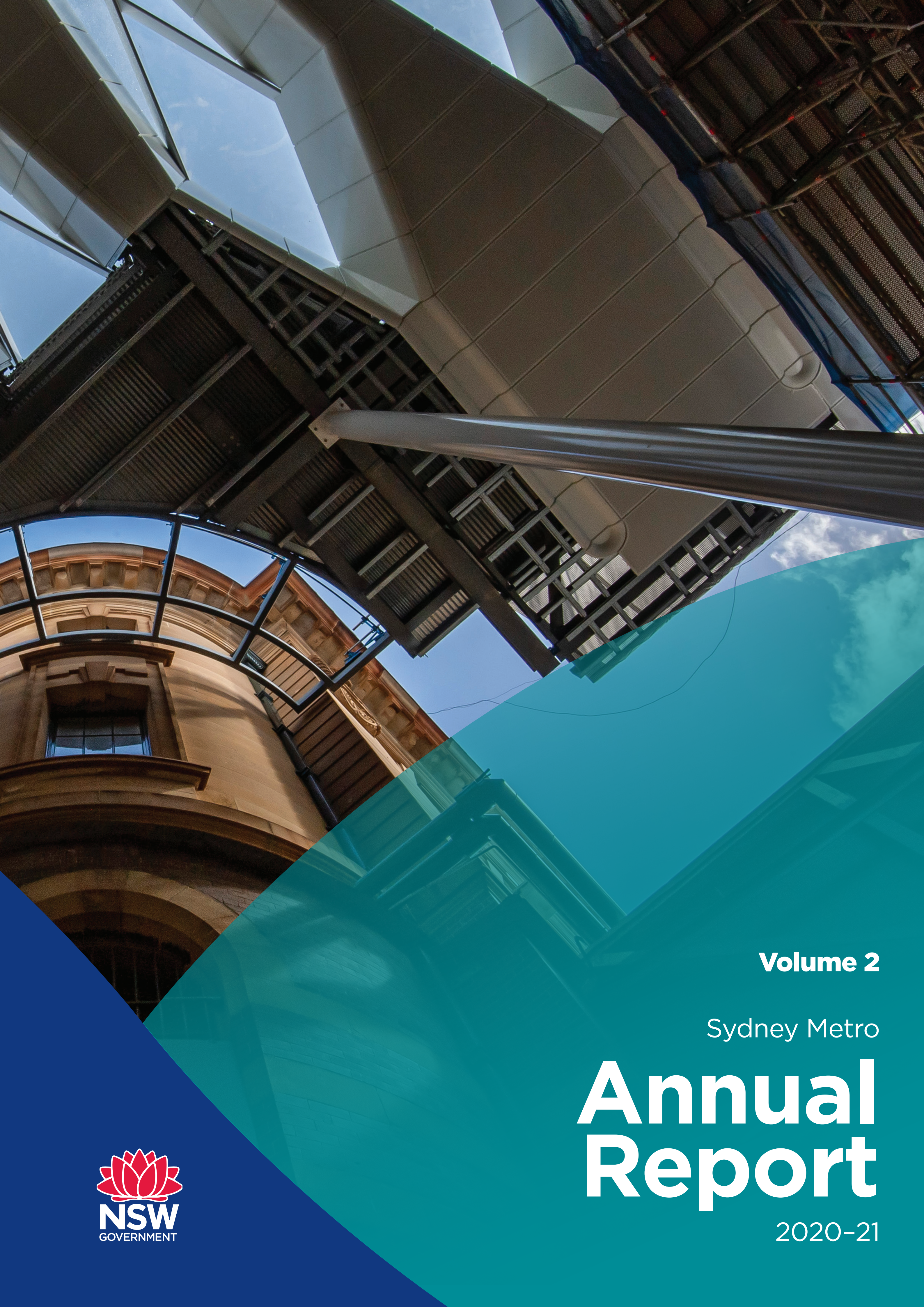

Volume 2

Sydney Metro

Annual Report

2020–21

NSW GOVERNMENT

INDEPENDENT AUDITOR'S REPORT

Sydney Metro

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of Sydney Metro, which comprise the Statement by the Board, the Statement of comprehensive income for the year ended 30 June 2021, the Statement of financial position as at 30 June 2021, the Statement of changes in equity and the 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:

- have been prepared in accordance with Australian Accounting Standards and the applicable financial reporting requirements of the *Government Sector Finance Act 2018* (GSF Act), the Government Sector Finance Regulation 2018 (GSF Regulation) and the Treasurer's Directions
- present fairly Sydney Metro's financial position, financial performance and cash flows.

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 Sydney Metro 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 (including Independence Standards)' (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 Board's Responsibilities for the Financial Statements

The members of the Board are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, the GSF Act, GSF Regulations and Treasurer's Directions. The members of the Board's responsibility also include such internal control as the members of the Board 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 members of the Board are responsible for assessing Sydney Metro's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibilities 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.

The scope of my audit does not include, nor provide assurance:

- that Sydney Metro carried out its activities effectively, efficiently and economically
- about the assumptions used in formulating the budget figures disclosed in the financial statements
- 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.

Somaiya Ahmed
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

27 September 2021
SYDNEY

NSW GOVERNMENT

Sydney Metro

Annual Financial Statements

for the year ended 30 June 2021

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Sydney Metro
Statement by the Board
for the year ended 30 June 2021

Statement by the Board

Pursuant to section 7.6 of the *Government Sector Finance Act 2018* (‘the Act’), on behalf of the Board we state that:

(a) The accompanying financial statements have been prepared in accordance with:
- Applicable Australian Accounting Standards including Australian Accounting Interpretations and any other requirements specified by the Act;
- The requirements of the *Government Sector Finance Act 2018* and Regulation; and
- Treasurer’s Directions issued under this Act;

(b) The statements present fairly the financial position of Sydney Metro as at 30 June 2021, and of its financial performance and cash flows for the period then ended.

John Arthur
Chairman

Date: 24 September 2021

Bob McKinnon
Director

Date: 24 September 2021

Sydney Metro
Statement of comprehensive income
for the year ended 30 June 2021

	Notes	Budget 2021 $'000	Actual 2021 $'000	Actual (Restated)[2] 2020 $'000
Expenses excluding losses				
Operating expenses				
Personnel service expenses	2(a)	3,930	23,454	14,126
Other operating expenses	2(b)	342,944	64,130	76,663
Major rail project expenses	2(c)	-	247,561	235,908
Depreciation and amortisation	2(d)	231,927	224,880	218,798
Grants and subsidies[1]	2(g)	-	83,334	23,035
Finance costs	2(e)	64,333	60,562	58,518
Other expenses	2(f)	66,141	85,120	78,966
Total expenses excluding losses		**709,275**	**789,041**	**706,014**
Revenue				
Sale of goods and services from contracts with customers	3(a)	307,756	10,311	22,048
Investment revenue	3(b)	-	9,936	37,451
Grants and other contributions	3(c)	6,147,439	4,422,651	2,646,899
Major rail project revenue	3(d)	-	247,561	235,908
Resources received free of charge	3(e)	-	2,005	2,284
Other income	3(f)	-	220	-
Total revenue		**6,455,195**	**4,692,684**	**2,944,590**
Gain/(loss) on disposal	4	143,500	7,310	(37,347)
Other gains/(losses)	5	-	9,419	425,810
Net result		**5,889,420**	**3,920,372**	**2,627,039**
Other comprehensive income				
Items that may be reclassified subsequently to net result				
Net gains/(losses) in commodity swaps and foreign exchange		-	-	(7,379)
Items that will not be reclassified to net result				
Net increase/(decrease) in asset revaluation surplus	12	-	286,410	212,340
Total other comprehensive income		**-**	**286,410**	**204,961**
Total comprehensive income		**5,889,420**	**4,206,782**	**2,832,000**

The accompanying Notes form part of these financial statements.

[1] Refer Note 29 for details regarding restated prior year balances relating to the correction of a prior period error.

[2] The 2020 comparative figures have been restated to reflect the adoption of AASB 1059 Service Concession Arrangements: Grantors (AASB 1059). Refer to Note 1(h) for more details.

Sydney Metro
Statement of financial position
as at 30 June 2021

	Notes	Budget 2021 $'000	Actual 2021 $'000	Actual (Restated) 2020 $'000	Actual (Restated) 1 July 2019 $'000
ASSETS					
Current assets					
Cash and cash equivalents	7	137,297	1,551,545	285,448	190,807
Receivables	8	124,149	352,850	127,461	240,075
Financial assets at fair value		-	-	-	1,970
Non-current assets held for sale	11	15,565	13,694	15,565	15,565
Other financial assets	10	4,773	6,146	3,963	-
Total current assets		**281,784**	**1,924,235**	**432,437**	**448,417**
Non-current assets					
Receivables	8	1,130,762	1,046,069	1,128,259	730,202
Financial assets at fair value		-	-	-	18,863
Property plant and equipment					
Land and buildings	12	526,931	531,577	528,412	544,517
Plant and equipment	12	637,661	662,992	665,543	672,354
Infrastructure systems	12	21,076,337	19,837,545	15,610,750	13,452,030
Property, plant and equipment		22,240,929	21,032,114	16,804,705	14,668,901
Right-of-use assets	13	21,363	45,059	25,322	-
Intangible assets	14	-	11,114	-	-
Other assets		35,060	-	-	-
Total non-current assets		**23,428,114**	**22,134,356**	**17,958,286**	**15,417,966**
Total assets		**23,709,898**	**24,058,591**	**18,390,723**	**15,866,383**
LIABILITIES					
Current liabilities					
Payables	16	205,737	1,541,425	255,591	412,179
Borrowings	17	16,713	805,509	880,916	190,928
Provisions	18	33,770	39,623	33,770	350
Other liabilities	19	7,180	8,858	7,180	-
Contract liabilities	9	93	-	93	-
Total current liabilities		**263,493**	**2,395,415**	**1,177,550**	**603,457**
Non-current liabilities					
Contract liabilities	9	19,199	20,000	20,000	-
Borrowings	17	1,673,445	1,581,605	1,345,332	2,301,157
Provisions	18	20,032	26,976	20,033	15,795
Other liabilities	19	2,866	2,871	2,866	625
Total non-current liabilities		**1,715,542**	**1,631,452**	**1,388,231**	**2,317,577**
Total liabilities		**1,979,035**	**4,026,867**	**2,565,781**	**2,921,034**
Net assets		**21,730,863**	**20,031,724**	**15,824,942**	**12,945,349**
EQUITY					
Accumulated funds		20,872,017	18,878,078	14,957,706	12,282,223
Reserves		858,846	1,153,646	867,236	663,126
Total equity		**21,730,863**	**20,031,724**	**15,824,942**	**12,945,349**

The accompanying Notes form part of these financial statements.

Refer Note 29 for details regarding restated prior year balances.

The retrospective application of AASB 1059 has a material effect on the information presented in the balance sheet at the beginning of the preceding period, therefore the Entity is presenting a third balance sheet as at the beginning of 1 July 2019. Refer to Note 1(h) for further details.
The 30 June 2020 and 1 July 2019 comparative figures have been restated to reflect the adoption of AASB 1059. Refer to Note 1(h) for further details.

Sydney Metro
Statement of changes in equity
for the year ended 30 June 2021

	Notes	Accumulated funds $ '000	Asset revaluation surplus $ '000	Hedge reserve $ '000	Total equity $ '000
Restated balance at 1 July 2020		**15,200,266**	**849,289**	**11,063**	**16,060,618**
Impact of AASB 1059[2]		(231,284)	6,884	-	(224,400)
Correction of errors[3]	29	(11,276)	-	-	(11,276)
Restated balance at 1 July 2020		**14,957,706**	**856,173**	**11,063**	**15,824,942**
Net result for the year		**3,920,372**	**-**	**-**	**3,920,372**
Other comprehensive income					
Net increase/(decrease) in asset revaluation surplus		-	286,410	-	286,410
Total other comprehensive income		**-**	**286,410**	**-**	**286,410**
Total comprehensive income for the year		**3,920,372**	**286,410**	**-**	**4,206,782**
Transactions with owners in their capacity as owners					
Transfers to/from reserves to accumulated funds		-	-	-	-
Balance at 30 June 2021		**18,878,078**	**1,142,583**	**11,063**	**20,031,724**
Balance at 1 July 2019		**12,940,678**	**644,684**	**18,442**	**13,603,804**
Changes in accounting policy – initial application of AASB 1059	1(h)	(658,455)	-	-	(658,455)
Restated balance at 1 July 2019[1]		**12,282,223**	**644,684**	**18,442**	**12,945,349**
Restated net result for the year		**2,627,039**	**-**	**-**	**2,627,039**
Other comprehensive income					
Net gains/(losses) in foreign exchange		-	-	(7,379)	(7,379)
Restated Net increase/(decrease) in asset revaluation surplus		-	212,340	-	212,340
Restated total other comprehensive income		**-**	**212,340**	**(7,379)**	**204,961**
Restated total comprehensive income for the year		**2,627,039**	**212,340**	**(7,379)**	**2,832,000**
Transactions with owners in their capacity as owners					
Transfers to/from reserves to accumulated funds		851	(851)	-	-
Increase/(decrease) in net assets from equity transfers	23	47,593	-	-	47,593
Restated balance at 30 June 2020		**14,957,706**	**856,173**	**11,063**	**15,824,942**

The accompanying Notes form part of these financial statements.

[1]The opening balance at 1 July 2019 is adjusted to reflect the adoption of AASB 1059 for service concession arrangements. Refer to Note 1(h) for further details.
[2]The opening balance as at 1 July 2020 is adjusted to reflect the adoption of AASB 1059 for service concession arrangements. Refer to Note 1(h) for further details.
[3]Refer to Note 29 for details regarding restated prior year balances.

Sydney Metro
Statement of cash flows
for the year ended 30 June 2021

	Notes	Budget 2021 $'000	Actual 2021 $'000	Actual 2020 $'000
Cash flows from operating activities				
Payments				
Personnel services		(3,930)	(20,691)	(11,807)
Finance costs		(64,333)	(35,829)	(122,372)
Service contract payments		-	(87,267)	(78,966)
Payments to suppliers		-	(472,881)	(387,300)
Other		(544,065)	(318,431)	(291,708)
Total payments		**(612,328)**	**(935,099)**	**(892,153)**
Receipts				
Sale of goods and services		310,259	293,102	332,582
Interest received		-	1,094	5,779
Grants and contributions		6,147,439	4,422,558	2,666,098
Other		(2,503)	270,672	313,080
Total receipts		**6,455,195**	**4,987,426**	**3,317,539**
Net cash flows from operating activities	20	**5,842,867**	**4,052,327**	**2,425,386**
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		143,500	78,571	68,776
Purchases of property, plant and equipment and intangible assets		(5,295,414)	(2,705,290)	(2,351,623)
Proceeds from sale of financial assets		-	12	17,431
Other		-	846	5,483
Net cash flows from investing activities		**(5,151,914)**	**(2,625,861)**	**(2,259,933)**
Cash flows from financing activities				
Repayment of borrowings and advances		(839,104)	(147,093)	(64,063)
Payment of principal portion of lease liabilities		-	(13,276)	(6,749)
Net cash flows from financing activities		**(839,104)**	**(160,369)**	**(70,812)**
Net increase/(decrease) in cash		**(148,151)**	**1,266,097**	**94,641**
Opening cash and cash equivalents		285,448	285,448	190,807
Closing cash and cash equivalents	7	**137,297**	**1,551,545**	**285,448**

The accompanying Notes form part of these financial statements.

1. Summary of significant accounting policies

(a) Sydney Metro - Reporting Entity

Sydney Metro is a statutory corporation established on 1 July 2018 under the *Transport Administration Act 1988*. Sydney Metro is a statutory authority for the purposes of the *Government Sector Finance Act 2018 (GSF Act).* It is domiciled in Australia and its principal office is at 680 George Street Sydney, NSW 2000.

Sydney Metro is a not-for-profit entity for accounting purposes (as profit is not its principal objective) and it has no cash generating units. The principal objectives of Sydney Metro are to:

a) deliver safe and reliable metro passenger services in an efficient, effective and financially responsible manner; and
b) facilitate and carry out the orderly and efficient development of land in the locality of metro stations, depots and stabling yards, and proposed metro stations.

