

7. COMMERCIAL PERFORMANCE IN THE BROADER PUBLIC SECTOR

- Commercial operations of the public sector are delivered through the State Owned Corporations (SOCs), other entities in the public non-financial corporation (PNFC) sector and entities in the public financial corporation (PFC) sector (see Appendix A4 Classification of Agencies for classifications of the entities). These commercial entities operate at arm's length from the Government and are guided by Treasury's Commercial Policy Framework.
- The Government is working with individual SOCs to align their strategic direction with the Government's priorities, while maintaining SOCs' independence of operation in a commercial manner. SOCs will fully reflect the Government's expectations in the upcoming Statement of Corporate Intent and business planning process for 2024-25.
- The commercial entities in the NSW public sector deliver essential services including water, energy and port functions. The Government is committed to maintaining public ownership of its essential assets. The Government has safeguarded Sydney Water Corporation (Sydney Water) and Hunter Water Corporation (Hunter Water) from privatisation through an amendment to the *Constitution Act (NSW) 1902*.
- SOCs are taking action to support the State's energy security and transition to net zero emissions. They are exploring a wide spectrum of renewable energy solutions, including renewable energy generation, storage and efficient connections to the network.
- In line with the Government's commitment to addressing the cost of living by ensuring housing is more affordable, Landcom is accelerating investment in affordable housing. A special dividend of \$300.0 million that had been projected to be declared in 2024-25 will instead be retained and used to fund the delivery of an estimated additional 4,697 dwellings, of which 1,409 will be affordable housing.
- icare continues to implement a multi-year improvement program aimed at:
 - strengthening icare's culture, governance and accountability frameworks
 - upgrading risk management and capability
 - bringing about a greater focus on customer and return to work outcomes.

The program is underpinned by the recommendations from the *State Insurance and Care Governance Act 2015* Independent Review led by the Hon Robert McDougall QC (McDougall Review) and the Governance, Accountability and Culture Review (GAC Review) in 2021. The reviews contained 107 recommendations which icare has committed to addressing. icare will progressively address the remaining 86 recommendations throughout 2023-24.
- The total dividend and tax equivalent payments by entities in the PNFC and PFC sectors were \$653.7 million in 2022-23 and are forecast to be \$4.1 billion over the budget year and forward estimates to 2026-27.

7.1 Reforms and initiatives of State Owned Corporations

Water

Sydney Water and Hunter Water deliver essential water and wastewater services to households in Greater Sydney, Illawarra and the Lower Hunter. WaterNSW supplies bulk water to metropolitan and regional areas.

The Government is committed to safeguarding the State's essential water assets from privatisation.

Box 7.1: Protecting the State's water assets

On 1 June 2023, the Legislative Council passed the *Constitutional Amendment (Sydney Water and Hunter Water) Bill 2023*, amending the *Constitution Act (NSW) 1902* to protect the continued public ownership of Sydney Water and Hunter Water.

The new provisions of the legislation ensure the essential water assets continue to belong to the people of New South Wales, which will support strategic investment in the State's water security and prevent severe water price spikes.

The Government has also agreed to establish a parliamentary inquiry that will examine options for safeguarding and supporting other regional water utilities and securing the future of water services to all parts of New South Wales. The inquiry will involve extensive local consultations and will report on the governance systems and regulatory and assurance framework for local water utilities.

In response to the cost-of-living pressures, both Sydney Water and Hunter Water have expanded their assistance programs to provide support for vulnerable customers, including concessions to eligible pensioners and assistance to eligible customers who are experiencing financial hardship.

Ensuring a resilient and sustainable water future is key for both Sydney Water and Hunter Water.

Consistent with the Lower Hunter Water Security Plan, Hunter Water is designing the Belmont Desalination Plant, exploring a connection on the Paterson River to the proposed Lostock Dam and Glennies Creek Dam pipeline, and investigating increased use of recycled water across the Lower Hunter.

