

Finances



Dunns Swamp on the upper
Cudgegong River, Wollemi National
Park, Wiradjuri Nation, NSW

Finance

CFO Statement



The EPA has achieved a responsible financial outcome for the 2021–22 year. There were operational challenges such as COVID-19, natural disasters and significant contamination remediation that had financial impacts that are reflected in the results.

The EPA's operating result was a deficit of \$2.3 million. Total expenses of \$281.8 million increased from last year by \$69.1 million. This was principally driven by increased activity in the flood and bushfire clean-up programs.

Total revenue of \$279.5 million is an increase from last year by \$63.5 million due mainly to an increase in grants and contributions to fund project related activities. Our cash position is strong at \$35.1 million, which is \$1.8 million higher than last year. Our net assets are \$35.7 million, up slightly on last year. These are the indications of a solid, stable position upon which to build into the future.

Mary Perera

Mary Perera
Chief Financial Officer, EPA



Lake Burrendong. Photo: Amanda Cleary/EPA

Our financial overview

The EPA's net result for 2021–22 was a loss of \$2.1 million, \$7.7 million lower than the \$5.6 million positive net operating result originally estimated as part of the 2021–22 State budget process. The decrease was mainly due to additional expenses incurred and the timing of programs delivered.

In 2021–22 our expenses and revenue have both increased compared to the previous year. The main reason for the increase was the project work conducted in response to floods and bushfires throughout NSW.

The table shows the EPA's approved budgets over the last five years.

Our approved budget	2017–18	2018–19	2019–20	2020–21	2021–22
Total revenue (\$ million)	162.8	174.3	261.3	219.9	368.3
Total expenses (\$ million)	169.8	177.5	255.5	213.6	362.7
Net operating result (\$ million)	-7.0	-3.2	5.8	6.3	5.6

Managing operational risks: funding

The EPA receives government funding as well as income derived from fees paid by the regulated community. Inadequate funding could reduce the EPA's ability to achieve its objectives. The EPA manages this risk through:

- a robust budget submission and reporting system with frequent monitoring in place
- budget allocations linked to strategic priorities
- enhanced tracking of waste flows to better monitor and collect fees derived from the waste levy.

Where our money came from

The EPA receives government funding as a grant from DPE. Revenue is also derived from other NSW agencies as well as from environmental licensing and administration fees paid by regulated industries.

Our total revenue for 2021–22 was \$279.5 million, a decrease of \$88.8 million on our approved budget of \$368.3 million. The decrease was largely due to lower grant revenue with timing delays in major projects by \$88.5 million.

Our total revenue for 2021–22 was 29% higher (\$63.5 million) than the \$216.0 million reported for 2020–21. The increase was due to the increase in grants received, including grants for major disaster project work conducted during the year (\$64.2 million).

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EPA revenue sources over the last 5 years

Revenue by source – actuals	2017–18	2018–19	2019–20	2020–21	2021–22
NSW Government (\$ million)	137.5	160.6	146.4	174.5	238.7
Licensing fees and other charges (\$ million)	31.2	32.0	33.0	37.4	40.3
Acceptance by the Crown Entity of employee benefits and other liabilities (\$ million)	2.7	7.3	2.9	4.0	(0.2)
Other income (\$ million)	2.2	2.0	0.4	0.1	0.7
Total revenue (\$ million)	173.6	201.9	182.7	216.0	279.5

The EPA also collects revenue on behalf of the Crown from waste and environment levies. This annual revenue is paid to the NSW Treasury. Greater detail is provided in the *Financial statements* section of this report, under note 23 – Administered assets, liabilities and income.

How we spent our money

In 2021–22, most EPA expenditure – about 39% of the total – was for employee-related expenses, with the rest used for grant programs and operating expenditure. We paid \$79.0 million in grants to various entities for a range of purposes. Greater detail is provided in Appendix H.

In 2021–22 total expenditure was \$281.8 million, a decrease of \$80.9 million on our original budget of \$362.7 million. The variance was largely due to:

- \$59.1 million in other operating expenses including lower spend than budget on clean-up related to flood events
- \$11.4 million in grant expenses due to lower spend than budget on waste-related projects
- \$10.0 million relating to employee-related expenses, including some delayed recruitment and lower employee leave provision expense.

We reported a \$69.1 million (32%) increase in expenditure this year compared to the previous year (see expenditure table below).

EPA expenditure over the last 5 years

Expenditure by category – actuals	2017–18	2018–19	2019–20	2020–21	2021–22
Employee-related (\$ million)	76.3	88.5	84.1	94.2	108.9
Personnel services expenses (\$ million)	-	-	6.7	-	-
Grants and subsidies (\$ million)	26.4	39.9	41.6	34.9	79.0
Other operating costs (\$ million)	61.2	63.0	44.9	80.0	89.7
Depreciation and amortisation (\$ million)	2.4	3.1	3.4	3.6	4.2
Total	166.3	194.5	180.7	212.7	281.8

Our financial position

The EPA maintained a sound financial position in 2021–22.

Most of our assets and liabilities are of a financial rather than physical nature. Total EPA assets at 30 June 2022 were \$88.8 million, an increase of \$15.6 million from 30 June 2021. Cash remains one of our largest assets, being \$35.1 million at 30 June 2022. We also have \$28.6 million in receivables mostly from waste and environment licences and cost reimbursements. Our current and non-current liabilities at 30 June 2022 were \$53.2 million, an increase of \$17.5 million from last financial year due to payables of \$17.7 million including flood and bushfire project payables.

Solvency ratio: current position

At 30 June 2022 we had \$1.22 in current assets to meet every \$1.00 of our current liabilities. This year's solvency ratio is at same level as the previous year's although both current assets and liabilities have increased.

The current assets have increased by \$17.5 million over 2020–21, due mainly to additional receivables. Current liabilities have increased by \$21.0 million, due mainly to an increase in payables relating to project activities.

EPA current assets, liabilities and ratio over the last five years

Current assets, liabilities and ratio	2017–18	2018–19	2019–20	2020–21	2021–22
Current assets (\$ million)	28.9	34.8	37.8	46.1	63.6
Current liabilities (\$ million)	19.2	19.1	21.5	31.2	52.2
Current ratio	1.5	1.8	1.8	1.5	1.2

Cashflow management

In 2021–22 the EPA generated \$7.6 million from its operating activities. This was \$6 million less than in the previous year, largely due to the timing of payments and receipts relating to project activities.

EPA receivables, sales revenue and collection of debts over the last 5 years

Debtor management	2017–18	2018–19	2019–20	2020–21	2021–22
Receivables (\$ million)	6.6	7.2	5.1	6.2	5.2
Sales revenue (\$ million)	31.2	32.0	33.0	37.4	40.3
Average days to collect debts	77.4	81.7	56.0	60.5	47.1

Credit management

During the year, the average number of days to pay creditors increased to 151.3 days due to the large accruals for project costs as at 30 June 2022.

EPA payables, operating cost and payment of creditors over the last five years

The increase in average days to pay in the table below is due to some large accruals and payables that were recognised close to the end of the year 2021–22, which increased the overall payable balance.

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Credit management	2017–18	2018–19	2019–20	2020–21	2021–22
Payable (\$ million)	9.8	9.2	9.9	19.4	37.1
Other operating cost (\$ million)	61.2	63.0	44.9	79.9	89.5
Average days to pay creditors	58.4	53.3	80.5	88.6	151.3

Expenditure

Exceptional movements in wages, salaries and allowances

There were no exceptional movements in wages, salaries or allowances in 2021–22. All increases to wages, salaries and allowances were consistent with the NSW Government wages policy.

Investment performance

The EPA does not borrow or invest with the NSW Treasury Corporation (TCorp) and has no investment performance to report here.

Liability management performance

The EPA has not accrued any debt greater than \$20 million.

Land disposal

As the EPA does not own any land, there was none to dispose of in 2021–22.

Implementation of price determination

The EPA is subject to the recommendations of the Independent Pricing and Regulatory Tribunal of NSW (IPART) under section 18(4) of the Independent Pricing and Regulatory Tribunal Act 1992.

Disclosure of subsidiaries

The EPA had no subsidiaries in 2021–22.

Major assets acquired (other than land holdings)

There were no major retirements of property, plant and equipment (PPE) assets during the year.

At 30 June 2022, the total of the EPA's PPE assets was \$6.0 million.

Production costs of the Annual Report

The total external production costs for the 2021–22 Annual Report were \$1,413 for editing and printing. Design costs were in-house with some elements shared with other reporting.