Sydney Metro is a controlled entity of Transport for NSW. Transport for NSW is a controlled entity of the Department of Transport which is consolidated as part of the NSW Total State Sector (ultimate parent).

The financial statements of Sydney Metro (the Entity) for the period ended 30 June 2021 were authorised for issue by the Board on the date the accompanying Statement was signed.

(b) Basis of preparation

The financial statements are general purpose financial statements which have been prepared on an accrual basis and in accordance with:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations);
- the requirements of *Government Sector Finance Act 2018 (GSF Act)* and Regulation; and
- NSW Treasurer's Directions issued under the GSF Act.

Property, plant and equipment and certain financial assets and liabilities are measured using the fair value basis. 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.

The financial statements have been prepared on a going concern basis which assumes that the Entity is expected to be able to pay its debts as and when they fall due and continue in operation without any intention or necessity to liquidate or otherwise wind up its operations. This is supported by the Entity receiving grants from its parents, Transport for NSW, where necessary. Transport for NSW receives annual appropriations from the Consolidated Fund through the Appropriation Act and allocated to its controlled entities including the Entity. The 2021-22 budget papers includes a budgeted appropriation of $7.55 billion for the Entity. This allows the Entity to continue its operations and pay its debts alongside the availability of its receivables and cash reserves.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency, which is the Entity's presentation and functional currency.

(c) Critical accounting estimates, judgement and assumptions

In the application of Australian Accounting Standards and the Directions issued by the NSW Treasurer, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the current set of circumstances. Actual results may differ from these estimates.

Management evaluates these judgements, estimates and assumptions on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

1. Summary of significant accounting policies (continued)

(d) Statement of compliance

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

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

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

- 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) Foreign currency translation

Transactions in foreign currencies are recorded using the spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the end of the reporting date.

Differences arising on settlement or translation of monetary items are recognised in the net result.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or net results are also recognised in other comprehensive income or net results, respectively).

(g) Comparative information

Except when an Australian Accounting Standard permits or requires otherwise, comparative information is presented in respect of the previous period for all amounts reported in the financial statements. Comparatives have been adjusted to reflect prior period adjustments (refer Note 29) and the impacts of the adoption of AASB 1059 (refer Note 1(h)).

(h) Changes in accounting policy, including new or revised Australian Accounting Standards

(i) Effective for the first time in FY2020-21

The Entity applied AASB 1059 *Service Concession Arrangements: Grantors* for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described below. Several other amendments and interpretations apply for the first time in FY2020-21, but do not have an impact on the financial statements of the Entity.

1. Summary of significant accounting policies (continued)

(h) Changes in accounting policy, including new or revised Australian Accounting Standards (continued)

(i) Effective for the first time in FY2020-21 (continued)

AASB 1059 Service Concession Arrangements: Grantors

AASB 1059 is effective from 1 July 2020 for the Entity. At the same time, NSW Treasury Policy and Guideline Paper TPP 06-8: Accounting for Privately Financed Projects was withdrawn effective from 1 July 2020.

AASB 1059 addresses the accounting for a service concession arrangement from a grantor's perspective. Service concession arrangements (SCAs) are contracts between a grantor and an operator where an operator provides public services related to a service concession asset on behalf of a public sector grantor for a specified period of time and manages at least some of those services.

AASB 1059 requires the grantor to initially recognise a service concession asset, at current replacement cost, in a service concession arrangement where it controls the asset. A corresponding liability is also recognised depending on the nature of the consideration exchanged.

The Entity has adopted the modified retrospective approach permitted under AASB 1059 by recognising and measuring service concession assets and related liabilities, with any net adjustments to the amounts of assets and liabilities recognised in accumulated funds at the date of initial application of 1 July 2019.

The arrangements involve Northwest Rapid Transit (the operator) being responsible for the:

- Design and construction of the Metro infrastructure assets controlled by the Entity; and
- Operation and maintenance of the relevant Metro assets until May 2034 (service element).

In return the operator is compensated directly by the Entity. Refer Note 12(vii) for further details regarding the service concession arrangements.

The adoption of AASB 1059 has resulted in the following impacts in the Entity's financial statements:

- At the date of initial application, additional liabilities of $658 million have been recognised, with a corresponding decrease in accumulated funds of $658 million. This includes the reclassification of $9.1 billion of existing property, plant and equipment as service concession assets

1. Summary of significant accounting policies (continued)

(h) Changes in accounting policy, including new or revised Australian Accounting Standards (continued)

(i) Effective for the first time in FY2020-21 (continued)

AASB 1059 Service Concession Arrangements: Grantors (continued)

The effect of adopting AASB 1059 is as follows:

Impact on Statement of Comprehensive Income (increase/(decrease)) for the year ended 30 June 2020 is as follows:

	Notes	30 June 2020 $'000 Adoption of AASB 1059	30 June 2020 $'000 Without adoption of AASB 1059 (Restated)[1]	30 June 2020 $'000 Impact of AASB 1059
Finance costs[(i)]	2(e)	58,518	122,372	(63,854)
Other gains/(losses) [(ii)(iii)]	5	425,810	62,493	363,317
Net result		**2,627,039**	**2,199,868**	**427,171**
Net increase/(decrease) in asset revaluation surplus[(iv)]		212,340	205,456	6,884
Total comprehensive income		**2,832,000**	**2,397,945**	**434,055**

Notes:

(i) Prior to the introduction of AASB 1059, the Entity's Metro Northwest financial liability was carried at amortised cost applying the interest rate implicit in the PPP contract. In addition, no financial liability was recognised for City and Southwest as it is currently in construction phase. Upon transition to AASB 1059 on 1 July 2019, the Entity's comparative interest expense in respect of the service concession financial liability has been restated:

- Based on a recalculation using the Entity's incremental borrowing rate in accordance with AASB 1059, which is a different rate from the interest rate implicit in the PPP contract, as previously required under TPP 06-8.
- Recognition of the Metro City and Southwest financial liability from construction commencement in FY2019-20.

(ii) On 1 July 2019, the Entity's Northwest financial liability was remeasured at fair value in accordance with AASB 1059

(iii) The Entity's Metro City and Southwest financial liability that was recognised in FY2019-20 in accordance with AASB 1059 was remeasured due to a change in estimated cash flows during that year.

(iv) In FY2019-20, the Entity's service concession assets for Metro City and Southwest was recognised and measured at current replacement cost in accordance with AASB 1059. The increment in current replacement cost of the Metro City and Southwest service concession asset was recorded as an increase in asset revaluation reserve.

[1] Some of the 30 June 2020 without adoption of AASB 1059 balances have been restated due to correction of prior year error. Refer to Note 29 for further details.

1. Summary of significant accounting policies (continued)

(h) Changes in accounting policy, including new or revised Australian Accounting Standards (continued)

(i) Effective for the first time in FY2020-21 (continued)

AASB 1059 Service Concession Arrangements: Grantors (continued)

Impact on Statement of Financial Position (Increase/(decrease)) as at 1 July 2019:

	Notes	1 July 2019 $'000 Adoption of AASB 1059	1 July 2019 $'000 Without adoption of AASB 1059	1 July 2019 $'000 Impact of AASB 1059
Assets				
Non-current assets				
Property plant and equipment				
Land and buildings[(i)]	12	544,517	544,517	-
Plant and equipment[(i)]	12	672,354	672,354	-
Infrastructure systems[(i)]	12	13,452,030	13,452,030	-
Liabilities				
Current liabilities				
Borrowings[(ii)]	17	190,928	77,288	113,640
Non-current liabilities				
Borrowings[(ii)]	17	2,301,157	1,756,342	544,815
Total adjustment to equity				
Accumulated funds[(ii)]		12,282,223	12,940,678	(658,455)

Notes:

(i) Reclassification of Northwest PPP assets previously recognised and disclosed as property, plant and equipment as service concession assets. No change in measurement occurred on reclassification.

(ii) Derecognition of Northwest PPP financial liability previously recognised under TPP 06-8 at amortised cost and recognition of Northwest service concession financial liability at fair value in accordance with AASB 1059. The fair value of Northwest service concession financial liability was determined in accordance with AASB 13 *Fair Value Measurement*, using the present value valuation technique. The value is $658 million higher due to a change in applicable discount rate as prescribed by NSW Treasury. This has resulted in a corresponding decrease through Equity - Accumulated Funds.

1. Summary of significant accounting policies (continued)

(h) Changes in accounting policy, including new or revised Australian Accounting Standards (continued)

(i) Effective for the first time in FY2020-21 (continued)

AASB 1059 Service Concession Arrangements: Grantors (continued)

Impact on Statement of Financial Position (Increase/(decrease)) as at 30 June 2020:

	Notes	30 June 2020 $'000 Adoption of AASB 1059	30 June 2020 $'000 Without adoption of AASB 1059 (Restated)[1]	30 June 2020 $'000 Impact of AASB 1059
Assets				
Non-current assets				
Property plant and equipment				
Land and buildings(i)	12	528,412	528,412	-
Plant and equipment(i)	12	665,543	665,543	-
Infrastructure systems(i)(ii)(iii)	12	15,610,750	15,193,698	417,052
Other assets(ii)		-	157,658	(157,658)
Liabilities				
Current liabilities				
Borrowings(iii)(iv)	17	880,916	809,904	71,012
Non-current liabilities				
Borrowings(iii)(iv)	17	1,345,332	932,550	412,782
Total adjustment to equity				
Accumulated funds		14,957,706	15,188,990	(231,284)
Reserves(v)		867,236	860,352	6,884

(i) Reclassification of Northwest PPP assets previously recognised and disclosed as property, plant and equipment as service concession assets.
(ii) Reclassification of construction costs incurred by Sydney Metro for City and Southwest prior to completion of the construction phase that was previously recognised as a prepaid asset in accordance with TPP 06-8 as service concession assets (assets under construction).
(iii) Recognition of construction costs incurred by the Northwest Rapid Transit, the Operator, for City and Southwest as service concession assets (assets under construction) and corresponding financial liability. Under TPP 06-8, these costs are not recognised as asset and liability until construction completion. It was therefore not previously recognised and disclosed as at 30 June 2020.
(iv) Comprised of Northwest and City and Southwest service concession financial liability. Refer above for details on higher Northwest service concession financial liability recorded under AASB 1059.
(v) Relates to the increase in current replacement cost of Metro City and Southwest service concession assets (assets under construction) at 30 June 2020. The increment was recorded as an increase in asset revaluation surplus. Refer to Note 12 for further details on the subsequent measurement of service concession assets.

[1] Certain 30 June 2020 without adoption of AASB 1059 balances have been restated due to correction of prior year error. Refer to Note 29 for further details.

The adoption of AASB 1059 did not have an impact on the Statement of Cash Flows.

1. Summary of significant accounting policies (continued)

(h) Changes in accounting policy, including new or revised Australian Accounting Standards (continued)

(ii) Issued but not yet effective

NSW public sector entities are not permitted to early adopt new Australian Accounting Standards, unless Treasury determines otherwise.

Other standards whose impact on initial application is not expected to be significant or material

The impact of the following standards in the period of initial application is not expected to be significant.

Standard	Applicable to annual reporting periods beginning on or after
AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current*	1 January 2023
AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments*	1 January 2022
AASB 2020-6 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current and Non-current – Deferral of Effective Date*	1 January 2023

A number of other new standards or amendments to standards have been identified and assessed and it is expected that they will have no material impact on the financial statements of the Entity.

(i) Impact of COVID-19 on Financial Reporting for 2020-21

The outbreak of the novel Coronavirus (COVID-19) was declared as a global pandemic by the World Health Organisation on 11 March 2020. Measures taken by various governments to contain the virus have affected economic activity.

The Entity continues to monitor and review impacts related to COVID-19 and some of the impacts on the Entity's operation and financial performance is summarised below:

- There have been some productivity and associated commercial impacts on Sydney Metro's major construction contractors including local and international supply chain disruptions, changes to work practices from infection control requirements (including distancing, masks, working from home), balanced by some acceleration opportunities (such as reduced traffic volumes allowing for additional heavy vehicle movements). Sydney Metro is working closely with Contractors in relation to such impacts to construction delivery and reviewing any legal or commercial obligations.

- The Entity prepared and has maintained a COVID-19 Management Plan to guide actions which manage COVID-19 related risks to the health and safety of its employees and customers. This has resulted in increased costs arising from cleaning and disinfection works performed on Sydney Metro trains, stations, and offices.

- The real estate market continued to be impacted by the uncertainty brought by the COVID-19 outbreak. The Entity engaged an independent external valuer to undertake a market review to identify any material market movement. The valuers have stated that valuations have not been impacted by COVID-19.

2. Expenses excluding losses

(a) Personnel service expenses

	2021 $'000	2020 $'000
Salaries and wages (including annual leave)	19,019	9,209
Superannuation - defined benefit plans	75	83
Superannuation - defined contribution plans	1,767	947
Long service leave	1,192	2,298
Workers' compensation insurance	57	27
Payroll tax and fringe benefits tax	1,129	709
Redundancy payments	215	853
Personnel service expenses	**23,454**	**14,126**

In addition to the above, $102.3 million (2020: $66.0 million) has been capitalised in property, plant and equipment.

(b) Other operating expenses

	2021 $'000	2020 $'000
Auditor's remuneration - audit of financial statements	262	277
Advertising and marketing	50	3,071
Telecommunications	15	14
Electricity, gas and water	16,708	14,359
Fleet hire and leasing charges including access fees	8	23
General expenses	9,775	3,816
Information technology	869	108
Insurance	39	78
Legal services	1,081	1,108
Office expenses	214	78
Other contractors and consultants	28,605	47,236
Property rent and other related expenses[1]	2,835	3,495
Travel expenses	12	19
Share service charges	3,657	2,981
Other operating expenses	**64,130**	**76,663**

[1] Property rent and other related expenses in 2021 and 2020 includes expenses relating to short term and low value leases. Refer Note 13 for details.

2. Expenses excluding losses (continued)

(c) Major rail project expenses

	Notes	2021 $'000	2020 $'000
Other contractors		247,561	235,888
Legal services		-	20
Major rail project expenses	3(d)	**247,561**	**235,908**

Gross amount due from/(to) Transport Asset Holding Entity (TAHE) (formerly RailCorp) and billing to date are as follows:

	2021 $'000	2020 $'000
Costs incurred	(247,561)	(235,908)
Billings to date	247,561	235,908
Gross amount due from TAHE (formerly RailCorp)	**-**	**-**

(d) Depreciation and amortisation expense

	Notes	2021 $'000	2020 $'000
Infrastructure systems			
Rail systems		200,618	192,451
Buildings			
Buildings		589	60
Plant and equipment			
Rolling stock		19,186	18,655
Plant and equipment		3,354	7,516
Right-of-use		1,133	116
Depreciation	12,13	**224,880**	**218,798**

Refer Notes 12 and 13 for recognition and measurement policies on depreciation and amortisation.

Reconciliation to Note 12 - Depreciation of right-of-use assets		
Depreciation of operational and property assets	11,925	6,536
Right-of-use depreciation capitalised to infrastructure	(10,792)	(6,420)
	1,133	116

Depreciation of right-of-use assets is capitalised to infrastructure assets to the extent the leases are directly attributable costs of the infrastructure asset.

2. Expenses excluding losses (continued)

(e) Finance costs

	2021 $'000	Restated 2020 $'000
Unwinding of discount on liabilities	349	383
Interest expense – lease liabilities	795	224
Interest expense from financial liabilities at amortised cost[1]	59,418	57,911
Finance costs	**60,562**	**58,518**

[1] Interest expense from financial liabilities at amortised cost represents interest on the Service Concession Financial Liability.

(f) Other expenses

	2021 $'000	2020 $'000
Bus replacement services	7,921	10,541
Metro service contract payments	77,199	68,425
Other expenses	**85,120**	**78,966**

(g) Grants and subsidies

	2021 $'000	Restated 2020 $'000
Grants to external parties	83,334	23,035
Grants and subsidies	**83,334**	**23,035**

As part of project delivery, the Entity is required to undertake works to build assets and make cash contributions for third parties such as councils, utility providers and other Government agencies. Refer to Note 29 for details regarding restated prior year balance.

