides a detailed summary of the privacy legislation; definition of personal information; details on the protection principles and links to online privacy training and other useful resources.

Additional information about how the department manages its obligations under the PPIP Act is available at https://www.treasury.nsw.gov.au/privacy. Further information and assistance can be provided by emailing the Information Access and Governance Unit at gipa@treasury.nsw.gov.au.

## Credit (purchasing) card certification

In accordance with Treasurer's Direction 205.01-205.08, LSC certifies that corporate credit cards used by officers on behalf of the LSC have complied with Government requirements. LSC has two credit cards issued with a total limit of $30,000.

## Expenditure on consultants

| Consultant | Project Description | Amount (excl GST) $ |
|---|---|---|
| **Consultants costing $50,000 or more** | | |
| **Finance and Accounting/Tax** | | |
| PricewaterhouseCoopers Securities Ltd PwC | Quarterly Investment Report for both schemes @ 4 QTRS + Strategy Review and Advice. | 76,999.80 |
| Mishail Pty Ltd | NILS project consulting | 182,221.94 |
| Riteway Solutions Group Pty Ltd | GovDC/NILS project consulting | 586,238.00 |
| Computer Systems (Australia) CSA | Office365 | 72,506.15 |
| Superior Software for Windows SSW | WRS upgrade | 102,250.00 |
| Professional Financial Solutions Pty Ltd PFS | Actuarial report and additional work for BCI and CCI scheme | 57,175.00 |
| **Subtotal** | | **1,353,684.89** |
| | | |
| **Consultants costing less than $50,000** | | |
| Procure Group | Provision of Probity Advisory service for GovDC | 6,896.25 |
| | | |
| **Total Expenditure on Consultants** | | **1,360,581.14** |

## Abbreviations and acronyms

| | |
|---|---|
| ACCA | Australian Cleaning Contractors' Alliance |
| AFEI | Australian Federation of Employers and Industries |
| AMWU | Australian Manufacturing Workers Union |
| ARBI | Accrued Benefit Reserve Index |
| BCI | Building and Construction Industry |
| BCM | Business Continuity Management |
| BCP | Business Continuity Planning |
| BSCAA | Building Service Contractors Association of Australia |
| CCF | Civil Contractors Federation |
| CCI | Contract Cleaning Industry |
| CEO | Chief Executive Officer |
| CFMEU | Construction Forestry Mining Energy Union |
| CSA | Computer Systems (Australia) |
| FTE | Full-time equivalent |
| GIPA | Government Information (Public Access) Act 2009 |
| GovDC | Government Data Centre |
| GST | Goods and Services Tax |
| HIA | Housing Industry Australia |
| ICT | Information and Communication Technology |
| LSC | Long Service Corporation |
| LSCIFT | Long Service Corporation Investment Facility Trust |
| MBA | Master Builders Association of NSW |
| MPA | Master Painters Association |
| NCAT | NSW Civil and Administrative Tribunal |
| NILS | New Integrated Leave System |
| NRA | National Reciprocal Agreement |
| PFS | Professional Financial Solutions Pty Ltd |
| PID | Public Interest Disclosures Act 1994 |
| PPIP | Privacy and Personal Information Protection Act 1998 |
| TCorp | NSW Treasury Corporation |

## Statutory Reporting Compliance Index