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Consultants

Consultancies of \$50,000 or more

Consultant	Category	Consultancy description	Cost
Deloitte Touche Tohmatsu	Organisational review	Digital & Customer Transformation review	\$555,700
Marsden Jacob Associates	Environmental	Project report on carbon abatement	\$115,450
2ROG Consulting Pty Ltd	Environmental	Ecological and environmental research and analysis	\$78,538
Deloitte Consulting Pty Limited	Management services	Delivery of alignment feasibility report	\$75,000
ENEA Australia Pty Ltd	Environmental	Landfill gas capture consulting	\$74,600
Doll Martin Associates Pty Ltd	Environmental	Controlled waste tracking advice	\$74,000
The Change Executive	Organisational review	Process and systems review	\$69,200
Subtotal			<u>\$1,042,488</u>

Consultancies of less than \$50,000

Category	Number	Cost
Environmental	13	\$368,918
Management services	13	\$240,217
Organisational review	5	\$45,074
Subtotal	31	<u>\$654,209</u>

Total consultancies

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Environment Protection Authority

Annual Financial Statements

for the year ended 30 June 2022

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Statement by the CEO and Chair

for the year ended 30 June 2022

Pursuant to section 7.6(4) of the *Government Sector Finance Act 2018* ('the Act'), we state that these financial statements:

- have been prepared in accordance with the Australian Accounting Standards and the applicable requirements of the Act, the Government Sector Finance Regulation 2018 and the Treasurer's directions, and
- present fairly the Environment Protection Authority's financial position, financial performance and cash flows.

Tony Chappel

Chief Executive Officer, EPA

20 October 2022

Rayne de Gruchy AM PSM

Chair of the Board

20 October 2022

Finance

Consolidated statement of comprehensive income for the year ended 30 June 2022

	Notes	Consolidated			Environment Protection Authority	
		Actual 2022 \$'000	Budget 2022 \$'000	Actual 2021 \$'000	Actual 2022 \$'000	Actual 2021 \$'000
Continuing operations						
Expenses excluding losses						
Employee-related expenses	2(a)	108,903	118,870	94,202	463	746
Personnel services expenses	2(a)	-	-	-	108,440	93,456
Other operating expenses	2(b)	89,522	148,589	79,927	89,522	79,927
Depreciation and amortisation expenses	2(c)	4,246	4,811	3,616	4,246	3,616
Grants and subsidies	2(d)	79,017	90,397	34,896	79,017	34,896
Finance costs	2(e)	129	81	97	129	97
Total expenses excluding losses		281,817	362,748	212,738	281,817	212,738
Revenue						
Sale of goods and services	3(a)	9,043	32,311	8,559	9,043	8,559
Retained taxes, fees and fines	3(b)	31,252	407	28,816	31,252	28,816
Grants and contributions	3(c)	238,692	327,173	174,535	238,692	174,535
Acceptance by the Crown of employee benefits and other liabilities	3(d)	(177)	6,271	3,991	(177)	3,991
Other income	3(e)	713	2,188	76	713	76
Total revenue		279,523	368,350	215,977	279,523	215,977
Operating result		(2,294)	5,602	3,239	(2,294)	3,239
Gain/(loss) on disposal	4	(15)	-	(6)	(15)	(6)
Other gains/(losses)	5	230	-	-	230	-
Net result from continuing operations		(2,079)	5,602	3,233	(2,079)	3,233
Other comprehensive income						
<i>Items that will not be reclassified to net result in subsequent periods</i>						
Changes in revaluation surplus of property, plant and equipment	10	282	-	30	282	30
Total other comprehensive income		282	-	30	282	30
Total comprehensive income		(1,797)	5,602	3,263	(1,797)	3,263

The accompanying notes form part of these financial statements.

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Consolidated statement of financial position as at 30 June 2022

	Notes	Consolidated			Environment Protection Authority	
		Actual 2022 \$'000	Budget 2022 \$'000	Actual 2021 \$'000	Actual 2022 \$'000	Actual 2021 \$'000
Assets						
Current Assets						
Cash and cash equivalents	7	35,070	17,988	33,340	35,070	33,340
Receivables	8	28,579	12,417	12,801	28,579	12,801
Contract assets	9	-	5,228	-	-	-
Total current assets		63,649	35,633	46,141	63,649	46,141
Non-current assets						
Property, plant and equipment						
Land and buildings	10	4,270	4,059	4,101	4,270	4,101
Plant and equipment	10	1,766	1,292	2,034	1,766	2,034
Total property, plant and equipment		6,036	5,351	6,135	6,036	6,135
Right-of-use assets	11	646	4,845	4,452	646	4,452
Intangible assets	12	18,496	25,337	16,444	18,496	16,444
Total non-current assets		25,178	35,533	27,031	25,178	27,031
Total assets		88,827	71,166	73,172	88,827	73,172
Liabilities						
Current liabilities						
Contract liabilities	9	469	365	340	469	340
Payables	15	37,052	9,972	19,373	37,052	19,373
Borrowings	16	302	897	926	302	926
Provisions	17	14,332	10,677	10,549	183	53
Payable to the EPA Staff Agency	17	-	-	-	14,149	10,496
Total current liabilities		52,155	21,911	31,188	52,155	31,188
Non-current liabilities						
Borrowings	16	354	4,111	3,640	354	3,640
Provisions	17	641	583	870	314	515
Payable to the EPA Staff Agency	17	-	-	-	327	355
Total non-current liabilities		995	4,694	4,510	995	4,510
Total liabilities		53,150	26,605	35,698	53,150	35,698
Net assets		35,677	44,561	37,474	35,677	37,474
Equity						
Reserves		1,619	1,398	1,337	1,619	1,337
Accumulated funds		34,058	43,163	36,137	34,058	36,137
Total equity		35,677	44,561	37,474	35,677	37,474

The accompanying notes form part of these financial statements.

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Statement of changes in equity as at 30 June 2022

Consolidated and parent	Accumulated funds	Asset revaluation surplus	Total
	\$'000	\$'000	\$'000
Balance at 1 July 2021	36,137	1,337	37,474
Net result for the year	(2,079)	-	(2,079)
Other comprehensive income:			
Net change in revaluation surplus of property, plant and equipment	-	282	282
Total other comprehensive income	-	282	282
Total comprehensive income for the year	(2,079)	282	(1,797)
Balance at 30 June 2022	34,058	1,619	35,677
Balance at 1 July 2020	32,904	1,307	34,211
Net result for the year	3,233	-	3,233
Other comprehensive income:			
Net change in revaluation surplus of property, plant and equipment	-	30	30
Total other comprehensive income	-	30	30
Total comprehensive income for the year	3,233	30	3,263
Balance at 30 June 2021	36,137	1,337	37,474

The accompanying notes form part of these financial statements.

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Consolidated statement of cash flows for the year ending 30 June 2022

	Notes	Consolidated			Environment Protection Authority	
		Actual 2022 \$'000	Budget 2022 \$'000	Actual 2021 \$'000	Actual 2022 \$'000	Actual 2021 \$'000
Cash flows from operating activities						
Payments						
Employee-related		(106,403)	(112,599)	(90,868)	(463)	(746)
Personnel services expenses		-	-	-	(105,940)	(90,122)
Grants and subsidies		(79,017)	(90,397)	(34,896)	(79,017)	(34,896)
Finance costs		(129)	(81)	(97)	(129)	(97)
Other*		(79,395)	(148,590)	(72,879)	(79,395)	(72,879)
Total payments		(264,944)	(351,667)	(198,740)	(264,944)	(198,740)
Receipts						
Grants and other contributions		221,856	327,175	173,189	221,856	173,189
Sale of goods and services		7,643	32,311	3,594	7,643	3,594
Retained taxes, fees and fines		31,252	-	28,816	31,252	28,816
Cash reimbursements from the Crown**		1,726	-	1,138	1,726	1,138
Other		10,074	2,644	5,625	10,074	5,625
Total receipts		272,551	362,130	212,362	272,551	212,362
Net cash flows from operating activities	22	7,607	10,463	13,622	7,607	13,622
Cash flows from investing activities						
Cash received						
Proceeds from sale of land and buildings, plant and equipment and infrastructure systems		159	-	-	159	-
Purchase of intangible assets		(4,698)	(14,075)	(6,598)	(4,698)	(6,598)
Purchase of property, plant and equipment		(156)	-	(255)	(156)	(255)
Net cash flows from investing activities		(4,695)	(14,075)	(6,853)	(4,695)	(6,853)
Cash flows from financing activities						
Payment of principal portion of lease liabilities		(1,182)	(860)	(923)	(1,182)	(923)
Net cash flows from financing activities		(1,182)	(860)	(923)	(1,182)	(923)
Net increase/(decrease) in cash and cash equivalents		1,730	(4,472)	5,846	1,730	5,846
Opening cash and cash equivalents		33,340	22,460	27,494	33,340	27,494
Closing cash and cash equivalents	7	35,070	17,988	33,340	35,070	33,340

Finance

* Includes payment to Department of Planning and Environment for corporate and other specialist support.