Recognition and measurement

(i) Personnel services expenses

Personnel services are provided by the Transport Service of New South Wales. Personnel service expenses include salaries, wages, leave entitlements, superannuation, workers' compensation insurance premium, payroll tax, fringe benefits tax and redundancies. Some personnel service expenses are included in the construction costs of property, plant and equipment assets and are, therefore, not included in personnel service expenses.

(ii) Other operating expenses

Other operating expenses generally represent the day-to-day running costs incurred in the normal operations of the Entity.

(iii) Insurance

The Entity arranges insurance cover through the NSW Treasury Managed Fund Scheme; apart from Sydney Metro City and Southwest project cover, which is arranged through a private insurance provider, and insurance for the Northwest operation, which is arranged separately and paid for by the Entity.

2. Expenses excluding losses (continued)

Recognition and measurement (continued)

(iv) Lease expenses

The Entity recognises the lease payments associated with the following types of leases as an expense on a straight-line basis:

- Leases that meet the definition of short-term i.e. where the lease term at commencement of the lease is 12 months or less. This excludes leases with a purchase option.
- Leases of assets that are valued at $10,000 or under when new.

Variable lease payments not included in the measurement of the lease liability (i.e. variable lease payments that do not depend on an index or a rate, initially measured using the index or rate as at the commencement date). These payments are recognised in the period in which the event or condition that triggers those payments occurs.

(v) Major rail project expenses

The Entity manages the design and construction of certain major rail projects on behalf of TAHE (formerly RailCorp). Under this arrangement, TAHE (formerly RailCorp) reimburses Sydney Metro for construction costs incurred. The arrangement is considered to be in the nature of construction contracts and is recognised in accordance with *AASB 15 Revenue from Contracts with Customers*. These expenses are recovered through major rail project revenue.

(vi) Maintenance

There are no maintenance costs included in personnel related expenses.

(vii) Finance costs

Finance costs comprise mainly interest charges and unwinding of discount of liabilities recorded at present value. In accordance with Treasury's mandate for not-for-profit general government sector agencies, finance costs are expensed and recognised in the Statement of Comprehensive Income in the period they are incurred.

(viii) Grants and subsidies

Grants and subsidies generally comprise contributions in cash or in kind to various local government authorities and other organisations. The contributions include transfers of assets for nil consideration. The grants and subsidies are expensed on the transfer of the cash or assets.

3. Revenue

(a) Sale of goods and services from contracts with customers

	2021 $'000	2020 $'000
Other	1,889	395
Recoupment of project costs	8,422	21,653
Sale of goods and services	**10,311**	**22,048**

(b) Investment revenue

	2021 $'000	2020 $'000
Rental Income	2,627	1,064
Interest income	7,306	36,371
Finance income on net investment in lease	3	16
Investment revenue	**9,936**	**37,451**

Interest income includes $7.1 million (2020: $35.2 million) unwinding of the discount of the present value of non-current receivables (refer to Note 8).

(c) Grants and contributions

	2021 $'000	2020 $'000
Grants from Transport for NSW	4,422,651	2,646,899
Grants and contributions	**4,422,651**	**2,646,899**

The Entity receives its grant funding from Transport for NSW which receives appropriations from the Consolidated Fund. Grant funding for each financial year is set out in the Budget Paper for that year.

(d) Major rail project revenue

	Notes	2021 $'000	2020 $'000
Major rail project revenue	2(c)	247,561	235,908
Major rail project revenue		**247,561**	**235,908**

3. Revenue (continued)

(e) Resources received free of charge

Resources received free of charge represents acceptance by The Crown in right of the State of New South Wales (Crown) of employee benefits and other liabilities.

	2021 $'000	2020 $'000
Personnel services - long service leave	1,955	2,218
Personnel services - superannuation - defined benefit	46	64
Personnel services - payroll tax	4	2
Resources received free of charge	**2,005**	**2,284**

(f) Other income

	2021 $'000	2020 $'000
Other income	220	-
Other income	**220**	**-**

Other income represents redundancy costs funded by NSW Treasury via Transport for NSW for the Entity.

Recognition and measurement

Income is recognised in accordance with the requirements of AASB 15 *Revenue from Contracts with Customers* (AASB 15) or AASB 1058 *Income of Non-for-Profit Entities* (AASB 15), dependent on whether there is a contract with a customer defined by AASB 15.

Income is recognised and measured at the fair value of the consideration or contribution received or receivable to the extent that it is probable that the economic benefit will flow to the Entity and the income can be reliably measured. Comments regarding the accounting policies for the recognition of income are provided below.

(i) Rendering of services

Revenue from the provision of services is recognised when the Entity satisfies the performance obligation by transferring the promised services. These services include passenger transport services and recoupable project delivery services for other agencies. The Entity typically satisfies its performance obligations when the promised service has been provided.

Recoupable project revenue is recognised over time as the services are provided, and the stage of completion for determining the amount of revenue to recognise is assessed based on the work performed and therefore entitles the Entity to raise an invoice. The related costs are recognised in profit or loss when they are incurred.

The revenue is measured at the transaction price agreed under the contract. No element of financing is deemed present as payments are due when service is provided.

3. Revenue (continued)

Recognition and measurement (continued)

(ii) Investment income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For financial assets that become credit impaired, the effective interest rate is applied to the amortised cost of the financial asset (i.e. after deducting the loss allowance for expected credit losses).

Rental income is recognised in accordance with AASB 16 *Leases* on a straight-line basis over the lease term.

(iii) Grants and contributions

Income from grants to acquire/construct a recognisable non-financial asset to be controlled by the Entity is recognised when it satisfies its obligations under the transfer. The Entity satisfies the performance obligations under the transfer to construct assets over time as the non-financial assets are being constructed. The cost incurred is used to recognise income, because this most closely reflects the progress to completion.

Revenue from grants with sufficiently specific performance obligations is recognised as when the Entity satisfies a performance obligation by transferring the promised goods or services. The Entity typically satisfies its performance obligations when the corresponding costs are incurred. The payments are typically due when the performance obligation is satisfied or in accordance with the funding agreement.

Revenue from these grants is recognised based on the grant amount specified in the funding agreement/funding approval, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. No element of financing is deemed present as funding payments are usually received in advance or shortly after the relevant obligation is satisfied.

Refer Note 9 for transaction price allocated to the performance obligations that have not been satisfied at the end of the period and when it is expected to be recognised as revenue.

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

(iv) Major rail project revenue

Major rail project revenue is recognised in the Statement of Comprehensive Income in proportion to the stage of completion of these TAHE (formerly RailCorp) funded construction activities at the reporting date. The value of work performed is measured at the value of the progressive costs incurred during the reporting period for each project. Major rail project expense is recognised in the Statement of Comprehensive Income as incurred. Amounts due from TAHE (formerly RailCorp) for these rail projects are disclosed as a contract asset, and the amounts due to TAHE (formerly RailCorp) are disclosed as a contract liability.

4. Gain/(loss) on disposal

	Notes	2021 $'000	2020 $'000
Proceeds from asset sale		12,039	427,076
Net carrying amount of property, plant and equipment disposed		(4,729)	(464,423)
Gain/(loss) on disposal		**7,310**	**(37,347)**

The Entity entered into Integrated Station Development agreements with external parties for the construction of metro stations and over-station development, with sale of associated rights that serve as a partial offset to overall metro station development costs. The transactions involve transfer and long-term lease from the Entity to the external parties that are treated as asset sales for accounting purposes. The majority of sales proceeds are expected to be received by the Entity in the future, and are recorded at present value and/or fair value as other receivables (refer Note 8), while the unwinding of discount on these receivables are recorded as interest income (refer Note 3(b)).

5. Other gains/(losses)

	2021 $'000	Restated 2020 $'000
Impairment loss	(733)	(5,950)
Gains/(losses) on financial liability at amortised cost	9,748	(14,912)
Refinancing gain/(losses) on borrowings	-	437,627
Derivative gains/(losses)	404	9,045
Other gains/(losses)	**9,419**	**425,810**

Recognition and measurement

Derivative gains/(losses)

Refer to the recognition and measurement in Note 17 for derivatives financial instruments.

Impairment losses

Impairment losses may arise on assets held by the Entity from time to time. Accounting for impairment losses is dependent upon the individual asset (or group of assets) subject to impairment. Accounting policies and events giving rise to impairment losses are disclosed in Notes 12,13 and 14.

Gains/(losses) on financial liability at amortised cost

The gains/(losses) on financial liability at amortised cost are related to the remeasurement of the Metro Northwest and City and Southwest service concession financial liabilities due to changes in the estimated cash flows. Refer to Note 12 for further details on the measurement of the service concession financial liability.

6. Program group

The NSW Government has developed a set of State Outcomes which articulate the primary purpose for which public resources are being spent, and the goals that Government is seeking to achieve for its citizens and businesses across all of its activities. The Entity's program groups are mapped to the following State Outcomes:

6. Program group (continued)

For customers: Connecting our customers' whole lives
The Entity will deliver and enable Metro as a mode of transport that blends seamlessly into its customers' lifestyles, catering for the diverse range of citizens. The State Outcome focuses on:

- Safe, seamless journeys for people
- New mobility options and experiences

For the people of NSW: Transport systems and solutions that enable economic activity
Through the delivery of Metro infrastructure projects focused on increasing capacity and sustainability of Greater Sydney's network, the Entity is critical in driving economic growth and improving the quality of life for the people of NSW. The State Outcome focuses on:

- Quality assets and efficient networks maintained at the right price
- Transport investment and solutions that service the people of NSW

	Connecting our customers' whole lives	Transport systems and solutions that enable economic activity	Not Attributable	Total
	2021	2021	2021	2021
ENTITY'S EXPENSES & INCOME	**$'000**	**$'000**	**$'000**	**$'000**
Expenses excluding losses				
Operating expenses				
Personnel service expenses	23,454	-	-	23,454
Other operating expenses	64,130	-	-	64,130
Major rail project expense	-	247,561	-	247,561
Depreciation and amortisation	224,880	-	-	224,880
Grants and subsidies	-	83,334	-	83,334
Finance costs	60,562	-	-	60,562
Other expenses	85,120	-	-	85,120
Total expenses excluding losses	**458,146**	**330,895**	**-**	**789,041**
Revenue				
Sale of goods and services	10,311	-	-	10,311
Investment revenue	9,936	-	-	9,936
Grants and contributions	-	-	4,422,651	4,422,651
Major rail project revenue	-	247,561	-	247,561
Resources received free of charge	2,005	-	-	2,005
Other income	220	-	-	220
Total revenue	**22,472**	**247,561**	**4,422,651**	**4,692,684**
Gain/(loss) on disposal		7,310		7,310
Other gains/(losses)		9,419		9,419
Net result	**(435,674)**	**(66,605)**	**4,422,651**	**3,920,372**
Other comprehensive income				
Items that may be reclassified subsequently to net result				
Net gains/(losses) in commodity swaps and foreign exchange	-	-	-	-
Items that will not be reclassified to net result				
Net increase/(decrease) in asset revaluation surplus	-	286,410	-	286,410
Total other comprehensive income	**-**	**286,410**	**-**	**286,410**
Total comprehensive income	**(435,674)**	**219,805**	**4,422,651**	**4,206,782**

6. Program group (continued)

	Connecting our customers' whole lives 2021 $'000	Transport systems and solutions that enable economic activity 2021 $'000	Not Attributable 2021 $'000	Total 2021 $'000
ASSETS				
Current assets				
Cash and cash equivalents	-	-	1,551,545	1,551,545
Receivables	-	352,850	-	352,850
Non-current assets held for sale	-	13,694	-	13,694
Other financial assets	6,146	-	-	6,146
Total current assets	**6,146**	**366,544**	**1,551,545**	**1,924,235**
Non-current assets				
Receivables	-	1,046,069	-	1,046,069
Property plant and equipment				
Land and buildings	-	531,577	-	531,577
Plant and equipment	-	662,992	-	662,992
Infrastructure systems	-	19,837,545	-	19,837,545
Property, plant and equipment	-	21,032,114	-	21,032,114
Right-of-use assets	-	45,059	-	45,059
Intangible Assets	-	11,114	-	11,114
Total non-current assets	**-**	**22,134,356**	**-**	**22,134,356**
Total assets	**6,146**	**22,500,900**	**1,551,545**	**24,058,591**
LIABILITIES				
Current liabilities				
Payables	-	1,541,425	-	1,541,425
Borrowings	-	805,509	-	805,509
Provisions	-	39,623	-	39,623
Other liabilities	1,678	7,180	-	8,858
Total current liabilities	**1,678**	**2,393,737**	**-**	**2,395,415**
Non-current liabilities				
Borrowings	-	1,581,605	-	1,581,605
Provisions	-	26,976	-	26,976
Contract liabilities	-	20,000	-	20,000
Other liabilities	-	2,871	-	2,871
Total non-current liabilities	**-**	**1,631,452**	**-**	**1,631,452**
Total liabilities	**1,678**	**4,025,189**	**-**	**4,026,867**
Net assets	**4,468**	**18,475,711**	**1,551,545**	**20,031,724**

In 2020, the Entity had one program group, namely: Metropolitan capacity enhancements. This program group covers infrastructure and asset programs that enhance the capacity of the transport system to efficiently and sustainably cater for the future demand for travel. The scope of activities within this service group includes the delivery of urban infrastructure (or capacity enhancements to existing infrastructure) within metropolitan networks.

7. Cash and cash equivalents

	2021 $'000	2020 $'000
Cash at bank and on hand	1,551,545	285,448
Cash and cash equivalents	**1,551,545**	**285,448**

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash at bank and cash on hand.

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:

	2021 $'000	2020 $'000
Cash and cash equivalents (per Statement of financial position)	1,551,545	285,448
Cash and cash equivalents (per Statement of cash flows)	**1,551,545**	**285,448**

Refer Note 25 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.

8. Receivables

	2021 $'000	2020 $'000
Current receivables		
Trade receivables from contracts with customers	67,053	15,166
Goods and Services Tax recoverable	174,602	23,942
Prepayments	47,951	27,553
Other receivables[1]	63,166	59,988
Investment income receivable	78	2
Right-of-use operating lease receivable	-	810
Current receivables	**352,850**	**127,461**
Non-Current receivables		
Other receivables[1]	1,019,015	1,128,259
Prepayments	27,054	-
Non-Current Receivables	**1,046,069**	**1,128,259**

[1] Other receivables include proceeds receivable from external parties under the Integrated Station Development arrangements of $969.7 million (2020: $1,078.3 million), and grant receivable from Infrastructure NSW of $50.0 million (2020: $99.3 million). These receivables are recorded at present value of future cash flows.

The Entity did not recognise Expected Credit Losses at 30 June 2021 (2020: Nil).

Details regarding credit risk, liquidity risk and market risk, including financial assets that are either past due or impaired, are disclosed in Note 25.

8. Receivables (continued)

Recognition and measurement

All 'regular way' purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Receivables are initially recognised at fair value plus any directly attributable transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price.

Subsequent measurement

Receivable held by the Entity with the objective to collect the contractual cash flows are measured at amortised cost using the effective interest method, less any impairment. Changes are recognised in the net result for the year when impaired, derecognised or through the amortisation process.

Receivable held by the Entity that are linked to the fair value of the underlying assets are measured at fair value through profit or loss. Accordingly, these receivables are re-measured at fair value at each reporting date until receipt, and the movement in fair value is recognised in the profit or loss.

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

For trade receivables, the Entity applies a simplified approach in calculating ECLs. The Entity recognises a loss allowance based on lifetime ECLs at each reporting date.

9. Contract Liabilities

	2021 $'000	2020 $'000
Contract liabilities – current	-	93
Current contract liabilities	**-**	**93**
Contract liabilities – non-current	20,000	20,000
Non-Current contract liabilities	**20,000**	**20,000**
Total contract liabilities	**20,000**	**20,093**

9. Contract liabilities (continued)

Recognition and measurement

Contract liabilities relate to funding received in advance from Infrastructure NSW in respect of the design and construction of affordable housing within the Waterloo Metro Quarter Development. The balance of contract liabilities at 30 June 2021 relates to grant funding received but not yet spent.

	2021 $'000	2020 $'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	**93**	-
Revenue recognised from performance obligations satisfied in previous periods	**-**	-
Transaction price allocated to the remaining performance obligations from contracts with customers	**20,000**	20,093

The transaction price allocated to the remaining performance obligation relates to grants and contributions which is expected to be recognised as revenue through to FY2023-2024.

10. Other financial assets

	2021 $'000	2020 $'000
Energy Certificate - at cost	6,146	3,963
Current other financial assets	**6,146**	**3,963**

Recognition and measurement

Large-scale generation certificates (LGC) used solely to satisfy the Entity's retail sales commitments and surrender obligations are measured at cost. Details regarding liquidity risk, including maturity analysis of the above payables are disclosed in Note 25 (f).

11. Non-current assets held for sale

	2021 $'000	2020 $'000
Non-Current assets held for sale		
Land and buildings held for sale	13,694	15,565
Non-current assets held for sale	**13,694**	**15,565**

Amounts recognised in other comprehensive income relating to assets held for sale

	2021 $'000	2020 $'000
Net change in revaluation surplus property, plant and equipment	2,232	7,438
Amounts recognised in other comprehensive income relating to assets held for sale	**2,232**	**7,438**

Recognition and measurement

The Entity has certain non-current assets classified as held for sale, where their carrying amount will be recovered principally through a sale transaction, not through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount or fair value less costs to sell. These assets are not depreciated while they are classified as held-for-sale.

Non-current assets held for sale include:

- parcels of land around Metro Northwest stations being developed with Landcom where efforts to sell the properties have started; and
- a land which was reclassified from property, plant and equipment to assets held for sale in this financial year as the sale become highly probable and the Entity expects the sale to be settled within the next reporting period.

12. Property, plant and equipment

(a) Total property, plant and equipment

Property plant and equipment Reconciliation

	Land and Building			Infrastructure systems			Plant and equipment			
	Land and buildings	Assets under construction	Total	Rail systems	Assets under construction	Total	Plant and equipment	Rolling stock	Total	Total Property, plant and equipment
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
At 30 June 2021										
At cost - Gross carrying amount	-	246,602	246,602	-	10,633,311	10,633,311	-	-	-	10,879,913
At fair value - Gross carrying amount	285,624	-	285,624	8,802,627	858,746	9,661,373	25,502	687,009	712,511	10,659,508
Accumulated depreciation and impairment	(649)	-	(649)	(457,139)	-	(457,139)	(7,196)	(42,323)	(49,519)	(507,307)
Net carrying amount	**284,975**	**246,602**	**531,577**	**8,345,488**	**11,492,057**	**19,837,545**	**18,306**	**644,686**	**662,992**	**21,032,114**
At 30 June 2020										
Restated at cost - Gross carrying amount	-	246,602	246,602	-	6,881,978	6,881,978	-	-	-	7,128,580
At fair value - Gross carrying amount	281,870	-	281,870	8,550,300	417,052	8,967,352	29,790	667,394	697,184	9,946,406
Accumulated depreciation and impairment	(60)	-	(60)	(238,580)	-	(238,580)	(9,595)	(22,046)	(31,641)	(270,281)
Restated net carrying amount	**281,810**	**246,602**	**528,412**	**8,311,720**	**7,299,030**	**15,610,750**	**20,195**	**645,348**	**665,543**	**16,804,705**

Refer to Note 1(h) and Note 29 for further details on the AASB 1059 and correction of prior period error.

12. Property, plant and equipment (continued)

(a) Total property, plant and equipment (continued)

Reconciliation

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

Reconciliation		**Land and buildings**			**Infrastructure systems**			**Plant and equipment**			**Total Assets**
		Land and buildings	**Assets under construction**	**Total**	**Rail systems**	**Assets under construction**	**Total**	**Plant and equipment**	**Rolling stock**	**Total**	**Total property, plant and equipment**
	Notes	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**
Restated opening balance		**281,810**	**246,602**	**528,412**	**8,311,720**	**7,310,306**	**15,622,026**	**20,195**	**645,348**	**665,543**	**16,815,981**
Correction of prior period error		-	-	-	-	(11,276)	(11,276)	-	-	-	(11,276)
Restated opening balance at 1 July 2020		**281,810**	**246,602**	**528,412**	**8,311,720**	**7,299,030**	**15,610,750**	**20,195**	**645,348**	**665,543**	**16,804,705**
Additions		204	-	204	-	4,239,188	4,239,188	-	-	-	4,239,392
Disposals/Write off	4	-	-	-	-	(378)	(378)	-	-	-	(378)
Reclassification between PPE classes		330	-	330	-	(1,795)	(1,795)	1,465	-	1,465	-
Asset transfer (to)/from equity	23	-	-	-	-	-	-	-	-	-	-
Reclassifications (to)/from other assets		-	-	-	-	-	-	-	-	-	-
Transfer to held for sale		(2,752)	-	(2,752)	-	-	-	-	-	-	(2,752)
Other grants to external entities		-	-	-	-	(71,516)	(71,516)	-	-		(71,516)
Transfer (to)/from other transport agencies		-	-	-	-	-	-	-	-	-	-
Depreciation/amortisation	2(d)	(589)	-	(589)	(200,618)	-	(200,618)	(3,354)	(19,186)	(22,540)	(223,747)
Net revaluation increments less revaluation decrements		5,972	-	5,972	234,386	27,528	261,914	-	18,524	18,524	286,410
Net carrying amount at 30 June 2021		**284,975**	**246,602**	**531,577**	**8,345,488**	**11,492,057**	**19,837,545**	**18,306**	**644,686**	**662,992**	**21,032,114**

The net carrying amount of service concession assets included in property, plant and equipment is $10.1 billion as at 30 June 2021 (30 June 2020: $9.6 billion). Further details regarding the fair value measurement of property, plant and equipment are disclosed in Note 15.

12. Property, plant and equipment (continued)

(a) Total property, plant and equipment (continued)

Reconciliation (continued)

		Land and buildings			Infrastructure systems			Plant and equipment			Total assets
	Notes	Land and buildings $ '000	Assets under construction $ '000	Total $ '000	Rail systems $ '000	Assets under construction $ '000	Total $ '000	Plant and equipment $ '000	Rolling stock $ '000	Total $ '000	Total property, plant and equipment $ '000
Opening balance at 1 July 2019		**298,456**	**246,061**	**544,517**	**8,156,890**	**5,295,140**	**13,452,030**	**27,491**	**644,863**	**672,354**	**14,668,901**
Additions		-	-	-	-	2,578,554	2,578,554	-	-	-	2,578,554
Non cash addition		3,117	341	3,458	-	-	-	-	-	-	3,458
Disposals/write off	4	(100,211)	(165)	(100,376)	-	(364,048)	(364,048)	-	-	-	(464,424)
Reclassification between PPE classes		(365)	365	-	149,255	(149,475)	(220)	220	-	220	-
Asset transfer (to)/from equity	23	95,228	-	95,228	-	(47,635)	(47,635)	-	-	-	47,593
Transfer of asset to local councils		(2,645)	-	(2,645)	-	(7,398)	(7,398)	-	-	-	(10,043)
Restated transfer (to)/from other transport agencies		-	-	-	-	(12,992)	(12,992)	-	-	-	(12,992)
Depreciation/amortisation	2(d)	(60)	-	(60)	(192,451)	-	(192,451)	(7,516)	(18,655)	(26,171)	(218,682)
Net revaluation increments less revaluation decrements		(11,710)	-	(11,710)	198,026	6,884	204,910	-	19,140	19,140	212,340
Restated net carrying amount at 30 June 2020		**281,810**	**246,602**	**528,412**	**8,311,720**	**7,299,030**	**15,610,750**	**20,195**	**645,348**	**665,543**	**16,804,705**

Infrastructure systems was restated in 2020 for the transfer of assets to TAHE of $11.3 million. Refer Note 29 for details regarding related prior year balances.

12. Property, plant and equipment (continued)

(b) Property, plant and equipment held and used by the Entity

	Land and buildings			Infrastructure systems			Plant and equipment			
	Land and buildings	**Assets under construction**	**Total**	**Rail systems**	**Assets under construction**	**Total**	**Plant and equipment**	**Rolling stock**	**Total**	**Total Property, plant and equipment**
	$ '000	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**
At 30 June 2021										
At cost - Gross carrying amount	-	246,602	246,602	-	10,613,469	10,613,469	-	-	-	10,860,071
At fair value - Gross carrying amount	285,212	-	285,212	8,802,627	858,746	9,661,373	25,502	687,009	712,511	10,659,096
Accumulated depreciation and impairment	(649)	-	(649)	(457,139)	-	(457,139)	(7,196)	(42,323)	(49,519)	(507,307)
Net carrying amount	**284,563**	**246,602**	**531,165**	**8,345,488**	**11,472,215**	**19,817,703**	**18,306**	**644,686**	**662,992**	**21,011,860**
At 30 June 2020										
Restated at cost - Gross carrying amount	-	246,602	246,602	-	6,789,360	6,789,360	-	-	-	7,035,962
At fair value - Gross carrying amount	281,458	-	281,458	8,550,300	417,052	8,967,352	29,790	667,394	697,184	9,945,994
Accumulated depreciation and impairment	(60)	-	(60)	(238,580)	-	(238,580)	(9,595)	(22,046)	(31,641)	(270,281)
Restated net carrying amount	**281,398**	**246,602**	**528,000**	**8,311,720**	**7,206,412**	**15,518,132**	**20,195**	**645,348**	**665,543**	**16,711,675**

Refer to Note 1(h) and Note 29 for further details on the AASB 1059 and correction of prior period error.

12. Property, plant and equipment (continued)

(b) Property, plant and equipment held and used by the Entity (continued)

Reconciliation

A reconciliation of the carrying amount of each class of property, plant and equipment held and used by the Entity at the beginning and end of the current reporting period is set out below:

Reconciliation		Land and buildings			Infrastructure systems			Plant and equipment			Total Assets
		Land and buildings	Assets under construction	Total	Rail systems	Assets under construction	Total	Plant and equipment	Rolling stock	Total	Total property, plant and equipment
	Notes	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Restated opening balance		**281,398**	**246,602**	**528,000**	**8,311,720**	**7,217,688**	**15,529,408**	**20,195**	**645,348**	**665,543**	**16,722,951**
Correction of prior period error	29	**-**	**-**	**-**	**-**	**(11,276)**	**(11,276)**	**-**	**-**	**-**	**(11,276)**
Restated opening balance at 1 July 2020		**281,398**	**246,602**	**528,000**	**8,311,720**	**7,206,412**	**15,518,132**	**20,195**	**645,348**	**665,543**	**16,711,675**
Additions		204	-	204	-	4,239,188	4,239,188	-	-	-	4,239,392
Disposals/write off	4	-	-	-	-	(378)	(378)	-	-	-	(378)
Reclassification between PPE classes		330	-	330	-	(1,795)	(1,795)	1,465	-	1,465	-
Asset transfer (to)/from equity	23	-	-	-	-	-	-	-	-	-	-
Reclassifications (to)/from other assets		-	-	-	-	-	-	-	-	-	-
Transfer to held for sale		(2,752)	-	(2,752)	-	-	-	-	-	-	(2,752)
Other grants to external entities		-	-	-	-	(71,516)	(71,516)	-	-	-	(71,516)
Transfer (to)/from other transport agencies		-	-	-	-	-	-	-	-	-	-
Depreciation/amortisation	2(d)	(589)	-	(589)	(200,618)	-	(200,618)	(3,354)	(19,186)	(22,540)	(223,747)
Net revaluation increments less revaluation decrements		5,972	-	5,972	234,386	27,528	261,914	-	18,524	18,524	286,410
Termination of operating lease[1]		-	-	-	-	72,776	72,776	-	-	-	72,776
Net carrying amount at 30 June 2021		**284,563**	**246,602**	**531,165**	**8,345,488**	**11,472,215**	**19,817,703**	**18,306**	**644,686**	**662,992**	**21,011,860**

Refer to Note 29 for further details on the correction of prior period error.

12. Property, plant and equipment (continued)

(b) Property, plant and equipment held and used by the Entity (continued)

Reconciliation (continued)		Land and buildings			Infrastructure systems			Plant and equipment			Total Assets
		Land and buildings	Assets under construction	Total	Rail systems	Assets under construction	Total	Plant and equipment	Rolling stock	Total	Total property, plant and equipment
	Notes	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Opening balance at 1 July 2019		**296,823**	**246,061**	**542,884**	**8,156,890**	**5,213,015**	**13,369,905**	**27,491**	**644,863**	**672,354**	**14,585,143**
Additions		-	-	-	-	2,568,061	2,568,061	-	-	-	2,568,061
Non cash addition		3,117	341	3,458	-	-	-	-	-	-	3,458
Disposals/write off	4	(100,211)	(165)	(100,376)	-	(364,048)	(364,048)	-	-	-	(464,424)
Reclassification between PPE classes		(365)	365	-	149,255	(149,475)	(220)	220	-	220	-
Asset transfer (to)/from equity	23	95,228	-	95,228	-	(47,635)	(47,635)	-	-	-	47,593
Reclassifications (to)/from other assets		-	-	-	-	-	-	-	-	-	-
Transfer of asset to local councils		(2,645)	-	(2,645)	-	(7,398)	(7,398)	-	-	-	(10,043)
Restated transfer (to)/from other transport agencies		-	-	-		(12,992)	(12,992)	-	-	-	(12,992)
Depreciation/amortisation	2(d)	(60)	-	(60)	(192,451)	-	(192,451)	(7,516)	(18,655)	(26,171)	(218,682)
Net revaluation increments less revaluation decrements		(11,710)	-	(11,710)	198,026	6,884	204,910	-	19,140	19,140	212,340
Termination of operating lease[1]		1,221	-	1,221	-	-	-	-	-	-	1,221
Restated net carrying amount at 30 June 2020		**281,398**	**246,602**	**528,000**	**8,311,720**	**7,206,412**	**15,518,132**	**20,195**	**645,348**	**665,543**	**16,711,675**

Refer to Note 1(h) and Note 29 for further details on the AASB 1059 and correction of prior period error.

[1]Upon termination of the leases, the property previous leased out as operating lease became held and used by the Entity.

12. Property, plant and equipment (continued)

(c) Property, plant and equipment where Entity is lessor under operating leases

	Land and buildings			Infrastructure systems			Plant and equipment			Total assets
	Land and buildings	Assets under construction	Total	Rail systems	Assets under construction	Total	Plant and equipment	Rolling stock	Total	Total Property, plant and equipment
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
At 30 June 2021										
At cost - Gross carrying amount	-	-	-	-	19,842	19,842	-	-	-	19,842
At fair value - Gross carrying amount	412	-	412	-	-	-	-	-	-	412
Accumulated depreciation and impairment	-	-	-	-	-	-	-	-	-	-
Net carrying amount	**412**	**-**	**412**	**-**	**19,842**	**19,842**	**-**	**-**	**-**	**20,254**
At 30 June 2020										
At cost - Gross carrying amount	-	-	-	-	92,618	92,618	-	-	-	92,618
At fair value - Gross carrying amount	412	-	412	-	-	-	-	-	-	412
Accumulated depreciation and impairment	-	-	-	-	-	-	-	-	-	-
Net carrying amount	**412**	**-**	**412**	**-**	**92,618**	**92,618**	**-**	**-**	**-**	**93,030**

12. Property, plant and equipment (continued)

(c) Property, plant and equipment where Entity is lessor under operating leases (continued)

Reconciliation

A reconciliation of the carrying amount of each class of property, plant and equipment where the Entity is lessor under operating lease at the beginning and end of the current reporting period is set out below:

		Land and buildings			Infrastructure systems			Plant and equipment			Total Assets
		Land and buildings	Assets under construction	Total	Rail systems	Assets under construction	Total	Plant and equipment	Rolling stock	Total	Total property, plant and equipment
	Notes	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Opening balance		**412**	**-**	**412**	**-**	**92,618**	**92,618**	**-**	**-**	**-**	**93,030**
Purchase of assets		-	-	-	-	-	-	-	-	-	-
Termination of operating lease		-	-	-	-	(72,776)	(72,776)	-	-	-	(72,776)
Net carrying amount at 30 June 2021		**412**	**-**	**412**	**-**	**19,842**	**19,842**	**-**	**-**	**-**	**20,254**

		Land and buildings			Infrastructure systems			Plant and equipment			Total Assets
		Land and buildings	Assets under construction	Total	Rail systems	Assets under construction	Total	Plant and equipment	Rolling stock	Total	Total property, plant and equipment
	Notes	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Opening balance		**1,633**	**-**	**1,633**	**-**	**82,125**	**82,125**	**-**	**-**	**-**	**83,758**
Purchase of assets		-	-	-	-	10,493	10,493	-	-	-	10,493
Termination of operating lease		(1,221)	-	(1,221)	-	-	-	-	-	-	(1,221)
Net carrying amount at 30 June 2020		**412**	**-**	**412**	**-**	**92,618**	**92,618**	**-**	**-**	**-**	**93,030**

[1]Upon termination of the leases, the property previous leased out as operating lease became held and used by the Entity.