** Includes reimbursement of long-service leave.

The accompanying notes form part of these financial statements.

Notes to the financial statements for the year ended 30 June 2022

1. Summary of significant accounting policies

a. Reporting entity

The Environment Protection Authority ('the EPA'), a NSW Government entity, is constituted under Section 5 of the *Protection of the Environment Administration Act 1991* as a statutory body corporate. The EPA is a not-for-profit entity (as profit is not its principal objective) and it has no cash-generating units. The EPA is consolidated as part of the NSW Total State Sector Accounts.

The EPA as a reporting entity comprises the Environment Protection Authority Staff Agency (the Staff Agency), an entity under its control. The EPA Staff Agency's objective is to provide personnel services to the EPA.

In the process of preparing the consolidated financial statements for the economic entity, consisting of the controlling and controlled entity, all inter-entity transactions and balances have been eliminated and like transactions and other events are accounted for, using uniform accounting policies.

The EPA Staff Agency is a Division of the Government Service responsible to the Minister for Environment and Heritage established under the Administrative Arrangements Order 2014 (the Order), dated 29 January 2014. Under the Order, the former Office of the Environment Protection Authority became the EPA Staff Agency.

The EPA is responsible for licensing and regulating air emissions, contaminated sites, hazardous materials (including dangerous goods), noise, pesticides, forestry activities, waste, water quality and state of the environment reporting.

Administered activities undertaken on behalf of the Crown in right of the State of New South Wales (the 'Crown') are consolidated in the Treasury Accounts.

These consolidated financial statements for the year ended 30 June 2022 have been authorised for issue by the Chief Executive Officer and the Chairperson of the EPA.

b. Basis of preparation

The EPA is a going concern and its financial statements are general purpose financial statements, which have been prepared on an accrual basis and in accordance with:

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

Property plant and equipment is 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 that management has made are disclosed in the relevant notes to the financial statements.

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

c. Statement of compliance

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

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d. Administered activities

The EPA administers, but does not control, certain activities on behalf of the Crown. It is accountable for the transactions relating to those administered activities but does not have the discretion to deploy the resources for the achievement of the EPA's own objectives.

Transactions and balances relating to the administered activities are not recognised as the EPA's income, expenses, assets and liabilities, but are disclosed in the accompanying schedules as 'Administered income', 'Administered expenses', 'Administered assets' and 'Administered liabilities'. Refer to note 23.

The accrual basis of accounting and applicable accounting standards has been adopted.

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

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

- amount of GST incurred by the EPA 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 is recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

f. Comparative information

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

g. Changes in accounting policy, including new or revised Australian Accounting Standards

(i) Effective for the first time in FY2021–22

The following amendments and interpretations apply for the first time in 2021–22, and do not have an impact on the financial statements of the EPA.

- AASB 2020-7 *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions: Tier 2 Disclosures*
- AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2*
- AASB 2020-9 *Amendments to Australian Accounting Standards – Tier 2 Disclosures: Interest Rate Benchmark Reform (Phase 2) and Other Amendments*
- AASB 2021-1 *Amendments to Australian Accounting Standards – Transition to Tier 2: Simplified Disclosures for Not-for-Profit Entities*
- AASB 2021-3 *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions beyond 30 June 2021*
- AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*
- AASB 2022-2 *Amendments to Australian Accounting Standards – Extending Transition Relief under AASB 1 (effective for annual periods ending on or after 30 June 2022)*

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(ii) Issued but not yet effective

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

The following new Australian Accounting Standards have not been applied and are not yet effective (NSW Treasury mandate TPG 22-07):

- AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current* (effective from 1 January 2022)
- AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments* (effective from 1 January 2022)
- AASB 2020-6 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date* (effective from 1 January 2022)
- AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates* (effective from 1 January 2023)
- AASB 2021-6 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards* (effective from 1 January 2023)
- AASB 2021-7a *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections* (effective from 1 January 2022)
- AASB 2022-1 *Amendments to Australian Accounting Standards – Initial Application of AASB 17 and AASB 9 – Comparative Information* (effective from 1 January 2023)
- AASB 2022-3 *Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15* (effective from 1 July 2022)
- AASB 2021-7b *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections* (effective from 1 January 2022)

- AASB 2021-7c *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections* (effective from 1 January 2022).

EPA has assessed the impact of the new standards and interpretations issued but not yet effective and considers the impact to be not material.

However, when AASB 2021–22 is adopted there will be a disclosure amendment due to the change in the presentation of accounting policies as 'material accounting policies' instead of 'significant accounting policies'.

h. Impact of COVID-19 on financial reporting for 2021–22

The financial statements are prepared on a going concern basis. There is no significant impact identified or reported on EPA revenue collection due to the COVID-19 pandemic. The fair value assessment of assets at 30 June 2022 by independent valuers includes increase in construction costs for buildings and infrastructure due to supply chain issues. The uncertainty in the market due to COVID-19 is expected to continue and WAMC will regularly assess any impact on its assets. Refer note 26.

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Superannuation on Annual Leave Loading

The EPA has determined that it is not probable a liability arises to pay superannuation on annual leave loading. This position has been formed based on current enquiries, other information currently available to management, and after considering the facts from a decision in the Federal Court of Australia: Finance Sector Union of Australia v Commonwealth Bank of Australia [2022] FedCFamC2G 409. That decision confirmed that, in relation to the industrial agreement considered in that case, annual leave loading did not form part of ordinary time earnings and therefore, did not require superannuation contributions to be made under superannuation guarantee legislation because the obligation to pay annual leave loading was not referable to ordinary hours of work or to ordinary rates of pay. Rather, it was paid by reference to the period of annual leave, and for the purpose of compensating employees for their loss of opportunity to work additional hours at higher rates during this period.

This position will be re-assessed in future reporting periods as new information comes to light on this matter.

2. Expenses excluding losses

a. Employee-related expenses and personnel services

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Salaries and wages (including annual leave)	94,765	78,869	(627)	668
Redundancy payments	-	4	-	-
Superannuation – defined benefit plans	561	1,070	-	-
Superannuation – defined contribution plans	8,960	6,570	627	45
Long-service leave	(989)	3,095	-	-
Workers compensation insurance	477	364	-	-
Payroll tax and fringe benefits tax	5,127	4,228	463	33
Other	2	2	-	-
Personnel services expenses	-	-	108,440	93,456
	108,903	94,202	108,903	94,202

The amount of employee-related costs that have been capitalised, in particular intangible assets account, and therefore excluded from the above i.e. \$421,722 (2021: \$310,887).

Finance

b. Other operating expenses

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Auditor's remuneration (audit or review of the financial statements)	101	75	101	75
Communication costs	400	334	400	334
Consultants	1,697	1,509	1,697	1,509
Contractor – projects	35,972	31,272	35,972	31,272
Corporate support	16,207	17,010	16,207	17,010
Expense relating to short-term leases	101	179	101	179
Fees and services	14,925	7,611	14,925	7,611
Fleet costs	654	560	654	560
Impairment (reversal) of assets and bad debts	3,438	4,101	3,438	4,101
Information dissemination	5,379	4,627	5,379	4,627
Insurance	345	283	345	283
Legal costs	3,074	2,284	3,074	2,284
Maintenance*	1,376	1,449	1,376	1,449
Other	459	1,903	459	1,903
Other occupancy costs	358	251	358	251
Payments to NSW Government agencies	2,293	3,174	2,293	3,174
Stores and minor assets	709	1,018	709	1,018
Training	1,240	1,576	1,240	1,576
Travel costs	794	711	794	711
	89,522	79,927	89,522	79,927

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
* Reconciliation – Total maintenance expense				
Maintenance expense – contracted labour and other (non-employee-related), as above	1,376	1,449	1,376	1,449
Total maintenance expenses included in note 2(b)	1,376	1,449	1,376	1,449

Recognition and measurement

Maintenance expense

Day-to-day servicing or maintenance costs are expensed as incurred, except where they relate to the replacement of a material part or component of an asset, then the costs are capitalised and depreciated. Refer to note 2b, note 2(c) and note 10.

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Insurance

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

Lease expense

EPA 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.

c. Depreciation and amortisation expense

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Depreciation				
Buildings and improvements	113	111	113	111
Plant and equipment	409	424	409	424
Right-of-use asset	1,078	1,020	1,078	1,020
	1,600	1,555	1,600	1,555
Amortisation				
Intangibles	2,646	2,061	2,646	2,061
	2,646	2,061	2,646	2,061
	4,246	3,616	4,246	3,616

For recognition and measurement policies on depreciation and amortisation refer to notes 10, 11 and 12.

Finance

d. Grants and subsidies

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
NSW government	18,598	149	18,598	149
Local government	38,104	15,379	38,104	15,379
Waste Less, Recycle More payments	9,750	9,750	9,750	9,750
Rebates	1,681	1,264	1,681	1,264
Non-government organisations	10,884	8,354	10,884	8,354
	79,017	34,896	79,017	34,896

Recognition and Measurement

Grants are generally recognised as an expense when the EPA transfers control of the contribution. The EPA is deemed to have transferred control when the grant is paid or payable.

Finance costs

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Interest expense from lease liabilities	129	88	129	88
Unwinding of discount on provisions	-	9	-	9
	129	97	129	97

Recognition and Measurement

Finance costs consist of interest and other costs incurred in connection with the borrowing of funds. Borrowing costs are recognised as expenses in the period in which they are incurred, in accordance with Treasury's Mandate to not-for-profit NSW general government sector entities.

3. Revenue

Income recognition

Income is recognised in accordance with the requirements of AASB 15 *Revenue from Contracts with Customers* or AASB 1058 *Income of Not-for-Profit Entities*, dependent on whether there is a contract with a customer defined by AASB 15 *Revenue from Contracts with Customers*. Comments regarding the accounting policies for the recognition of income are discussed below.

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a. Sale of goods and rendering of services from contract with customers

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Sale of goods				
Minor fees and charges	9,043	8,559	9,043	8,559
	9,043	8,559	9,043	8,559

Sale of goods

Revenue from sale of goods is recognised as when the EPA satisfies a performance obligation by transferring the promised goods. The payments are typically due to the EPA upon satisfaction of its performance obligations.

Rendering of services

Revenue from rendering of services is recognised when the EPA satisfies the performance obligation by transferring the promised services.

Refer to note 8 for the disclosure of the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period, and when EPA expects to recognise the unsatisfied portion as revenue.

b. Retained taxes, fees and fines

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Fees				
Licensing administration fees	29,052	27,810	29,052	27,810
Fines				
Parking, court and other	2,200	1,006	2,200	1,006
	31,252	28,816	31,252	28,816

Recognition and Measurement

Revenue from retained taxes, fees and fines is recognised on receipt of returns or licences issued.

Finance

c. Grants and contributions

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Other grants with sufficiently specific performance obligation	65,283	26,440	65,283	26,440
Grant without sufficiently specific performance obligation	173,409	148,095	173,409	148,095
	238,692	174,535	238,692	174,535

Recognition and Measurement

Grants are received by the consolidated entity to support its service delivery objectives and the funding agreements typically specify purpose of grants.

Revenue from grants with sufficiently specific milestones/performance obligations and agreed funding against each milestone is recognised as when the EPA satisfies its performance obligation by transferring promised goods/achieving milestones.

Revenue from funding without sufficiently specific performance obligations is recognised when the EPA obtains control over the granted assets i.e. (cash received). Where the total funding amount in a contract is not allocated to distinct milestones/performance obligations and specifies purpose only, revenue is recognised when the EPA obtains control over the funds i.e. (cash received).

No element of financing is deemed present as funding payments are usually received in advance or shortly after the relevant obligation is satisfied.

Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. This is based on past experience and terms specified in the contract.

Receipt of volunteer services is recognised when and only when the fair value of those services can be reliably determined and the services would have been purchased if not donated. Volunteer services are measured at fair value. EPA has not recognised any volunteer services in the financial statement as at 30 June 2022.

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d. Acceptance by the Crown of employee benefits and other liabilities

The following liabilities and/or expenses have been assumed by the Crown.

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Superannuation – defined benefit	561	1,024	-	-
Long-service leave *	(759)	2,916	-	-
Payroll tax – defined benefit	21	51	-	-
Contributions by the Crown	-	-	(177)	3,991
	(177)	3,991	(177)	3,991

For recognition and measurement of liabilities assumed by the Crown refer to note 17.

*Based on the present value of long-service leave which is based on the Commonwealth bond rate as at 30 June 2022.

e. Other income

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Miscellaneous revenue	713	76	713	76
	713	76	713	76

Recognition and measurement

Miscellaneous revenue includes receipt of returned grants for waste and contaminated lands programs.

f. Deemed appropriations

The *Appropriation Act 2021* (Appropriation Act) appropriated the sum of \$3.9 billion to the Minister for Planning out of the Consolidated Fund for the services of the Department of Planning and Environment (the department) for the 2021–22 financial year. The spending authority of the Minister from the Appropriation Act has been delegated to the Secretary of the department (the Secretary) and sub-delegated to departmental public service employees, including those engaged to enable cluster agencies to exercise their functions, such as the EPA.

The responsible Minister for each GSF agency is taken to have been given an appropriation out of the Consolidated Fund under the authority s 4.7 of the *Government Sector Finance Act 2018*, at the time the GSF agency receives or recovers any deemed appropriation money, for an amount equivalent to the money that is received or recovered by the GSF agency. The spending authority of the responsible Minister for deemed appropriation money has been delegated to the Secretary and then further sub-delegated to officers of the EPA for expenditure on their services.

A summary of compliance is disclosed in the financial statements of the Annual Report of the department. It has been prepared on the basis of aggregating the spending authorities of both the Minister for Planning for the services of the department and the responsible Ministers for the services of other cluster agencies which receive or recover deemed appropriation money. It reflects the status at the point in time this disclosure statement is being made. The EPA's spending authority and expenditure is included in the summary of compliance.

Finance

The delegations for the 2020–21 and 2021–22 financial years authorising officers of the EPA to spend Consolidated Fund money, impose limits to the amounts of individual transactions, but not the overall expenditure of the EPA. However, as it relates to expenditure in reliance on a sum appropriated through an annual Appropriation Act, the delegations are referable to the overall authority to spend set out in the relevant Appropriation Act. The individual transaction limits have been properly observed. The information in relation to the limit from the Appropriation Act is disclosed in the summary of compliance table included in the financial statements of the Annual Report of the department.

4. Gain/(loss) on disposal

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Plant and equipment	(15)	(6)	(15)	(6)
Net gain/(loss) on disposal	(15)	(6)	(15)	(6)

5. Other gains/(losses)

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Derecognition of right-of-use assets and lease liabilities with Property NSW*	159	-	159	-
Gain/(loss) in other provisions	71	-	71	-
Net gain/(loss) on disposal	230	-	230	-

* The net gains/(losses) are recognised from the derecognition of the right-of-use asset and lease liability with Property NSW (PNSW) as at 30 June 2022. Please refer to note 11 and note 17 for further details on the derecognition.

The net gains below are from the derecognition of the right-of-use asset and lease liability with Property NSW only at 30 June 2022 and are reconciled as below.

	Consolidated Buildings 2022 \$'000	Environment Protection Authority Buildings 2022 \$'000
Right-of-use asset		
Gross carrying value	(8,205)	(8,205)
Less: accumulated depreciation and accumulated impairment provision	1,735	1,735
Net book value	(6,470)	(6,470)
Lease liability	6,629	6,629
Net gains/(losses)	159	159

6. State outcomes

State outcome: Connecting communities to resilient and sustainable energy and local environments

Description: Protecting and preserving the quality of our environment and heritage through active stewardship to support a resilient and sustainable New South Wales and build a brighter future for all.

The EPA delivers credible, targeted and cost-effective regulatory services for environmental protection. It implements market-based programs and provides audit and enforcement programs and emergency services designed to reduce environmental impacts. It works closely with industry and local government to encourage proactive compliance with environmental regulations and implementation of waste programs.

The total operations of EPA contribute to resilient and sustainable environment and heritage. Separate State outcome statements are not required.

7. Current assets – cash and cash equivalents

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Cash at bank and on hand	35,070	33,340	35,070	33,340
Closing cash and cash equivalents (as per statement of cash flows)	35,070	33,340	35,070	33,340

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.