12. Property, plant and equipment (continued)

Recognition and measurement

Acquisition of property, plant and equipment

Property, plant and equipment comprise land and buildings, plant and equipment (general plant and equipment and finance lease assets) and infrastructure systems.

(i) Capitalisation and initial recognition

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the Entity in accordance with AASB 116 *Property, Plant and Equipment*. 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.

The cost of assets constructed for own use includes the purchase cost, other directly attributable costs and the initial estimates of dismantling and restoration costs.

(ii) Capitalisation thresholds

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

(iii) Valuation of property, plant and equipment

Subsequent to initial recognition, property, plant and equipment assets are valued in accordance with NSW Treasury Accounting Policy "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.*

Property, plant and equipment is measured at the highest and best use by market participants that is physically possible, legally permissible and financially feasible. The highest and best use must be available at a period that is not remote and take into account the characteristics of the asset being measured, including any socio-political restrictions imposed by government. In most cases, after taking into account these considerations, the highest and best use is the existing use. In limited circumstances, the highest and best use may be a feasible alternative use, where there are no restrictions on use or where there is a feasible higher restricted alternative use.

12. Property, plant and equipment (continued)

Recognition and measurement (continued)

(iv) Revaluation of property, plant and equipment

Fair value of property, plant and equipment is based on a market participant's perspective, using valuation techniques (market approach, cost approach, income approach) that maximise relevant observable inputs and minimise unobservable inputs. Refer Note 15 for further information regarding fair value.

Where there is no available market evidence, the asset's fair value is measured at its market buying price, the best indicator of which is current replacement cost.

The current replacement cost is used to revalue specialised buildings (designed for a specific limited purpose), infrastructure systems and certain plant and equipment. Current replacement cost for these types of assets is based on 'incremental optimised replacement cost'. Optimised replacement cost is the minimum cost, in the normal course of business, to replace the existing asset with a technologically modern equivalent asset with the same economic benefits, adjusting for any overdesign, overcapacity and redundant components. Incremental optimisation is limited to the extent that optimisation can occur in the normal course of business with commercially available technology.

Land and buildings will be revalued at least once every three years and each other class of property, plant and equipment at least every five years or with sufficient regularity to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at reporting date. Revaluations are performed by independent professionally qualified valuers.

The latest comprehensive revaluation of property, plant and equipment is summarised as follows:

Asset type	Latest comprehensive revaluation date
Rail land	30 June 2019
Rail Infrastructure	5 May 2019
Rolling stock	5 May 2019
Specialised plant and equipment	5 May 2019

Interim revaluations are conducted between comprehensive revaluations where cumulative changes to indicators suggest fair value may differ materially from carrying value. An interim revaluation assessment was completed on 30 June 2021. The Entity used an external professionally qualified valuer to conduct the interim revaluations. Refer Note 15 for detail of the interim revaluation.

Non-specialised assets with short useful lives are measured at depreciated historical cost, as an approximation of fair value. This is because any difference between fair value and depreciated historical cost is unlikely to be material.

When revaluing non-current assets using the cost approach, the gross amount and the related accumulated depreciation are separately restated.

For other assets valued using other valuation techniques, any balances of accumulated depreciation at the revaluation date in respect of those assets are credited to the asset accounts to which they relate. The net asset accounts are then increased or decreased by the revaluation increments or decrements.

12. Property, plant and equipment (continued)

Recognition and measurement (continued)

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

Revaluation increments are credited directly to the asset revaluation surplus, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in the net result, the increment is recognised immediately as a gain in the net result. Revaluation decrements are recognised immediately as a loss in the net result, except that, to the extent that a credit balance exists in the asset revaluation surplus in respect of the same class of assets, they are debited directly to the asset revaluation surplus.

As a not-for-profit reporting Entity, revaluation increments and decrements are offset against one another within a class of non-current assets, but not otherwise.

Where an asset that has previously been revalued is disposed of, any balance remaining in the asset revaluation surplus in respect of that asset is transferred to accumulated funds.

(v) Impairment of property, plant and equipment

As a not-for-profit reporting Entity with no cash generating units, impairment under AASB 136 *Impairment of Assets* (AASB 136) 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 the rare circumstances where the costs of disposal are material. Specifically, impairment is unlikely for the Entity given that AASB 136 modifies the recoverable amount test for non-cash generating assets of not-for-profit entities to the higher of fair value less costs of disposal and current replacement cost, where current replacement cost is also fair value. This means that, for an asset already measured at fair value, impairment can only arise if selling costs are material. Selling costs are regarded as immaterial.

Notwithstanding this, the Entity reviews the carrying values of major assets for objective evidence of impairment. Where such an indication exists, an estimate of the recoverable amount is made. An impairment loss is recognised in the Statement of Comprehensive Income when the carrying amount of an asset exceeds its recoverable amount unless the asset has been revalued in which case the impairment loss is treated as a revaluation decrease. When the impairment subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(vi) Depreciation of property, 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 Entity.

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

Land is not a depreciable asset. Buildings which have been acquired for future transport infrastructure are not depreciated as these assets are not purchased to generate revenue and are ultimately demolished for transport infrastructure projects. The expected useful lives of property, plant and equipment for depreciation purposes are as follows:

Asset class	Useful lives
Infrastructure systems	15 – 100 years
Plant and equipment	4 – 35 years
Rolling stock	35 years
Leasehold Improvement	4 – 5 years
Right-of-use assets	2 – 5 years

12. Property, plant and equipment (continued)

Recognition and measurement (continued)

(vi) Depreciation of property, plant and equipment (continued)

The asset residual values, useful life and depreciation methods are reviewed, and adjusted, if appropriate, at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in assets are considered to modify the depreciation period or method, as appropriate, and are treated as changes in accounting estimates and adjusted prospectively.

The Entity adjusted the useful life of its infrastructure assets in FY2019-20. Based on the Entity's assessment, no changes are required to the useful life of the Entity's property, plant and equipment in this financial year.

(vii) Major inspection costs

When each major inspection is performed, the labour cost of performing major inspections for faults is recognised in the carrying amount of an asset as a replacement of a part, if the recognition criteria are satisfied.

(viii) Restoration costs

The present value of the expected cost for the restoration or cost of dismantling of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. If the effect of the time value of money is material, these costs are discounted at the appropriate market yields on government bonds.

(ix) 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 a component of an asset, in which case the costs are capitalised and depreciated.

(x) Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the asset and are included in the Statement of Comprehensive Income.

(xi) Right-of-use assets acquired by lessees

From 1 July 2019, AASB 16 Leases (AASB 16) requires a lessee to recognise a right-of-use asset for most leases. The Entity has elected to present right-of-use assets separately in the Statement of Financial Position.

Further information on leases is contained in Note 13.

(xii) Service concession assets

The Entity has adopted AASB 1059 from 1 July 2020. However, comparatives for the year ended 30 June 2020 have been adjusted retrospectively to reflect AASB 1059. Note 1(h) details changes in the Entity's accounting policies and a summary of impacts on the first time adoption. This note provides disclosures required under the new accounting standard and relates to the Entity's service concession arrangements in place during the current year.

Service concession arrangements (SCAs) are contracts between a grantor and an operator where an operator provides public services related to a service concession asset on behalf of a public sector grantor for a specified period of time and manages at least some of those services.

12. Property, plant and equipment (continued)

Recognition and measurement (continued)

(xii) Service concession assets (continued)

Based on the Entity's assessment, the following arrangements fall in the scope of AASB 1059:

Description	Service concession arrangement
Name & description of the SCA OR group of SCAs	The Entity has a contract with Northwest Rapid Transit relating to the Sydney Metro North West Line & the Sydney Metro City & Southwest project.
Period of the arrangement	The period of the arrangement is from September 2014 to May 2034
Terms of the arrangement	The arrangement involves Northwest Rapid Transit (the operator) being responsible for the design, construction, operations and maintenance of the North West Line and the Sydney Metro City & Southwest Line. Currently, the operator is responsible for: • operation and maintenance of the North West Line that is currently operational between Tallawong Station and Chatswood Station. Operations began in May 2019. • design and construction of the Sydney Metro City Line, between Chatswood to Sydenham. Design and construction began in December 2019. The Sydney Metro Southwest line will be constructed by the Entity. The operator will be responsible for the Operations and Maintenance of both the Sydney Metro City & Southwest Lines.
Rights and obligations	The Entity regulates the rail services to be provided to the general public. The arrangement represents a service concession arrangement where upon construction completion and operational commencement, the operator is required to deliver a safe and reliable metro passenger service. In return, the Entity pays consideration for the delivery phase across the project term (i.e. design and construction), and payments for operation and maintenance. The operator is required to hand back the significant residual interest of the assets in the project at the end of the project term.
Changes in arrangements occurred during the FY20	The arrangement between the Entity and the operator was renegotiated, effective December 2019, which will result in the eventual augmentation of the existing agreement for the North West Rail Line with the delivery and operational agreement for the Sydney Metro City and Southwest lines This will occur following the completion of construction of the Sydney Metro City Line. There will be no operational changes to Sydney Metro Northwest as a result of the augmentation. The result of the augmentation is that all operations and maintenance for the entire Sydney Metro line are captured in one deed. As part of the renegotiation, the PPP liability in relation to the Sydney Metro North West line was refinanced. The refinancing represents a modification event which amended the cashflows payable by Sydney Metro. This resulted in the recognition of a gain of $378 million.
Changes in arrangements occurred during the FY21	Change from fixed interest rate to floating interest rate:

<table>
<tr><th>Description</th><th>Service concession arrangement</th></tr>
<tr><td></td><td>In April 2021, the interest rate component within the capital service payment cash flows changed from a fixed interest rate to floating interest rate. The change was agreed under the original contractual terms of the Northwest PPP contract with NRT and consequently, it does not represent a debt modification under AASB 9 Financial Instruments. As a result of this change, a new effective interest rate was calculated and applied to the Northwest service concession financial liability using the new estimated future contractual cash flows.</td></tr>
<tr><td>The carrying amount of service concession assets as at 30 June 2020 ($'000)</td><td><table><tr><th>Asset class</th><th>Carrying Amount ($'000)</th></tr><tr><td>Land and buildings</td><td>$233,643</td></tr><tr><td>Rail systems</td><td>$8,311,720</td></tr><tr><td>Rail systems - Asset under construction</td><td>$417,052</td></tr><tr><td>Plant and equipment</td><td>$10,510</td></tr><tr><td>Rolling stock</td><td>$645,348</td></tr></table></td></tr>
<tr><td>The carrying amount of service concession assets as at 30 June 2021($'000)</td><td><table><tr><th>Asset class</th><th>Carrying Amount ($'000)</th></tr><tr><td>Land and buildings</td><td>$242,632</td></tr><tr><td>Rail systems</td><td>$8,345,488</td></tr><tr><td>Rail systems - Asset under construction</td><td>$858,746</td></tr><tr><td>Plant and equipment</td><td>$10,194</td></tr><tr><td>Rolling stock</td><td>$644,686</td></tr></table></td></tr>
</table>

Initial recognition

For arrangements within the scope of AASB 1059, the Entity recognises a service concession asset when it controls the asset. Where the asset is provided by the operator, or is an upgrade to or a major component replacement of an existing asset of the Entity, the asset is recognised at current replacement cost based on AASB 13 *Fair Value Measurement* principles.

Where the asset is an existing asset of the Entity, the asset is reclassified as a service concession asset and remeasured at current replacement cost at the date of reclassification. Any difference between the previous carrying amount and current replacement cost is recognised as if it is a revaluation of the asset.

Subsequent to initial recognition

Subsequent to the initial recognition or reclassification, the service concession asset is measured at current replacement cost and accounted for in accordance with the depreciation and impairment requirements of AASB 116 *Property, Plant and Equipment* and AASB 136 *Impairment of Assets.*

The Entity applied the 'interest accretion' method in measuring the service concession assets (assets under construction) at current replacement cost. The approach uses the Operator's cost of funding in the service concession arrangement as a proxy for the fair value uplift of service concession assets that are under construction, and is recorded as a revaluation adjustment. Upon construction completion, a comprehensive valuation assessment will be performed by an external professionally qualified valuer. Refer to Note 12 (iv) for further details on revaluation of property, plant and equipment, including service concession assets.

At the end of the arrangement

At the end of the service concession arrangement:

- the Entity accounts for the asset in accordance with other Australian Accounting Standards, with the Entity reclassifying the asset based on its nature or function;
- reference to fair value reverts from the mandated current replacement cost under AASB 1059 to the appropriate approach under AASB 13; and
- the asset is only derecognised when the Entity loses control of the asset in accordance with AASB 116.

13. Leases

(a) Entity as a lessee

The Entity leases various properties, equipment and motor vehicles. Lease contracts are typically made for fixed periods of one to five years, but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. The Entity does not provide residual value guarantees in relation to leases.

Extension and termination options are included in a number of property and equipment leases. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Entity and not by the respective lessor. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option.

Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows of $6.6 million (2020: $2.5 million) have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was a net gain to profit and loss of $0.3 million (2020: $Nil).

AASB 16 *Leases* (AASB 16) requires a lessee to recognise a right-of-use asset and a corresponding lease liability for most leases.

The Entity has elected to recognise payments for short-term leases and low value leases as expenses on a straight-line basis, instead of recognising a right-of-use asset and lease liability. Short-term leases are leases with a lease term of 12 months or less. Low value leases are leases with a fair value of $10,000 or less when new and comprise mainly motor vehicle leases. The Entity has $0.9 million (2020: $1.0 million) of short term and low value leases that have not been included in the lease liability or right-of-use assets, and were capitalised in Property, Plant and Equipment as directly attributable costs; there was also $8,000 of short-term leases expensed in FY2021 (2020: $9,000).

Right-of-use assets under leases

The following table presents right-of-use assets that do not meet the definition of investment property.

	Notes	Land and buildings $ '000	Plant and equipment $ '000	Total $ '000
Balance at 1 July 2020		25,301	21	25,322
Additions		32,917	37	32,954
Impairment losses	5	(733)	-	(733)
Depreciation expense	2(d)	(11,903)	(22)	(11,925)
Other movements		(564)	5	(559)
Balance at 30 June 2021		**45,018**	**41**	**45,059**

13. Leases (continued)

(a) Entity as a lessee (continued)

Right-of-use assets under leases (continued)

	Notes	Land and buildings $ '000	Plant and equipment $ '000	Total $ '000
Balance at 1 July 2019		16,794	21	16,815
Additions		20,976	17	20,993
Impairment losses	5	(5,950)	-	(5,950)
Depreciation expense	2(d)	(6,519)	(17)	(6,536)
Balance at 30 June 2020		**25,301**	**21**	**25,322**

Impairment losses for right-of-use assets

The COVID-19 outbreak occurring since the 2019-20 financial year had an unprecedented effect on the NSW and global economies. COVID-19 significantly impacted the market rent for generic office accommodation and therefore the value of some lease right-of-use assets in the Statement of Financial Position.

The entity had therefore undertaken an impairment assessment for the above right-of-use assets at 30 June 2020, to determine whether the carrying amount exceeded their recoverable amount. Impacted right-of-use assets were written down to their recoverable amounts by reference to the right-of-use assets' fair value less costs of disposal and an impairment loss was recognised.

A similar exercise had been undertaken for the 2020-21 financial year to calculate the impairment loss using life to date market rental forecast movement approach. Further impairment loss was recognised in 2020-21 for the right-of-use assets on which there had been an increase in the life to date accumulated impairment loss.
The entity recognised a net impairment of $0.7 million for right-of-use assets during the 2020-21 financial year as follows:

The recoverable amount was determined by reference to its fair value less costs of disposal. The valuation technique used in the fair value measurement is classified as level 3 according to AASB 13 *fair value hierarchy*.