Finance

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Cash and cash equivalents (as per statement of financial position)	35,070	33,340	35,070	33,340
Closing cash and cash equivalents (as per statement of cash flows)	35,070	33,340	35,070	33,340

For the purposes of the statement of cash flows, cash and cash equivalents include cash at bank and cash on hand.

Refer to note 14 for details on restricted cash balances.

Refer to note 24 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.

8. Current assets – receivables

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Trade receivables from contracts with customers	12,266	9,267	12,266	9,267
Less: allowance for expected credit losses*	(7,871)	(4,441)	(7,871)	(4,441)
Accrued income	23,446	6,610	23,446	6,610
GST Receivable	738	1,365	738	1,365
	28,579	12,801	28,579	12,801

Details regarding credit risk of trade debtors that are neither past due nor impaired are disclosed in note 24.

	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
*Movement in the allowance for expected credit losses				
Balance at the beginning of the year	4,441	480	4,441	480
Amounts written off during the year	-	(140)	-	(140)
Increase/(decrease) in allowance recognised in net results	3,430	4,101	3,430	4,101
Balance at the end of the year	7,871	4,441	7,871	4,441

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

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

Impairment

The EPA 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 EPA expects to receive, discounted at the original effective interest rate.

For trade receivables, the EPA applies a simplified approach in calculating ECLs. The EPA recognises a loss allowance based on lifetime ECLs at each reporting date. The EPA has established a provision matrix based on its historical credit loss experience for trade receivables, adjusted for forward-looking factors specific to the receivable. The provision matrix considered the impact of COVID-19 and recent natural disasters and took into account the following:

- increased credit risk associated with debtors as a result of poor trading conditions
- higher receivables balances (i.e. exposure at default) due to recent credit deferment policies of government and/or late payment
- lost-time value of money, if contractual payment dates are extended or amounts are expected to be received later than when contractually due.

Finance

9. Contract assets and liabilities

Consolidated and parent	2022 \$'000	2021 \$'000
Contract liabilities – current	469	340
Contract receivables (included in note 7)	12,266	9,267

Recognition and measurement

Contract assets relate to the EPA's right to consideration in exchange of goods transferred to customers/ works completed, but not billed at the reporting date in respect of such transfer of goods to customers/ works completed.

Contract receivables has increased in 2022 due to increased receivables relating to cost recoveries from customers.

Contract liabilities relate to consideration received in advance from customers for licence application fee. The liability will be recognised as revenue when the application is accepted and the licence is issued. The balance of contract liabilities at 30 June 2022 was determined by the value and timing of the completion of performance obligations.

	2022 \$'000	2021 \$'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	340	96
Revenue recognised from performance obligations satisfied in previous periods	-	-
Transaction price allocated to the remaining performance obligations from contracts with customers	469	340

10. Non-current assets – property, plant and equipment

Consolidated and parent	Buildings \$'000	Plant and equipment \$'000	Total \$'000
At 1 July 2020 – fair value			
Gross carrying amount	5,540	3,898	9,438
Accumulated depreciation and impairment	(1,357)	(1,952)	(3,309)
Net carrying amount	4,183	1,946	6,129
Year ended 30 June 2021			
Net carrying amount at start of year	4,183	1,946	6,129
Purchase of assets	-	255	255
Site restoration	(1)	263	262
Revaluation	30	-	30
Disposals	-	(6)	(6)
Depreciation expense – asset owned	(111)	(424)	(535)
Net carrying amount at end of year	4,101	2,034	6,135
Consolidated and parent			
At 1 July 2021 – fair value			
Gross carrying amount	5,580	4,362	9,942
Accumulated depreciation and impairment	(1,479)	(2,328)	(3,807)
Net carrying amount	4,101	2,034	6,135
Year ended 30 June 2022			
Net carrying amount at start of year	4,101	2,034	6,135
Purchase of assets	-	156	156
Revaluation	282	-	282
Disposals	-	(15)	(15)
Depreciation expense – asset owned	(113)	(409)	(522)
Net carrying amount	4,270	1,766	6,036
At 30 June 2022 – fair value			
Gross carrying amount	5,972	4,466	10,438
Accumulated depreciation and impairment	(1,702)	(2,700)	(4,402)
Net carrying amount	4,270	1,766	6,036

Further details of the fair value measurements of property, plant and equipment are disclosed in note 13.

Finance

Recognition and measurement

Acquisition of property, plant and equipment

Property, plant and equipment are initially measured at cost and subsequently revalued at fair value, less accumulated depreciation and impairment. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the requirements of other AAS.

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.

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

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.

Major inspection costs

When a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

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.

Depreciation of property, plant and equipment

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

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

The following depreciation rates have been adopted:

- plant and equipment: 10–20% (2021: 10–20%)
- buildings : 2% (2021: 2%)

Right-of-use assets acquired by lessees

AASB 16 Leases (AASB 16) requires a lessee to recognise a right-of-use asset for most leases. The EPA has elected to present right-of-use assets separately in the statement of financial position.

Further information on lease is contained at note 11.

Revaluation of property, plant and equipment

Physical non-current assets are valued in accordance with the Treasury Policy and Guidelines Paper TPP 21-09 *Valuation of Physical Non-Current Assets at Fair Value* and Treasurer's Direction TD 21-05 '*Valuation of Physical non-current Assets at Fair Value*'. TD 21-05 and TPP 21-09 adopt 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 takes 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.

Fair value of property, plant and equipment is based on a market participants' perspective, using valuation techniques (market approach or cost approach) that maximise relevant observable inputs and minimise unobservable inputs. Also refer to note 13 for further information regarding fair value.

Finance

Revaluations shall be made with sufficient regularity to ensure the carrying amount of each asset in the class does not differ materially from its fair value at reporting date. The EPA conducts a comprehensive revaluation of its buildings at least every three years.

An indexation of buildings was done as at 31 March 2022 with an update for movements to 30 June 2022. Australis Asset Advisory Group, an independent valuer provided the indexation rates.

Interim revaluations are conducted between comprehensive revaluations where cumulative changes to indicators suggest fair value may differ materially from the carrying value.

Non-specialised assets with short useful lives are measured at depreciated historical cost, as a surrogate for fair value. The EPA has assessed that 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.

Revaluation increments are recognised in 'other comprehensive income' and credited directly to the asset revaluation surplus in equity. However, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as a loss 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 to the extent that it offsets an existing revaluation surplus in respect of the same class of asset, in which case they are debited directly to the revaluation surplus.

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

When revaluing non-current assets using the cost approach, the gross amount and the related accumulated depreciation are separately restated. Where the income approach or market approach is used, accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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.

The useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end.

Impairment of property, plant and equipment

As the EPA is a not-for-profit entity with no cash generating units, impairment under AASB 136 *Impairment of Assets* is unlikely to arise. Since property, plant and equipment is carried at fair value or an amount that approximates fair value, impairment can only arise in rare circumstances such as where the costs of disposal are material.

At each reporting date, the EPA assesses 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 EPA 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. The amount assessed for impairment in FY2021–22 was nil (FY2020–21: nil).

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

As the EPA is a not-for-profit entity, an impairment loss is recognised in the net result to the extent the impairment loss exceeds the amount in the revaluation surplus for the class of asset.

After an impairment loss has been recognised, it is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited so

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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 and is treated as a revaluation increase. However, to the extent that an impairment loss on the same class of asset was previously recognised in the net result, a reversal of that impairment loss is also recognised in the net result.

11. Leases

EPA as a lessee

EPA leases various properties, equipment and motor vehicles. Lease contracts are typically made for fixed periods of two to eight 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 EPA 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 EPA 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 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.

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

EPA 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 assets are assets with a fair value of \$10,000 or less when new and comprise mainly plant and equipment.

During financial year ended 30 June 2022, EPA has accepted changes in the office accommodation arrangements with Property NSW (PNSW). The main change is the introduction of the 'substitution right' clause, that gives PNSW a right to relocate the entity during the term of the agreement. The clause provides PNSW with a substantive substitution right. Therefore, these agreements are not accounted for as a lease within the scope of AASB 16. The corresponding right-of-use assets and lease liabilities have been derecognised on 30 June 2022, the effective date of the new clauses. The net impact of the derecognition is recognised in 'Other Gains/(Losses)' (refer to note 5). From 1 July 2022, the accommodation charges will be recognised as expenses when incurred over the agreement duration.

EPA continues to be responsible to make good, and to control the fit-out during the remaining occupancy period, as EPA receives the economic benefits through using the fit-out, or through expected compensation from PNSW, if PNSW exercises its right to relocate EPA.