Asset Description	Valuation Technique	Key Assumptions	Fair Value Hierarchy of fair value less cost of disposal assessment
Right-of-use asset – Land and Buildings	Current Replacement Cost (CRC) approach – assets are valued based on the net replacement cost of a new equivalent asset with the same geographical market and remaining lease term. The net replacement costs were calculated based on the market rent forecast from JLL Real Estate Intelligence Services (REIS) or Property NSW's historical rent data for Regional market at the valuation date where the market rent forecast at 30 June 2019 was the base year.	• The assets were recognised at fair value at the time of initial recognition or lease commencement date. • Cost of disposals is immaterial • The rent profile (fixed percentage, market rent review, consumer price index (CPI) or combination) at the lease commencement date represents f market rent forecasts. • Regional market rents are linked with CPI.	Level 3

13. Leases (continued)

(a) Entity as a lessee (continued)

Impairment losses for right-of-use assets (continued)

The recoverable amounts of the right-of-use assets for which an impairment loss has been recognised during the financial year, and the level of fair value hierarchy for the right-of-use assets for which the recoverable amounts are determined with reference to their fair value less costs of disposal are:

Land and Buildings	2021 $'000	2020 $'000
Fair value less costs of disposal:		
Level 1	-	-
Level 2	-	-
Level 3	45,018	25,301
Balance at 30 June	**45,018**	**25,301**

The discount rate ranges employed in present value technique computations of recoverable amounts is summarised in the below table.

Recoverable amount	Current measurement discount rates	Previous measurement discount rates
Fair value less cost of disposal – discounted cash flow technique	Internal borrowing rates at the valuation date.	Internal borrowing rates as at the Transition to AASB 16 *Leases* (i.e. 1 July 2019), or at the lease commencement date if the lease commenced after 1 July 2019.

Lease liabilities

The following table presents liabilities under leases.

	2021 $'000	2020 $'000
Opening balance	31,870	18,441
Additions	32,954	20,993
Interest expenses	795	219
Payments	(14,833)	(7,783)
Other movements	(882)	-
Balance at 30 June	**49,904**	**31,870**

The following amounts were recognised in the Statement of Comprehensive Income during the period in respect of leases where the Entity is the lessee.

	2021 $'000	2020 $'000
Depreciation expense of right-of-use assets	1,133	116
Interest expense on lease liabilities	795	219
Expense relating to short-term leases	8	9
Expenses relating to leases of low-value assets	-	-
Total amount recognised in the statement of comprehensive income	**1,936**	**344**

The Entity had total cash outflows for leases of $14.8 million in FY2021 (2020: $7.8 million).

13. Leases (continued)

(a) Entity as a lessee (continued)

Leases at significantly below-market terms and conditions principally to enable the Entity to further its objectives

The Entity entered into leases with various government agencies for periods between 1 to 5 years. The lease premises are used by the Entity in order to obtain access to the sites in order to undertake the metro construction works. The lease contracts specify lease payments between $1 to $100 per annum. As such, these leases do not have a material impact on the Entity's operation.

Recognition and measurement

The Entity assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Entity recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets, except for short-term leases and leases of low-value assets.

(i) Right-of-use assets

The Entity recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are initially measured at the amount of initial measurement of the lease liability (refer ii below), adjusted by any lease payments made at or before the commencement date and lease incentives, any initial direct costs incurred, and estimated costs of dismantling and removing the asset or restoring the site.

The right-of-use assets are subsequently measured at cost. They are depreciated on a straight-line basis over the shorter of the lease term or the estimated useful lives of the assets, as follows:

- Land and buildings: 2 – 5 years; and
- Motor vehicles: 2 – 3 years.

If ownership of the leased asset transfers to the Entity at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. The Entity assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Entity estimates the asset's recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. After an impairment loss has been recognised, it is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the net result.

(ii) Lease liabilities

At the commencement date of the lease, the Entity recognises lease liabilities measured at the present value of lease payments to be made over the lease term. Lease payments include:

- fixed payments (including in substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- exercise price of a purchase options reasonably certain to be exercised by the Entity; and
- payments of penalties for terminating the lease, if the lease term reflects the Entity exercising the option to terminate.

13. Leases (continued)

(a) Entity as a lessee (continued)

Recognition and measurement (continued)

(ii) Lease liabilities (continued)

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for the Entity's leases, the lessee's incremental borrowing rate is used, being the rate that the Entity would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Entity's lease liabilities are included in borrowings.

(iii) Short-term leases and leases of low-value assets

The Entity applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

(iv) Leases that have significantly below market terms and conditions principally to enable the Entity to further its objectives

The initial and subsequent measurement of right-of-use assets under leases at significantly below-market terms and conditions that are entered into principally to enable the Entity to further its objectives is same as normal right-of-use assets. They are measured at cost, subject to impairment.

13. Leases (continued)

(b) Entity as a lessor

Lessor for finance lease
Future minimum rentals receivables (undiscounted) under non- cancellable finance lease as at 30 June are as follows:

	2021 $'000	2020 $'000
Within one year	-	810
One to two years	-	-
Two to three years	-	-
Three to four years	-	-
Four to five years	-	-
Later than five years	-	-
Total (excluding GST)	**-**	**810**

Reconciliation of net investment in leases

	2021 $'000	2020 $'000
Future undiscounted rentals receivable	-	810
Unguaranteed residual amounts - undiscounted	-	-
Less: unearned finance income	-	(3)
Net investment in finance leases	**-**	**807**

Leases that the Entity transfers substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. Subleases are classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset.

At the lease commencement date, the Entity recognises a receivable for assets held under a finance lease in its Statement of Financial Position at an amount equal to the net investment in the lease. The net investment in leases is classified as financial assets amortised cost and equals the lease payments receivable by a lessor and the unguaranteed residual value, plus initial direct costs, discounted using the interest rate implicit in the lease initial direct costs. The Entity records its back-to-back sub-leases as finance leases, resulting in the recognition of finance lease receivables as opposed to the right-of-use assets.

13. Leases (continued)

(b) Entity as a lessor (continued)

Lessor for operating lease
Future minimum rentals receivables (undiscounted) under non-cancellable operating lease as at 30 June are as follows:

	2021 $'000	2020 $'000
Within one year	150	340
One to two years	150	243
Two to three years	75	243
Three to four years	-	-
Four to five years	-	-
Later than five years	-	-
Total (excluding GST)	**375**	**826**

Recognition and measurement – lessor for operating leases

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

14. Intangible Assets

	Easements	Software work in progress	Biodiversity credits	Total Intangibles
Cost (gross carrying amount)	158	1,705	9,251	11,114
Accumulated amortisation and impairment	-	-	-	-
Net carrying amount at 30 June 2021	**158**	**1,705**	**9,251**	**11,114**
Cost (gross carrying amount)	-	-	-	-
Accumulated amortisation and impairment	-	-	-	-
Net carrying amount at 30 June 2020	**-**	**-**	**-**	**-**

	Easements	Software work in progress	Biodiversity credits	Total Intangibles
Net carrying amount at start of year	-	-	-	-
Additions	158	1,705	9,251	11,114
Net carrying amount at 30 June 2021	**158**	**1,705**	**9,251**	**11,114**

14. Intangible Assets (continued)

Recognition and measurement

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. Following initial recognition, intangible assets are subsequently measured at fair value only if there is an active market. If there is no active market for the Entity's intangible assets, the assets are carried at cost less any accumulated amortisation and impairment losses.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

The Entity's intangible assets comprise principally of biodiversity credits and easements. The Entity purchases biodiversity credits from the open market, in order to meet its obligations in accordance with the *NSW Biodiversity Conservation Act 2016 (BC Act)* and if required the *Commonwealth Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act)*. Biodiversity credits are not amortised and have an indefinite useful life. The Entity also recognises easements as intangible assets, which give the Entity the right to use the part of land not owned by the Entity. The easements are not amortised and have an indefinite useful life.

The costs relating to intangibles that are under development are shown as work in progress and are not amortised until the intangibles are brought into service. The Entity's work in progress relates to software upgrades and development that are not yet available for use. All research costs are expensed. Development costs are only capitalised when certain criteria are met.

15. Fair value measurement of non-financial assets

Fair value measurement and hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability.

A number of the Entity'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, the Entity 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 Entity can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly; and
- Level 3 – inputs that are not based on observable market data (unobservable inputs).

15. Fair value measurement of non-financial assets (continued)

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

(a) Fair value hierarchy

Fair value measurements recognised in the Statement of Financial Position are categorised into the following levels at 30 June.

30 June 2021	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total fair value $'000
Property, plant and equipment				
Land and buildings	-	35,162	249,813	284,975
Land and buildings	**-**	**35,162**	**249,813**	**284,975**
Plant and equipment	-	-	18,306	18,306
Rolling stock	-	-	644,686	644,686
Plant and equipment	**-**	**-**	**662,992**	**662,992**
Rail systems	-	-	8,345,488	8,345,488
Assets under construction			858,746	858,746
Infrastructure systems	**-**	**-**	**9,204,234**	**9,204,234**
	-	**35,162**	**10,117,039**	**10,152,201**

30 June 2020	Level 1 $'000	Level 2 $'000	Restated Level 3 $'000	Restated Total fair value $'000
Property, plant and equipment				
Land and buildings	-	43,120	238,690	281,810
Land and buildings	**-**	**43,120**	**238,690**	**281,810**
Plant and equipment	-	-	20,195	20,195
Rolling stock	-	-	645,348	645,348
Plant and equipment	**-**	**-**	**665,543**	**665,543**
Rail systems	-	-	8,311,720	8,311,720
Assets under construction			417,052	417,052
Infrastructure systems	**-**	**-**	**8,728,772**	**8,728,772**
	-	**43,120**	**9,633,005**	**9,676,125**

(b) Valuation process

The Entity obtains independent valuations for its land and buildings assets at least every 3 years and for its other non-financial assets at least every 5 years.

The Entity engages external qualified valuers to determine the fair value of the Entity's non-financial assets. An interim desktop revaluation of Metro Northwest rail assets (excluding land) was conducted by AECOM Australia as at 30 June 2021. An interim desktop revaluation of the Sydney Metro Northwest land assets was conducted by Jones Lang LaSalle Advisory Services as at 30 June 2021. The scope of the land valuation excluded developable land under Northwest Property Development Agreement, which remains within asset under construction as they are being developed in partnership with Landcom. Leasehold improvement within land and building category and office fitouts within plant and equipment asset category are measured using depreciated historical cost as an approximation of fair value and do not require revaluation.

15. Fair value measurement of non-financial assets (continued)

(c) Valuation techniques and input

At the end of each reporting period, the Entity updates its assessment of the fair value of each category of non-financial asset, taking into account the most recent independent valuation. The best evidence of fair value is current prices in an active market for similar assets. Where such information is not available, the fair value assessment considers information from a variety of other sources and uses specific valuation techniques including:

- markets, adjusted to reflect those differences;
- current replacement cost where the selling price is not available, with reference to most appropriate modern, depreciated equivalent replacement asset that provides similar economic benefits;
- construction costs incurred by the Entity based on contract costs and overhead costs escalated from contract to measurement date;
- discounted cash flow projections based on estimates of future cash flows.

These valuation techniques maximise the use of observable inputs where available and rely as little as possible on Entity or asset specific estimates. The level in the fair value hierarchy is determined on the basis of the lowest level input that is significant to the measurement in its entirety. If significant inputs required to measure fair value of an asset are observable, the asset is included in Level 2 of the fair value hierarchy. If one or more of the significant inputs is not based on observable market data, the asset is included in Level 3 of the fair value hierarchy. All resulting fair value estimates for non-financial assets are included in Level 3.

The main inputs used for Level 3 fair value measurements are as follows:

- Land – sale evidence and market indicator for comparable properties, adjusted for the specific attributes of the property being revalued, such as size, configuration and location of the properties, restricted use for rail transport and infrastructure, as well as risk associated.
- Metro Northwest rolling stock and specialised plant and equipment – replacement cost for modern equivalent assets, expected useful life and remaining life of the assets are estimated and reviewed by the external valuer.
- Metro Northwest infrastructure assets – replacement cost for modern equivalent assets, unit of measure for each asset, appropriate indexation factors, expected useful life and remaining life of the assets as estimated by the external valuer.
- Leasehold improvement makegood assets – restoration costs on the leased property estimated on the rate per square metre basis were discounted, adjusted for inflation and depreciated over the remaining lease period.

15. Fair value measurement of non-financial assets (continued)

(d) Reconciliation of Level 3 fair value measurement

	Land and buildings $ '000	Plant and equipment $ '000	Rolling stock $ '000	Infrastructure systems $ '000	Total $ '000
Restated fair value at 1 July 2020	**238,690**	**20,195**	**645,348**	**8,728,772**	**9,633,005**
Additions	204	-	-	414,166	414,370
Revaluation increments/decrements recognised in other comprehensive income	11,178	-	18,524	261,914	291,616
Transfer (to)/from local councils	-	-	-	-	-
Disposals	-	-	-	-	-
Depreciation	(589)	(3,354)	(19,186)	(200,618)	(223,747)
Transfer from other classes of property, plant and equipment	330	1,465	-	-	1,795
Transfer from/(to) assets under construction	-	-	-	-	-
Transfer (to)/from equity	-	-	-	-	-
Transfers to Level 2	-	-	-	-	-
Fair value as at 30 June 2021	**249,813**	**18,306**	**644,686**	**9,204,234**	**10,117,039**

	Restated Land and buildings $ '000	Plant and equipment $ '000	Rolling stock $ '000	Infrastructure systems $ '000	Restated Total $ '000
Fair value at 1 July 2019	**296,406**	**27,491**	**644,863**	**8,156,890**	**9,125,650**
Additions	3,117	-	-	410,168	413,285
Revaluation increments/decrements recognised in other comprehensive income	(11,710)	-	19,140	204,910	212,340
Transfer (to)/from local councils	(2,645)	-	-	-	(2,645)
Disposals	(4,983)	-	-	-	(4,983)
Depreciation	(60)	(7,516)	(18,655)	(192,451)	(218,682)
Transfer from other classes of property, plant and equipment	-	220	-	-	220
Transfer from/(to) assets under construction	(365)	-	-	149,255	148,890
Transfer (to)/from equity	-	-	-	-	-
Transfers to Level 2	(41,070)				(41,070)
Restated fair value as at 30 June 2020	**238,690**	**20,195**	**645,348**	**8,728,772**	**9,633,005**

16. Payables

	2021 $'000	2020 $'000
Trade creditors	39,995	50,210
Accrued expenses	1,496,412	200,901
Personnel service payables	5,018	4,480
Current payables	**1,541,425**	**255,591**

Recognition and measurement

Payables represent liabilities for goods and services provided to the Entity and other amounts. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial. Payables are financial liabilities at amortised cost, initially measured at fair value, net of directly attributable transaction costs. These are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised net result when the liabilities are derocognised as well as through the amortisation process. Details regarding liquidity risk, including a maturity analysis of the above payables are disclosed in Note 25 (f).

17. Borrowings

	2021 $'000	Restated 2020 $'000
Lease liabilities	12,318	12,145
Service concession financial liabilities	793,191	868,771
Current borrowings	**805,509**	**880,916**
Lease liabilities	37,586	19,725
Service concession financial liabilities	1,542,794	1,325,192
Financial liabilities at fair value	1,225	415
Non-current borrowings	**1,581,605**	**1,345,332**

Repayment of borrowings

	2021 $'000	2020 $'000
Not later than one year	805,509	880,916
Later than one year and not later than five years	811,744	862,351
Later than five years	769,861	482,981
Repayment of borrowings	**2,387,114**	**2,226,248**

The service concession financial liability represents the liability under the Public Private Partnership (PPP) with Northwest Rapid Transit for the construction of the Sydney Metro Northwest and City and Southwest projects, as required by AASB 1059, effective for the Entity from 1 July 2020.

17. Borrowings (continued)

Recognition and measurement

Borrowing represents interest bearing liabilities mainly lease liabilities, service concession arrangement liabilities and other interest bearing liabilities.

Borrowings classified as financial liabilities at amortised cost are initially measured at fair value, net of directly attributable transaction costs. These are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in net result when the liabilities are derecognised as well as through the amortisation process.