Therefore, EPA's accounting treatment for its make-good provisions and fit-out costs in relation to the relevant accommodation remains unchanged. EPA does not have any incentives received prior to 30 June 2022, hence there will be 'nil' liability in relation to the amortised balance of incentives received.

Finance

a. Right-of-use assets under leases

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

Consolidated and parent	Buildings \$'000	Plant and equipment \$'000	Total \$'000
Balance at 1 July 2021	3,919	533	4,452
Additions	3,285	457	3,742
Depreciation expense	(734)	(344)	(1,078)
Derecognition of right-of-use asset	(6,470)	-	(6,470)
Balance at 30 June 2022	-	646	646

Consolidated and parent	Buildings \$'000	Plant and equipment \$'000	Total \$'000
Balance at 1 July 2020	1,774	641	2,415
Additions	2,858	199	3,057
Depreciation expense	(713)	(307)	(1,020)
Balance at 30 June 2021	3,919	533	4,452

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b. Lease liabilities

The following table presents liabilities under leases (refer to note 16).

Consolidated and parent	2022 \$'000	2021 \$'000
Balance at 1 July	4,566	2,432
Additions	3,741	3,060
Interest expenses	129	88
Payments	(1,151)	(1,014)
Derecognition of lease liabilities	(6,629)	-
Balance at 30 June	656	4,566

c. Right-of-use expenses under leases

The following amounts were recognised in the statement of comprehensive income during the year in respect of leases where the EPA is the lessee.

Consolidated and parent	2022 \$'000	2021 \$'000
Depreciation expense of right-of-use assets	1,078	1,020
Interest expense on lease liabilities	129	88
Expense relating to short-term leases	101	179
Gains or losses arising from derecognising right-of-use assets and lease liabilities with Property NSW	(159)	-
Total amount recognised in the statement of comprehensive income	1,149	1,287

The EPA had total cash outflows for leases of \$1.15 million in FY2021–22 (FY2020–21: \$1.014 million).

Recognition and measurement

The EPA 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 EPA 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 EPA 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 and the estimated useful lives of the assets, as follows:

- motor vehicles and other equipment 2 to 5 years
- buildings 3 to 8 years.

If ownership of the leased asset transfers to the EPA 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.

Finance

The right-of-use assets are also subject to impairment. The EPA 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 EPA estimates the asset's recoverable amount. When the carrying amount of the 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 assets in prior years. Such reversal is recognised in the net result. The amount assessed for impairment in FY2021–22 is nil (FY2020–21: nil).

(ii) Lease liabilities

At the commencement date of the lease, the EPA 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 EPA
- payments of penalties for terminating the lease, if the lease term reflects the EPA exercising the option to terminate.

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 EPA's leases, the lessee's incremental borrowing rate is used, being the rate that the EPA 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 EPA's lease liabilities are included in borrowings (refer to note 16).

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

The EPA 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.

12. Intangible assets

Consolidated and parent	Software \$'000	Capital work in progress \$'000	Total \$'000
At 1 July 2020 – fair value			
Cost (gross carrying amount)	16,728	6,126	22,854
Accumulated amortisation and impairment	(10,947)	-	(10,947)
Net carrying amount	5,781	6,126	11,907
Year ended 30 June 2021			
Net carrying amount at start of year	5,781	6,126	11,907
Additions	1,857	4,741	6,598
Amortisation (recognised in 'depreciation and amortisation')	(2,061)	-	(2,061)
Net carrying amount at end of year	5,577	10,867	16,444
At 1 July 2021 – fair value			
Cost (gross carrying amount)	17,470	10,867	28,337
Accumulated amortisation and impairment	(11,893)	-	(11,893)
Net carrying amount	5,577	10,867	16,444
Year ended 30 June 2022			
Net carrying amount at start of year	5,577	10,867	16,444
Additions	2,117	2,581	4,698
Transfer from work in progress	9,230	(9,230)	-
Amortisation (recognised in 'depreciation and amortisation')	(2,646)	-	(2,646)
Net carrying amount	14,278	4,218	18,496
At 30 June 2022 – fair value			
Cost (gross carrying amount)	28,817	4,218	33,035
Accumulated amortisation and impairment	(14,539)	-	(14,539)
Net carrying amount	14,278	4,218	18,496

Recognition and measurement

The EPA recognises intangible assets only if it is probable that future economic benefit will flow to the EPA 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 EPA's intangible assets, the assets are carried at cost less any accumulated amortisation and impairment losses.

All research costs are expensed. Development costs are only capitalised when certain criteria are met.

Finance

Software

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

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

The EPA's software assets are amortised using the straight-line method over a period ranging 4–10 years.

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

13. 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.

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 EPA categorises, for disclosure purposes, the valuation techniques based on the inputs used in the valuation techniques as follows:

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

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

Refer to note 24 for further disclosures regarding fair value measurements of financial assets.

a. Fair value hierarchy

Consolidated and parent 2022	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Property, plant and equipment (note 10)				
Buildings	-	-	4,270	4,270
Total	-	-	4,270	4,270
Consolidated and parent 2021	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Property, plant and equipment (note 10)				
Buildings	-	-	4,101	4,101
Total	-	-	4,101	4,101

There were no transfers between Level 1 or 2 during the current or prior year.

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b. Valuation techniques, inputs and processes

Highest and best use

Non-financial assets are valued on a highest and best-use basis.

Level 3 measurements

EPA non-financial assets classed as Level 3 in the fair value hierarchy are valued using a cost approach given that their use is specialised in nature and they are not actively traded in the marketplace. Cost has been derived using actual costs plus reference to industry costing guides based on the characteristics of the relevant asset.

Comprehensive independent valuations are conducted for buildings at least once every three years. A comprehensive revaluation of buildings as at 31 March 2021 was undertaken by Colliers International Valuation & Advisory Services Pty Ltd. The fair value of the assets is adjusted annually for material movements between comprehensive valuations. An indexation of buildings was done as at 31 March 2022 with an update for value movements to 30 June 2022. Australis Asset Advisory Group, an independent valuer provided the indexation rates.

EPA engages independent, qualified valuers with appropriate experience to conduct external valuations.

Annual movements in industry costing guides or relevant indexes will result in corresponding changes to the fair value of EPA Level 3 assets.

c. Reconciliation of recurring Level 3 fair value measurements

	Buildings \$'000	Total recurring Level 3 fair value \$'000
Consolidated and parent 2022		
Fair value as at 1 July 2021	4,101	4,101
Revaluations	282	282
Depreciation	(113)	(113)
Fair value as at 30 June 2022	4,270	4,270
	Buildings \$'000	Total recurring Level 3 fair value \$'000
Consolidated and parent 2021		
Fair value as at 1 July 2020	4,183	4,183
Additions	(1)	(1)
Revaluations	30	30
Depreciation	(111)	(111)
Fair value as at 30 June 2021	4,101	4,101

Finance

Type (Level 3)	Valuation technique	Inputs	Relationship of unobservable inputs to fair value
Buildings	Current replacement cost (CRC) approach	<ul style="list-style-type: none"> • Current construction cost estimates as published in Rawlinson's Handbook • Actual comparable construction costs • Gross floor area and total and remaining useful life 	The valuer has determined the fair value of buildings by assessing the replacement cost and making appropriate adjustments for age, condition and functional and technical obsolescence. The higher the unit cost rate the higher the fair value or the older or the poorer the condition, the lower the fair value. During the revaluation process, the valuer physically inspected the Environmental Science Facility.

14. Restricted assets

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Current				
Contributions	23,210	16,957	23,210	16,957
Restricted cash	23,210	16,957	23,210	16,957

The above amounts are recognised as restricted assets as there are specific legislative or contractual conditions associated with the use of these funds.

15. Current liabilities – payables

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Accrued salaries, wages and on-costs	2,647	1,849	578	-
Creditors	32,274	17,444	32,274	17,444
Unearned revenue	2,131	80	2,131	80
Payable to the EPA Staff Agency	-	-	2,069	1,849
	37,052	19,373	37,052	19,373

Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above payables, are disclosed in note 24.

Recognition and measurement

Payables represent liabilities for goods and services provided to the EPA 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 in the net result when the liabilities are derecognised as well as through the amortisation process.

16. Current/non-current liabilities – borrowings

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Current				
Lease liability	302	926	302	926
	302	926	302	926
Non-current				
Lease liability	354	3,640	354	3,640
	354	3,640	354	3,640

Details regarding liquidity risk, including a maturity analysis of the above payables, are disclosed in note 24.

Finance

Recognition and measurement

Borrowing represents interest-bearing lease liabilities.

Financial liabilities at amortised cost

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.

Changes in liabilities arising from financial activities

	Leases \$'000	Total liabilities from financing activities \$'000
1 July 2020	2,432	2,432
Cash flows	(1,014)	(1,014)
New leases	3,060	3,060
Interest expenses	88	88
30 June 2021	4,566	4,566
Cash flows	(1,151)	(1,151)
New leases	3,741	3,741
Interest expenses	129	129
Derecognition of leases	(6,629)	(6,629)
30 June 2022	656	656

17. Current/non-current liabilities – provisions

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Current				
Restoration costs	183	53	183	53
Employee benefits and related on-costs				
Annual leave ¹	9,539	6,003	-	-
Annual leave on-costs ¹	1,359	902	-	-
Long-service leave on-costs ²	3,251	3,591	-	-
Payable to the EPA Staff Agency	-	-	14,149	10,496
Total current	14,332	10,549	14,332	10,549
Non-current				
Restoration costs	314	515	314	515
Employee benefits and related on-costs				
Long-service leave on-costs ²	327	355	-	-
Payable to the EPA Staff Agency	-	-	327	355
Total non-current	641	870	641	870
Total provisions	14,973	11,419	14,973	11,419
Aggregate employee benefits and related on-costs				
Provisions – current	14,149	10,496	-	-
Provisions – non-current	327	355	-	-
Accrued salaries, wages and on-costs (note 14)	2,647	1,849	-	-
Payable to the EPA Staff Agency	-	-	17,123	12,700
	17,123	12,700	17,123	12,700

1. The value of employee benefits and related on-costs expected to be paid after 12 months is \$0.33 million (2021: \$0.36 million).
2. The EPA's liabilities for long-service leave are assumed by the Crown. However, the EPA has an obligation to meet the long-service related on-costs.

Finance

Movements in provisions (other than employee benefits)

Movements in provision for restoration costs during the financial year are set out below:

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Carrying amount at 1 July	568	306	568	306
Additional provisions recognised	-	253	-	253
Gain or loss in other provisions	(71)	9	(71)	9
Carrying amount at 30 June	497	568	497	568

Recognition and measurement: employee benefits and related on-costs

Salaries and wages, annual leave and sick leave

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

Annual leave not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, is to be measured at present value in accordance with AASB 119 *Employee Benefits*.

Actuarial advice obtained by Treasury has confirmed that using the nominal annual leave balance plus the annual leave entitlements accrued while taking annual leave (calculated using 8.4% of the nominal value of annual leave) can be used to approximate the present value of the annual leave liability. The EPA has assessed the actuarial advice based on its circumstances and has determined that the effect of discounting is immaterial to annual leave. All annual leave is classified as a current liability even where the EPA does not expect to settle the liability within 12 months as the EPA does not have an unconditional right to defer settlement.

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

Long-service leave and superannuation

The EPA's liabilities for long-service leave and defined benefit superannuation are assumed by the Crown. The EPA accounts for the liability as having been extinguished resulting in the amount assumed being shown as part of the non-monetary revenue item is described as 'Acceptance by the Crown of employee benefits and other liabilities'.

Long-service leave is measured at the present value of expected future payments to be made in respect of services provided up to the reporting date. Consideration is given to certain factors based on actuarial review, including expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using Commonwealth Government bond rate at the reporting date.

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

Consequential on-costs

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

Other provisions

Provisions are recognised when EPA 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. When the EPA expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented net of any reimbursement in the statement of comprehensive income.

If the effect of the time value of money is material, provisions are discounted at 3.5%, which is a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time (i.e. unwinding of discount rate) is recognised as a finance cost.

18. Equity

Recognition and measurement

Revaluation surplus

The revaluation surplus is used to record increments and decrements on the revaluation of non-current assets. This accords with EPA policy on the revaluation of property, plant and equipment as discussed in note 1.

Accumulated funds

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

Equity transfers

The transfer of net assets between entities as a result of an administrative restructure, transfers of programs/functions and parts thereof between NSW public sector entities and 'equity appropriations' are designated or required by the Accounting Standards to be treated as contributions by owners and recognised as an adjustment to 'Accumulated funds'. This treatment is consistent with AASB 1004 *Contributions and Australian interpretation* and AASB 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, in most instances this will be approximate fair value.

Finance

19. Commitments for expenditure

Consolidated and parent	2022 \$'000	2021 \$'000
Capital commitments		
Aggregate capital expenditure for the acquisition of plant and equipment contracted for at balance date and not provided for:		
Not later than one year	175	216
Total (including GST)	175	216

20. Contingent liabilities and contingent assets

Contingent liabilities

a. Claims on the Treasury Managed Fund

The EPA is a member of the NSW Treasury Managed Fund (TMF) self-insurance scheme. The fund manages civil claims against the EPA in relation to issues such as negligence and public liability. As at 30 June 2022, there was no material claim on the Treasury Managed Fund.

b. Other claims

There are presently no unresolved civil claims where legal action has been taken against the EPA seeking damages or similar.

The EPA is not aware of any significant or material contingent liability in existence at 30 June 2022 or which has emerged subsequent to this date, which may materially impact on the financial position of the EPA as shown in the financial statements.

Contingent assets

The EPA has no contingent assets as at 30 June 2022.

21. 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 transfer of budget between entities, are not reflected in the budgeted amounts. Major variances between the original budgeted amounts and the actual amounts disclosed in the financial statements are explained below.

Net result: Actual net result of \$2.1 million loss against the budget of \$5.6 million profit, a variance of \$7.7 million.

The lower than budgeted net result was due mainly to:

Total expenses being lower than budget by \$80.9 million. The lower total expenses was mainly due to lower other operating expenses of \$59.1 million, which includes underspend of the project to clean-up and remove waste for flood-affected areas of \$77.2 million. This was partially offset by higher temporary staff/contractor costs of \$12.8 million and advertising costs of \$4.1 million. Grants and subsidies expense was lower by \$11.4 million due to the lower expenditure in waste-related projects. Employee-related expenses are lower than budget by \$10.0 million resulting from delayed recruitment during the year and lower than budget long-service leave expense.

Total revenue being lower than budget by \$88.8 million. The reason for the variation of lower total revenue of \$88.8 million was due mainly to \$88.5 million lower grants and contributions received, which was impacted by lower than budgeted grants for the project to clean-up and remove waste for flood-affected of \$69.3 million and grant funding for waste related projects of \$13.7 million.

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Net assets: Actual net assets of \$35.7 million against the budget of \$44.6 million – a variance of \$8.9 million

The total assets are higher than budget by \$17.7 million, mainly due to increased cash at bank by \$17.1 million, which was a result of the increased restricted cash of \$13.2 million including funds received for the bushfire grant, increase in current receivables by \$16.2 million is due to increase in accrued income. This was partially offset by a reduction in right-of-use assets of \$4.2 million with the derecognition of property leases, and intangible assets of \$6.8 million due to lower capital spend during the year. The total liabilities are higher than budget by \$26.5 million, mainly due to increase in payables of \$27.1 million, including flood clean-up and bushfire program payables. Provisions were higher by \$3.7 million due to an increase in employee provisions. Borrowings were lower by \$4.4 million due to a derecognition of property lease liabilities during the year.

Cash flow: Closing cash and cash equivalents of \$35.1 million against a budget of \$18.0 million – a variance of \$17.1 million

Total payments from operating activities were lower than budget by \$86.7 million due to other operating payments, of \$69.2 million, and grants and subsidies, of \$11.4 million, which is a reflection of the operating results as there was an underspend on project-related operations. Total receipts were lower than budget by \$89.6 million mainly due to lower grants received of \$105.3 million. Net cashflows from investing activities was \$9.4 million lower than budget due to the business experiencing lower capital expenditure during the year.

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

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Net cash used on operating activities	7,607	13,622	7,607	13,622
Depreciation and amortisation	(4,246)	(3,616)	(4,246)	(3,616)
Gain/(loss) on disposal of asset	445	(6)	445	(6)
Increase/(decrease) in receivables	15,785	2,506	15,785	2,506
Decrease/(increase) in provisions	(3,625)	102	(3,625)	102
Decrease/(increase) in creditors	(17,686)	(9,400)	(17,686)	(9,400)
Decrease/(increase) in contract liabilities	(359)	25	(359)	25
Net result	(2,079)	3,233	(2,079)	3,233

Finance

23. Administered assets, liabilities and income

Consolidated and parent	2022 \$'000	2021 \$'000
Administered assets		
Receivables	118,151	110,573
Allowance for impairment	(29,264)	(24,120)
Cash	554	943
Remittance clearing	741,949	(943)
Total administered assets	831,390	86,453
Administered liabilities		
Creditors	-	-
Total administered liabilities	-	-
Administered income		
Pollution licences and approvals	28,819	25,957
Waste-related levies and fees	727,213	763,021
Coal wash levy	2,414	2,977
Waste levy rebates	(10,717)	(3,735)
Fines	1,396	1,957
Total administered income	749,125	790,177
Impairment loss	5,144	10,213
Total impairment loss	5,144	10,213

The above receipts were collected by the EPA on behalf of the Crown in right of the State of New South Wales.