Borrowings are classified as current liabilities unless the reporting Entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading such as derivatives and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held-for-trading if they are incurred for the purpose of repurchasing in the near term or on initial recognition are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Derivatives are carried as financial liabilities when the fair value is negative. Gains or losses on liabilities held-for-trading are recognised in the net result. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- the designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- the liabilities are part of a group of financial liabilities, that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the liabilities contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

The changes in fair value of liabilities designated at fair value through profit or loss are recorded in profit or loss with the exception that movements in fair value due to changes in the entity’s own credit risk are recorded in other comprehensive income and do not get recycled to net result.

Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above borrowings, are disclosed in Note 25.

Lease liabilities are determined in accordance with AASB 16.

Service concession financial liabilities
The service concession financial liability represents the contractual obligation to pay the operator as compensation for providing the service concession asset. It is measured as a liability in accordance with AASB 9 *Financial Instruments*. Interest is charged on the service concession financial liability and recognised in interest expense, based on the interest rate implicit in the arrangement. The liability is reduced over the term of the arrangement through cash payments to the operator.

17. Borrowings (continued)

Service concession financial liabilities (continued)

In addition, the carrying amount of the service concession financial liability is remeasured if there is a modification, or if there is a change in estimated cash flows. In accordance with AASB 9 *Financial Instruments*, when the service concession financial liability is remeasured due to a change in estimated cash flows, the service concession financial liability is recalculated to reflect the present value of the new estimated future contractual cash flows, discounted at the original effective interest rate. The corresponding adjustment is reflected in the profit and loss. Refer to Note 5 for disclosures of the gain or loss recognised on the service concession financial liability.

Financial guarantees

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value, being the premium received. Subsequent to initial recognition, the entity's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation, and an expected credit loss provision. The entity has reviewed its financial guarantees and determined that there is no material liability to be recognised for financial guarantee contracts as at 30 June 2021 and as at 30 June 2020. However, refer to Note 24 regarding disclosures on contingent liabilities.

Changes in liabilities arising from financing activities

	Financial liabilities at amortised cost $'000	Lease liabilities $'000	Service Concession arrangements $'000	Financial liabilities at fair value $'000	Total liabilities from financing activities $'000
Balance at 1 July 2020	-	31,870	2,193,963	415	2,226,248
Cash flows	-	(13,276)	(147,093)		(160,369)
New leases	-	32,954	-	-	32,954
New service concession arrangements[1]	-	-	274,151	-	274,151
Other	-	(1,644)	14,964[2]	810	14,130
Balance at 30 June 2021	**-**	**49,904**	**2,335,985**	**1,225**	**2,387,114**
Balance at 1 July 2019	1,833,630	-	-	-	1,833,630
Recognition on application of AASB 16	-	18,441	-	-	18,441
Recognition on application of AASB 1059	(1,833,630)	-	2,492,085	-	658,455
Restated balance at 1 July 2019	**-**	**18,441**	**2,492,085**	**-**	**2,510,526**
Cash flows	-	(6,749)	(64,063)		(70,812)
New leases	-	20,993	-	-	20,993
New service concession arrangements[1]	-	-	252,510	-	252,510
Other		(815)	(486,569)[2]	415	(486,969)
Balance at 30 June 2020	**-**	**31,870**	**2,193,963**	**415**	**2,226,248**

[1] Relates to City and Southwest service concession financial liability that is progressively recognised during construction phase, in line with the progressive build up of the service concession asset. The liability represents the Entity's obligation to pay the operator for providing the service concession asset.

[2] Relates to the non-cash movements associated with the Northwest and City and Southwest service concession financial liability, including accretion of interest, gain on refinancing and gain/loss on measurement of service concession financial liabilities.

18. Provisions

	2021 $'000	2020 $'000
Land and buildings remediation	846	-
Legal and related claims	-	1,768
Other	38,777	32,002
Current provisions	**39,623**	**33,770**
Land and buildings remediation	26,976	20,033
Non-current provisions	**26,976**	**20,033**

[1] Other provision include future payment obligation under the Integrated Station Development arrangement.

Movement in provisions

	Land and buildings remediation $'000	Legal and related claims $'000	Integrated Station Development payment obligations $'000	Other $'000	Total $'000
Carrying amount at the beginning of the financial year	20,033	1,768	31,052	950	53,803
Additional provision recognised	7,789	-	17	7,708	15,514
Provision reversed	-	(1,768)	-	(950)	(2,718)
Carrying amount at the end of the financial year	**27,822**	**-**	**31,069**	**7,708**	**66,599**

Recognition and measurement

Provisions exist when the Entity has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Any provisions for restructuring are recognised only when the Entity has a detailed formal plan and it has raised a valid expectation in those affected by the restructuring by starting to implement the plan or announcing its main features to those affected.

If the effect of the time value of money is material, provisions are discounted at a rate that reflects the current market assessments of the time value of money and risk specific to the liability.

The land and buildings remediation provision is recognised when the Entity has a legal or constructive obligation to remediate property and other assets. The value recognised for each provision represents the most reliable basis for estimating the outflow of resources required to settle the obligations.

19. Other liabilities

	2021 $'000	2020 $'000
Other	1,678	-
Income received in advance	7,180	7,180
Current other liabilities	**8,858**	**7,180**
Other	2,871	2,866
Non-current other liabilities	**2,871**	**2,866**

[1] Other non-current liabilities include future payments required to be made in relation to Integrated Station Development arrangement $2.2 million (2020: $2.2 million).

20. Reconciliation of net cash flows from operating activities to net result

	2021 $'000	2020 (Restated) $'000
Net cash inflows/(outflows) from operating activities	4,052,326	2,425,386
Depreciation and amortisation	(224,880)	(218,798)
Non-cash revenue and expenses	(86,234)	40,819
Increase/(decrease) in receivables and other assets	156,141	(79,519)
(Increase)/decrease in payables and provisions	6,290	70,688
Net gain/(loss) on sale of property, plant and equipment	7,310	(37,347)
Other gains/(losses)	9,419	425,810
Reconciliation to net result	**3,920,372**	**2,627,039**

Restatement relates to the correction of prior period error (refer to Note 29 for further details).

21. Non-cash financing and investing activities

	Notes	2021 $'000	2020 (Restated) $'000
Equity transfers	23	-	47,593
Resources received free of charge	3(e)	2,005	2,284
Non-cash investing activities		**2,005**	**49,877**
Gains/(losses) on financial liability at amortised cost		9,748	(14,912)
Refinancing gain on borrowing		-	437,627
Non-cash financing activities		**9,748**	**422,715**

22. Commitments for expenditure

	2021 $'000	2020 $'000
Capital commitments		
Aggregate capital expenditure for the acquisition of property, plant and equipment contracted for at reporting date and not provided for:		
Not later than one year	3,509,686	2,148,832
Later than one year and not later than five years	1,529,645	2,656,204
Later than five years	28,501	-
Total (including GST)	**5,067,832**	**4,805,036**

Net GST on all commitments estimated at $461.0 million (2020: $436.8million) will be recouped from the Australian Taxation Office.

23. Equity and reserves

(a) Asset revaluation reserve

The asset revaluation surplus is used to record increments and decrements on the revaluation of non-current assets. This accords with the Entity's policy on the revaluation of property, plant and equipment as outlined in Note 12.

(b) Hedge reserve

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and is accumulated in the hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item.

(c) Accumulated funds

Accumulated funds include all current period retained funds.

(d) Equity transfers

	2021 $'000	2020 $'000
Metro Northwest assets transferred to TfNSW[1]	-	(47,635)
Waterloo Metro Quarter Development transferred from Infrastructure NSW[2]	-	95,228
Equity transfers	**-**	**47,593**

[1] The Transport Secretary directed Sydney Metro to transfer land surrounding Metro Northwest Electronic Ticketing, Wayfinding and other Digital assets to Transport for NSW under the *Transport Administration Act 1988*, and it has been accounted for as adjustment to equity in accordance with TPP 09-3.
[2] The Premier approved a transfer of Waterloo Metro Quarter Development from Infrastructure NSW under the *Growth Centres (Development Corporations) Act 1974*, and it has been accounted for as adjustment to equity in accordance with TPP 09-3.

23. Equity and reserves (continued)

Recognition and measurement

Equity transfers represent the transfer of net assets / liabilities between agencies as a result of an administrative restructure, transfers of programs / functions and parts thereof between NSW public sector agencies and 'equity appropriations'. These equity transfers are designated or required by Australian Accounting Standards to be treated as contributions by owners and recognised as an adjustment to 'accumulated funds'. This treatment is consistent with TPP 09-3, AASB 1004 *Contributions* and Australian Interpretation 1038 *Contributions by Owners made to Wholly-owned Public Sector Entities*.

Transfers arising from an administrative restructure involving not-for-profit and for-profit government entities are recognised at the amount at which the assets and liabilities were recognised by the transferor immediately prior to the restructure. Subject to below, in most instances this will approximate fair value.

All other equity transfers are recognised at fair value.

24. Contingent assets and contingent liabilities

There was a dispute in relation to contractual claims and counterclaims relating to the Sydney Metro Northwest project. A non-binding decision was made by the Dispute Avoidance Board (DAB) in relation to that dispute. Both parties have a right to appeal to arbitration against the decision of the DAB. No appeal had been lodged as at 30 June 2021, however a notice of arbitration without supporting documentation was received on 20 July 2021. Accordingly, there is significant uncertainty as to the extent and amount of any potential financial outcome (either liability or amount recoverable by Sydney Metro) that will arise in relation to these disputes.

There are contractual, variation and escalation claims that have been made by contractors engaged by the Entity on the City & Southwest project in the ordinary course of business with an estimated total contingent liability of $94.6 million (2020: nil). There are also a number of other contractual claims and variations that have arisen on the City & Southwest project. The amount of the liability that may arise from these other claims and variations cannot be measured reliably at this time, and there is significant uncertainty as to whether a future liability will arise in respect to these items.

There are a number of litigation proceedings in relation to property acquisitions for the City & Southwest projects. The amount of liability, if any, that may arise in relation to these disputes cannot be measured reliably at this time.

The Entity has an agreement with Landcom for the development of parcels of land surrounding the Sydney Metro Northwest station sites. Under the terms of the arrangement, the Entity has a possible liability that is contingent on the achievement of certain milestones and thresholds by Landcom.

The Entity does not have any other contingent liabilities that would significantly impact on the state of affairs of the Entity or have a material effect on these financial statements.

25. Financial instruments

The Entity's principal financial instruments are outlined below. These financial instruments arise directly from the Entity's operations or are required to finance the Entity's operations and manage forecast cash flow exposures. The Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The operational activities of the Entity expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, currency risk, and electricity price risk). The main risks arising from these financial instruments are outlined below together with the Entity's objectives, policies and processes for measuring and managing risk.

Methods used to measure risk include sensitivity analysis in the case of interest rate, foreign exchange and other commodity price risks, and an ageing analysis for credit risk. Further quantitative and qualitative disclosures are included throughout these financial statements.

The Board has overall responsibility for the establishment and oversight of risk management and review, and determines policies for managing each of these risks. Risk management policies are established to identify and analyse the risks faced by the Entity, to set limits and to monitor risks. Compliance with these policies is reviewed by the Entity on a continuous basis.

(a) Financial instrument categories

	Notes	Category	Carrying amount 2021 $'000	(Restated) Carrying amount 2020 $'000
Financial assets				
Class:				
Cash and cash equivalents	7	Amortised cost	1,551,545	285,448
Receivables[1]	8	Amortised cost	1,149,312	1,204,225
Other financial assets	10	Amortised cost	6,146	3,963
			2,707,003	**1,493,636**
Financial liabilities				
Class:				
Payables[2]	16	Financial liabilities measured at amortised cost	1,541,425	255,591
Other Liabilities	19	Financial liabilities measured at amortised cost	4,549	2,866
Borrowings	17	Financial liabilities measured at amortised cost	2,385,889	2,225,833
Financial liabilities at fair value	17	Fair value through profit or loss designated as such at initial recognition	1,225	415
			3,933,088	**2,484,705**

[1] Excludes statutory receivables and prepayments (i.e. not within scope of AASB 7).
[2] Excludes statutory payables and unearned revenue (i.e. not within scope of AASB 7).

During the year ended 30 June 2021, there were no defaults on any borrowings or loans payable. 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.

25. Financial instruments (continued)

(b) Derecognition 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 its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'passthrough' arrangement; and either:

- where substantially all the risks and rewards have been transferred; or
- where the Entity has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control.

Where the Entity has neither transferred nor retained substantially all the risk and rewards or transferred control, the asset continues to be recognised to the extent of the Entity's continuing involvement in the asset. In that case, the Entity also recognises an associated liability. The transferred asset and the associated liability are measured on a basis the reflects the rights and obligations that the Entity has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Entity could be required to repay.

(c) Derecognition of financial assets and financial liabilities (continued)

A financial liability is derecognised when the obligation specified in the contract is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the net result.

(d) Derivatives

The Entity only uses derivatives for hedging purposes and not as trading or speculative instruments. The Entity has $1.2 million (2020: $0.4 million) derivative financial liabilities.

All derivatives are measured at fair value. Information about the exposure is provided: credit risk in Note 25(e), foreign exchange risk in Note 25 (g), the methods and assumptions used in determining fair values of derivatives in Note 25(h).

Energy price risk management

The Entity is exposed to energy price risk associated with the purchase of energy to operate transport services.

It is the Entity's policy to manage the energy price exposure arising from its energy load by entering into fixed price supply arrangements with retailers or to hedge forecast exposures on a portion of its energy load for periods up to 15 years.

The exposure to fluctuations in the wholesale market prices is managed through the use of a derivative financial instrument.

25. Financial instruments (continued)

The following table indicates the periods in which the cash flow associated with cash flow hedges are expected to occur and the carrying amounts of the related hedging instruments.

		Expected cash flow			
	Notional MW/h	Less than 12 months $'000	1 - 5 Years $'000	Greater than 5 Years $'000	Total $'000
2021					
Energy derivative contract	134,000	(3,819)	(1,715)	4,309	(1,225)
2020					
Energy derivative contract	134,000	(3,332)	(3,749)	6,666	(415)

(e) Credit risk

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

Credit risk arises from financial assets of the reporting Entity, including cash and cash equivalents, as well as credit exposure to customers, including outstanding receivables and committed transactions and derivative financial instruments. The Entity holds bank guarantees for significant contractors. The Entity has not granted any financial guarantees.

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

The Entity considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Entity may also consider a financial asset to be in default when internal or external information indicates that the Entity is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Entity. Credit risk impacts on the following financial instruments which are discussed below.

Cash and cash equivalents
Cash comprises cash on hand and bank balances within the NSW Treasury banking system. Interest is earned on daily bank balances at the current Reserve Bank of Australia official cash rate.

Derivatives
The Entity limits its exposure to credit risk by entering into derivative financial instruments only with approved counterparties that have an acceptable credit rating. Derivative counterparties are limited to high creditworthy organisations in the energy industry. The Entity also utilises International Swaps and Derivative Association (ISDA) agreements with derivative counterparties in order to limit exposure to credit risk through the netting of amounts receivable from and amounts payable to individual counterparties.

Receivables – trade debtors
All trade debtors are recognised as amounts receivable at balance date. Collectability of trade 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.

The Entity applies the AASB 9 *Financial Instruments* simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade debtors. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on historical observed loss rates. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

25. Financial instruments (continued)

(e) Credit risk (continued)

Receivables – trade debtors (continued)

Trade debtors are written off when there is no reasonable expectation of recovery. The Entity is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors. Most of trade debtors are NSW Government agencies, where the risk of credit loss is not material and there is no reasonable expectation of non-recovery of receivables. Therefore, Entity's loss allowance for trade debtor as at 30 June 2021 and 30 June 2020 was determined as nil. The Entity is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors.

(f) Liquidity risk

Liquidity risk is the risk that the Entity will be unable to meet its payment obligations when they fall due. The Entity continuously manages risk through monitoring future cash flows and maturities planning to ensure adequate holding of high quality liquid assets. The objective is to maintain a balance between continuity of funding and flexibility through the use of loans and other advances.

During the current year, there were no defaults on borrowings or loans payable and no assets have been pledged as collateral. The Entity's exposure to liquidity risk is deemed insignificant based on 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, where 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, where payment is not made within the specified time period, simple interest must be paid automatically unless an existing contract specifies otherwise.

25. Financial instruments (continued)

(f) Liquidity risk (continued)

The table below summarises the maturity profile of the Entity's financial liabilities, together with the interest rate exposure.

Maturity analysis and interest rate exposure of financial liabilities	Weighted average effective Int. rate (%)	Nominal amount $ '000	Interest rate exposure Fixed interest rate $ '000	Variable interest rate $ '000	Non-interest bearing $ '000	Maturity dates < 1 year $ '000	1 - 5 years $ '000	> 5 years $ '000
2021								
Payables								
Trade creditors	-	39,995	-	-	39,995	39,995	-	-
Accrued expenses	-	1,496,412	-	-	1,496,412	1,496,412	-	-
Personnel services payable	-	5,018	-	-	5,018	5,018	-	-
Other liabilities	-	4,549	-	-	4,549	1,678	2,871	-
Borrowings								
Service concession financial liability	1.63	3,191,546	1,401,035	1,790,511	-	796,188	1,023,041	1,372,317
Lease liabilities	1.41	51,991	-	51,991	-	12,804	29,064	10,123
		4,789,511	**1,401,035**	**1,842,502**	**1,545,974**	**2,352,095**	**1,054,976**	**1,382,440**
2020								
Payables								
Trade creditors	-	50,210	-	-	50,210	50,210	-	-
Accrued expenses	-	200,901	-	-	200,901	200,901	-	-
Personnel services payable	-	4,480	-	-	4,480	4,480	-	-
Other liabilities	-	2,866	-	-	2,866	-	2,866	-
Borrowings								
Service concession financial liability	2.87	3,454,595	3,454,595	-	-	913,066	976,719	1,564,810
Lease liabilities	1.42	32,954	-	32,954	-	12,459	20,495	-
		3,746,006	**3,454,595**	**32,954**	**258,457**	**1,181,116**	**1,000,080**	**1,564,810**

25. Financial instruments (continued)

(g) Market risk

Market risk relates to fluctuations in the fair value of future cash flows of financial instruments because of changes in market prices. The Entity's exposure to market risk is primarily through foreign exchange risks associated with overseas purchase commitments and commodity price risk associated with energy purchases.

The effect on net result and equity due to a reasonable possible change in risk variable is outlined in the information provided below, for interest rate risk and other price risk including currency movements. A reasonable possible change in risk variable has been determined after taking into account the economic environment in which the Entity operates and the time frame for the assessment (i.e. until the end of the next annual reporting period). The sensitivity analysis is based on risk exposures in existence at the balance date. The analyses is performed on the same basis as for 2020. The analysis assumes that all other variables remain constant.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Exposure to interest rate risk arises primarily through the Entity's interest bearing liabilities. The Entity does not account for any fixed rate financial instruments at fair value through profit or loss or as available-for-sale. Therefore, for these financial instruments, a change in interest rates would not affect profit or loss or equity. A reasonably possible change of +/- 1% is used, consistent with current trends in interest rates (based on official RBA interest rate volatility over the last five years). The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

The Entity's exposure to interest rate risk is set out in the table below:

		-1%		+1%	
2021	**Carrying amount 2021 $'000**	**Net result 2021 $'000**	**Equity 2021 $'000**	**Net result 2021 $'000**	**Equity 2021 $'000**
Financial assets					
Cash and cash equivalents	1,551,545	(15,515)	(15,515)	15,515	15,515
Financial liabilities					
Service concession financial liability	(1,790,511)	286	286	(3,324)	(3,324)

		-1%		+1%	
2020	**Carrying amount 2020 $'000**	**Net result 2020 $'000**	**Equity 2020 $'000**	**Net result 2020 $'000**	**Equity 2020 $'000**
Financial assets					
Cash and cash equivalents	285,448	(2,854)	(2,854)	2,854	2,854

Foreign exchange risk

Exposure to foreign exchange risk arises primarily through the contractual commercial transactions denominated in a foreign currency.

There is no foreign exchange exposure for the Entity as at 30 June 2021 (2020: nil exposure).

25. Financial instruments (continued)

(g) Market risk (continued)

Commodity price risk

The Entity is exposed to commodity price risk from electricity purchases.

The Entity is exposed to electricity price risk associated with the purchase of electricity to operate Metro services. The exposure to fluctuations in wholesale market prices is managed by entering into fixed price supply arrangements with retailers or to hedge forecast exposure on a portion of the consolidated Entity's energy load. Generally, electricity swap contracts are designated as cash flow hedges. However as at 30 June 2021, the only electricity derivative financial instrument was not designated in a hedge relationship under AASB 9 *Financial Instruments*. This derivative is classified as held for trading. The derivative is carried as financial liabilities when the fair value is negative. Gains or losses on liabilities held for trading are recognised in the net result.

The Entity's exposure to commodity price risk is set out in the table below, with all other variables being held constant.

The impact on other comprehensive income is due to changes in the fair value of the financial instruments.

A sensitivity of 10% movement in the spot price of the respective commodities has been selected for use in the sensitivity analysis at the reporting date.

			10%		-10%	
		Notional MW/h	Net result $ '000	Equity $ '000	Net result $ '000	Equity $ '000
2021	Energy derivatives	134,000	5,678	-	(8,129)	-
2020	Energy derivatives	134,000	7,242	-	(8,072)	-

(h) Fair value compared to carrying amount

Financial instruments are generally recognised at cost, with the exception of derivatives, which are measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability.

The following table details the financial instruments where the fair value differs from the carrying amount:

	2021		2020	
	Fair Value $'000	Carrying Amount $'000	Fair Value $'000	Carrying Amount $'000
Borrowings				
Service concession financial liabilities[1]	$2,484,652	$2,335,985	$2,437,034	$2,193,963

[1]The fair value of service concession financial liabilities is determined using the discounted cash flow analysis method that reflects the Entity's incremental borrowing rates, which is TCorp lending rates at the end of the reporting period.

25. Financial instruments (continued)

(h) Fair value compared to carrying amount (continued)

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

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

The amortised cost of all other 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.

Fair value recognised in the Statement of financial position

	Level 1 2021 $'000	Level 2 2021 $'000	Level 3 2021 $'000	Total
Financial liabilities at fair value				
Derivative financial instruments	-	-	(1,225)	(1,225)
	-	**-**	**(1,225)**	**(1,225)**

	Level 1 2020 $'000	Level 2 2020 $'000	Level 3 2020 $'000	Total
Financial liabilities at fair value				
Derivative financial instruments	-	-	(415)	(415)
	-	**-**	**(415)**	**(415)**

The Entity 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)

The fair value of the energy derivative is determined as the present value of future contracted cash flows and credit adjustments (Level 3). Cash flows are discounted using standard valuation techniques at applicable market yield having regard to timing of cash flows.

There were no transfers between Level 1, 2 or 3 during the year.

26. Budget review

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. adjustment for transfers of functions between entities as a result of Administrative Arrangement Orders) are not reflected in the budgeted amounts. Major variances between the original budgeted amounts and the actual amounts disclosed on the primary financial statements are explained below.

(a) Net Result

The actual net surplus result was lower than budgeted by $1,969 million, mainly due to the following:

	$M
Net result per the Budget	**5,889**
Variance between budget and actual comprises	
Lower grant funding from TfNSW	(1,725)
Lower gain on asset disposal	(136)
Lower sales of goods and services	(50)
Lower interest expense due to AASB 1059 adjustments	4
Lower depreciation expense	7
Higher operating expenses	(5)
Grant expense not included in the original budget	(83)
Interest income on unwinding of Integrated Station Development projects not budgeted	10
Other gains/(losses)	9
Actual net result	**3,920**

(b) Assets and liabilities

The actual net assets were $1,699 million lower than the original budget, mainly due to the following:

Closing net assets as per the Budget	**21,731**
Variance between budget and actual comprises	
Lower capital purchases	(1,209)
Receivables from integrated station developments lower	(85)
Higher payables	(1,336)
Higher AASB 1059 adjustments	(697)
Higher provisions	(13)
Higher cash balance	1,414
Higher receivables	229
Other variances	(2)
Actual net assets	**20,032**

(c) Cash flows

The closing cash position was $1,414 million higher than budget due to

Closing cash and cash equivalents per budget	**137**
Variance between budget and actual comprises	
Lower than budgeted net cash flow from operating activities mainly due to lower grant funding	(1,791)
Lower than budgeted net cash flow from investing activities due to lower capital spend	2,526
Lower than budgeted net cash flow from financing activities	679
Closing Actual cash and cash equivalents	**1,551**

27. Related party disclosures

a) Key management personnel compensation

During the year, the Entity incurred $1.1 million (2020: $1.1 million) in respect of the key management personnel services that are provided by the Transport Service of NSW. The amount incurred excludes long service leave and defined benefit superannuation scheme benefits assumed by the Crown in accordance with NSWTC 16-12 Related party disclosures.

b) Transactions and outstanding balances with key management personnel of the Entity and its parent during the financial year

There were no material transactions or outstanding balances with key management personnel of the Entity and its parent during the financial year.

c) Transactions and outstanding balances with other related parties during the financial year

There were no transactions or outstanding balances with other related parties during the financial year.

d) Transactions and outstanding balances with government related entities during the financial year

During FY2020-21, the Entity entered into the following transactions with other entities consolidated as part of the NSW Total State Sector (the ultimate parent) within the normal course of business:

- Grant revenue received from Transport for NSW;
- Monthly reimbursements from TAHE (formerly RailCorp) for the design and construction of major rail projects by Sydney Metro;
- Recoupment of project and other costs incurred by Transport for NSW on behalf of Sydney Metro;
- Payments for personnel services provided by Transport Service of NSW;
- Payments for shared services provided by Transport for NSW, these are charges for personnel services, finance, human resources, and information technology services;
- Lease arrangements with Transport for NSW for the use of a community centre and an office building;
- Payments for services and works provided by other agencies, including Transport for NSW and Sydney Trains;
- Reimbursement of replacement bus service payments to Transport for NSW;
- Contribution from Infrastructure NSW in relation to Waterloo Metro Quarter Development;
- Receipt of the Affordable Housing Contribution Fund from Infrastructure NSW to apply to the affordable housing component of the Waterloo Metro Quarter Development;
- Sydney Metro asset transfer to TAHE (formerly RailCorp) for Chatswood/Northern Connection Works;
- Prepayments made to Transport for NSW in consideration for future land acquisition relating to Western Sydney Airport project works;
- Lease arrangements with Newcastle Port Corporation for the use of facilities as a construction site;
- Recoupment of project and other costs incurred by Sydney Metro on behalf of Infrastructure NSW;
- Recoupment of project and other costs incurred by Sydney Metro on behalf of Sydney Trains;
- Impairment loss on right-of-use assets on certain lease arrangements with Transport for NSW; and
- Selling cost incurred from Landcom for the sale of Northwest surplus land.

28. Trust funds

The Entity holds funds in trust for compulsory land acquisition compensation payable under the *Land Acquisition (Just Terms Compensation) Act 1991*. As the Entity performs only a custodial role in respect of these monies, and because the monies cannot be used for the achievement of the Entity's own objectives, these funds are not recognised in the financial statements.

The following is a summary of the transactions in the trust account:

	2021 $'000	2020 $'000
Cash balance 1 July	6,563	8,070
Add: Receipts	11	49
Less: Expenditure	(4,876)	(1,556)
Cash balance at 30 June	**1,698**	**6,563**

29. Correction of prior year errors

Transfer of assets

As part of project delivery, the Entity is required to undertake works to build assets for third parties such as councils, utility providers and other Government agencies, and once completed, the assets are transferred or handed over to the third parties. These works are generally undertaken via interface agreements or work authorisation packages with the relevant third party. Whilst the costs incurred in undertaking third party works are considered to be part of the capitalised project costs during construction, they are expensed as non-cash grant expense upon handover or transfer to the respective third parties, due to the loss of control/risks associated with the assets.

Further analysis of the third party works completed by the Entity this year has identified additional assets that were completed and transferred to TAHE during FY2020. As such, the Entity has derecognised the carrying value of these assets from property, plant and equipment ($11.3 million) with a corresponding adjustment to non-cash grant expense in the prior year.

The impact of the Statement of comprehensive income and Statement of financial position from restating the balances in the prior year due to the above matters are shown below.

Impact on Statement of Comprehensive Income

	Notes	Original 2020 $'000	Correction of errors 2020 $'000	Impact of AASB 1059[1] 2020 $'000	Restated 2020 $'000
Expenses excluding losses					
Grants and subsidies	2(g)	11,759	11,276	-	23,035
Total expenses excluding losses		**758,592**	**11,276**	**(63,854)**	**706,014**
Net result		**2,211,144**	**(11,276)**	**427,171**	**2,627,039**
Total comprehensive income		**2,409,221**	**(11,276)**	**434,055**	**2,832,000**

[1] The 2020 comparative figures have also been restated to reflect the adoption of AASB 1059 Service Concession Arrangements: Grantors. Refer to Note 1(h) for the full disclosure of impacts of AASB 1059.

29. Correction of prior year errors (continued)

Impact on Statement of Financial Position

	Notes	Original 2020 $'000	Correction of errors 2020 $'000	Impact of adoption of AASB 1059[1] 2020 $'000	Restated 2020 $'000
ASSETS					
Non-current assets					
Property plant and equipment					
Land and buildings	12	528,412	-	-	528,412
Plant and equipment	12	665,543	-	-	665,543
Infrastructure systems	12	15,204,974	(11,276)	417,052	15,610,750
Property, plant and equipment	12	16,398,929	(11,276)	417,052	16,804,705
Total non-current assets		**17,710,168**	**(11,276)**	**259,394**	**17,958,286**
Total assets		**18,142,605**	**(11,276)**	**259,394**	**18,390,723**
Net assets		**16,060,618**	**(11,276)**	**(224,400)**	**15,824,942**
EQUITY					
Accumulated funds		15,200,266	(11,276)	(231,284)	14,957,706
Total equity		16,060,618	**(11,276)**	**(231,284)**	**15,824,942**

Impact on Statement of Changes in Equity

	Notes	Original 2020 $'000	Correction of errors 2020 $'000	Impact of adoption of AASB 1059[1] 2020 $'000	Restated 2020 $'000
Accumulated funds					
Net result for the year		2,211,144	(11,276)	427,171	2,627,039
Total comprehensive income for the year		2,409,221	(11,276)	434,055	2,832,000
Balance at 30 June 2020		**15,200,266**	**(11,276)**	**(231,284)**	**14,957,706**
Total Equity		**16,060,618**	**(11,276)**	**(224,400)**	**15,824,942**

[1] The 2020 comparative figures have also been restated to reflect the adoption of AASB 1059 Service Concession Arrangements: Grantors. Refer to Note 1(h) for the full disclosure of impacts of AASB 1059. This is not considered a correction of prior year errors but included in this Note to reflect the revised 2020 restated balances.

30. After balance date events

The COVID-19 pandemic is ongoing and continues to impact the operations of the Entity. The Entity has assessed that there is no material impact on the operating result and the carrying values of assets and liabilities as at 30 June 2021. The on-going pandemic continues to significantly impact revenue and expenses. The financial impact is anticipated to be funded by Government.

30. After balance date events (continued)

The real estate market is being impacted by the uncertainty that the COVID-19 outbreak has caused. Market conditions could change within a relatively short period of time. The Entity engaged an independent external valuer to undertake a market review to identify any material market movement in values since 30 June 2021. The external valuer advised that since the 30 June 2021 land valuation, there has been limited sales data in the area where the land are located to indicate material movement in the value; and that majority of the Entity's land asset has restricted zoning and therefore is less susceptible to market movement in the larger sense. Additionally, the external valuer noted that the impact of the additional COVID-19 restriction in Sydney is not yet known, however, they noted that the restrictions on public movements will have a short term impact to the market. The Entity noted that the present situation is evolving and will continue assess the implications of COVID-19 on the fair value of its land assets when new information becomes available.

There are no other events that have occurred after the balance date that would have a significant impact on the financial statements.

End of audited financial statements.

Sydney Metro

T 02 8265 9400

E sydneymetro@transport.nsw.gov.au

W sydneymetro.info

Street address
680 George Street
Sydney NSW 2000

Postal address
PO Box K659
Haymarket NSW 1240

Reception business hours
7.30am to 6.00pm, Monday to Friday

ABN: 12 354 063 515
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