These are not included in the EPA's statement of financial position and statement of comprehensive income. They are brought to account as revenue in the Treasurer's Public Accounts.

24. Financial instruments

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

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

The EPA Board and Chief Executive Officer have overall responsibility for the establishment and oversight of risk management and reviews and agree to policies for managing each of these risks. Risk management policies are established to identify and analyse the risks faced by the EPA, set risk limits and control and monitor risks. Compliance with policies is reviewed by the Audit and Risk Committee and internal auditors on a periodic basis.

a. Financial instrument categories

Consolidated and parent

Financial assets		Carrying Amount 30 June 2022 \$'000	Carrying Amount 30 June 2021 \$'000
Class	Note Category		
Cash and cash equivalents	7 N/A	35,070	33,340
Receivables ¹	8 Receivables (at amortised cost)	27,841	11,436

Financial liabilities		Carrying Amount 30 June 2022 \$'000	Carrying Amount 30 June 2021 \$'000
Class	Note Category		
Payables ²	15 Financial liabilities at amortised cost	34,921	19,293
Borrowings	16 Financial liabilities at amortised cost	656	4,566

Notes:

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

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 the EPA transfers the financial asset:

- where the EPA has substantially transferred all the risks and rewards; or
- where the EPA has not transferred substantially all the risks and rewards and the EPA has not retained control.

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

Finance

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 EPA could be required to repay.

A financial liability is derecognised when the obligation specified in the contract is discharged, 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.

c. Financial risks

Credit risk

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

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

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

Cash

Cash comprises cash on hand and bank balances within the NSW Treasury Banking System. Interest is earned on daily bank balances of specified restricted cash at the monthly average NSW Treasury Corporation (TCorp) 11 am unofficial cash rate, adjusted for a management fee to NSW Treasury.

Accounting policy for impairment of trade receivables

Receivables – trade and other debtors

Collectability of trade receivables 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 EPA applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

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.

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

The loss allowance for trade debtors as at 30 June 2022 and 30 June 2021 was determined as follows:

Consolidated and parent 30 June 2022	Current \$'000	<30 days \$'000	30–60 days \$'000	61–90 days \$'000	>91 days \$'000	Total \$'000
Expected credit loss rate	-	-	-	-	97.4%	
Estimated total gross carrying amount	3,882	99	14	192	8,079	12,266
Expected credit loss	-	-	-	-	7,871	7,871

Consolidated and parent 30 June 2021	Current \$'000	<30 days \$'000	30–60 days \$'000	61–90 days \$'000	>91 days \$'000	Total \$'000
Expected credit loss rate	22%	-	91%	1%	83%	
Estimated total gross carrying amount	4,134	1,013	2,523	107	1,490	9,267
Expected credit loss	898	-	2,306	1	1,236	4,441

Note: The analysis is calculated based on trade debtors only (excluding accrued income and statutory receivables, as these are not within the scope of AASB 7). The total will therefore not reconcile with the receivables total in note 8.

The EPA is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors.

Liquidity risk

Liquidity risk is the risk that the EPA will be unable to meet its payment obligations when they fall due. The EPA 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 overdrafts, loans and other advances.

During the current and prior year, there were no defaults of loans payable. No assets have been pledged as collateral. The EPA's exposure to liquidity risk is deemed insignificant, based on data from prior periods and current assessment of risk.

The 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. For payments to other suppliers, the head of an authority (or a person appointed by the head of an authority) may automatically pay the supplier simple interest.

The rate of interest applied during the year was 8.07% (2021: 8.01%).

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

Consolidated and parent	\$'000							
	Weighted average effective interest rate	Interest Rate Exposure			Maturity Dates			
		Nominal amount ¹	Fixed Interest Rate	Variable Interest Rate	Non-interest bearing	< 1 yr	1–5 yrs	
2022								
Payables	N/A	34,921	-	-	34,921	34,921	-	-
Borrowings	2.90%	656	656	-	-	302	354	-
		35,577	656	-	34,921	35,223	354	-
2021								
Payables	N/A	19,293	-	-	19,293	19,293	-	-
Borrowings	3.03%	4,566	4,566	-	-	926	3,640	-
		23,859	4,566	-	19,293	20,219	3,640	-

1. The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities based on the earliest date on which the EPA can be required to pay. The tables include both interest and principal cash flows and therefore will not reconcile to the statement of financial position.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The EPA has no exposure to foreign currency risk and does not enter into commodity contracts.

The effect on profit and equity due to a reasonably possible change in risk variables is outlined in the information below for interest rate risk and other price risk. A reasonably possible change in risk variables has been determined after taking into account the economic environment in which the EPA operates and the timeframe 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 Statement of Financial Position date. The analysis is performed on the same basis as for 2021. The analysis assumes that all other variables remain constant.

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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 EPA does not account for any fixed-rate financial instruments at fair value through profit or loss. Therefore, for these financial instruments, a change in interest rates would not affect the carrying value or interest paid/earned. A reasonably possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility. The EPA's exposure to interest rate risk is set out below.

Consolidated and parent	Carrying amount \$'000	Profit \$'000	-1% Equity \$'000	Profit \$'000	+1% Equity \$'000
2022					
Financial assets					
Cash and cash equivalents	35,070	(351)	(351)	351	351
Receivables	27,841	(278)	(278)	278	278
Financial liabilities					
Payables	34,921	349	349	(349)	(349)
Borrowings	656	7	7	(7)	(7)
2021					
Financial assets					
Cash and cash equivalents	33,340	(333)	(333)	333	333
Receivables	11,436	(114)	(114)	114	114
Financial liabilities					
Payables	19,293	193	193	(193)	(193)
Borrowings	4,566	46	46	(46)	(46)

d. Fair value compared to carrying amount

Financial instruments are generally recognised at cost. The amortised cost of financial instruments recognised in the statement of financial position approximates fair value because of the short-term nature of the financial instruments.

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25. Related party disclosures

The EPA's key management personnel compensation are as follows:

	Consolidated		Environment Protection Authority	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Short-term employee benefits				
Salaries*	3,279	3,111	724	668
Total remuneration	3,279	3,111	724	668

* Excludes payroll tax

During the year, the EPA incurred \$2.3 million (2021: \$2.4 million) for the provision of key management personnel services that are provided by the EPA Staff Agency.

During the year, the EPA entered into transactions with other agencies that are controlled/jointly controlled/significantly influenced by the NSW Government. These transactions allow the EPA to meet its objectives and in aggregate are a significant component of the EPA's operations. These transactions are primarily in the form of grants paid and received and are disclosed in notes 2(d), 3(c) and 3(d) respectively.

There are no material related party transactions between the EPA and the key management personnel, their close family members and controlled or jointly controlled entities thereof.

26. Events after the reporting period

There are no known events that would impact on the state of the EPA or have a material impact of the financial statements.

End of audited financial statements.



INDEPENDENT AUDITOR'S REPORT

Environment Protection Authority

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the Environment Protection Authority (the EPA), which comprise the Statement by the Chief Executive Officer and Chair, the Statement of Comprehensive Income for the year ended 30 June 2022, the Statement of Financial Position as at 30 June 2022, 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 of the EPA and the consolidated entity. The consolidated entity comprises the EPA and the entity it controlled at the year's end or from time to time during the financial year.

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
- presents fairly the financial position, financial performance and cash flows of the EPA and the consolidated entity.

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

Basis for Opinion

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

I am independent of the EPA and the consolidated entity 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.

Chief Executive Officer's Responsibilities for the Financial Statements

The Chief Executive Officer is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the GSF Act, GSF Regulation and Treasurer's Directions. The Chief Executive Officer's responsibility also includes such internal control as the Chief Executive Officer determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive Officer is responsible for assessing the ability of the EPA and the consolidated entity 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/ar3.pdf. The description forms part of my auditor's report.

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

- that the EPA or the consolidated entity carried out their 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.



Reiky Jiang
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

21 October 2022
SYDNEY