Sydney Water has developed its new long-term capital and operational plan, in collaboration with WaterNSW. Sydney Water supplies clean and safe drinking water to 5.3 million people. The plan sets out investments to ensure Sydney Water can service nearly two million more people by 2050.

To support increasing housing supply, the Government will work with Sydney Water to review its capital and service planning to provide timely services to priority areas for housing growth. This review is expected to be completed by early 2024.

Sydney Water has progressed projects that contribute to thriving, liveable and sustainable communities.

The \$1.3 billion Advanced Water Recycling Centre at Upper South Creek is Sydney Water's largest investment in water resilience over the next 10 years. The centre will create a foundation for a circular economy hub in Western Sydney that can offer integrated circular water, energy and organic waste management. Once completed, the centre will:

- supply wastewater services to thousands of new dwellings around the Western Sydney International Airport
- produce high-quality treated water for sustainable use in homes and businesses
- supply biosolids for agribusiness
- maximise energy recovery and unlock the value of food waste in the economy by sourcing organic waste in surrounding areas to produce and supply renewable gas to local households and industries.

In addition, the development of the centre is expected to generate \$10.0 billion of social and economic benefits in Western Sydney through jobs and investment.

Other Sydney Water projects in progress include:

- the new Purified Recycled Water Discovery Centre at Quakers Hill, which will educate and engage visitors on purified recycled water
- a smart irrigation project under a trial agreement with Penrith City Council and Liverpool City Council, which is expected to result in 10 to 20 per cent reduction in water use for the councils.

In 2022-23, New South Wales and the Murray-Darling Basin experienced the wettest Spring on record. This resulted in extreme flooding in catchments across the State, bringing with it tremendous hardship for thousands of people.

During this period, WaterNSW worked closely with the State Emergency Services and the Bureau of Meteorology to mitigate the impacts of these floods where possible, while keeping local stakeholders informed and engaged throughout.

Working in partnership with local councils and other stakeholders through local Airspace Reference Panels, WaterNSW helped manage dam levels prior to rainfall events to capture floodwater.

Energy

Essential Energy operates and maintains one of Australia's largest electricity distribution networks.

Essential Energy focuses on the future needs of customers in regional, rural and remote communities of New South Wales. It seeks to optimise asset investment and use, maintain affordable network charges and facilitate new ways for customers to connect to the network and utilise services.

Essential Energy expects to spend over \$100.0 million in 2023-24 as part of its network upgrades and resilience programs. This will contribute towards replacing 11,000 poles with fireproof composite poles in high-risk areas and building 1,123 portable community resilience assets by 2028-29.

In response to growth in connection inquiries from renewable generators and new load customers, Essential Energy expects to undertake \$40.0 million in capital works during 2023-24 to facilitate customer connections. Essential Energy is targeting 4.2 gigawatts of renewable generation to be connected to the network by 2029-30.

In line with the Government's response to the Electricity Supply and Reliability Check Up, Essential Energy will work with the Government and the other NSW networks to explore opportunities to materially increase large-scale renewable connections.¹

For Essential Energy, this will utilise significant available capacity that exists in its high voltage network, connecting more renewable energy and storage in the short to medium term. In return, NSW consumers can benefit from cheaper and cleaner electricity as larger scale network projects are developed.

In addition, Essential Energy is improving reliability for remote and rural customers and communities by transitioning high cost-to-serve customers to more efficient and reliable solutions where it is economically and technically feasible. This includes a target to deliver 400 stand-alone power systems by 2028-29 that will provide safe, reliable and renewable power to remote communities, or in difficult to access, flood or bushfire-prone locations.

Box 7.2: SOCs contribute to the State's renewable energy transition

The energy sector is undergoing a transformation with renewable energy continuing to grow to deliver clean power and reduce carbon emissions. All SOCs have taken initiatives to contribute to the State's energy security and transition to renewable energy.

WaterNSW Renewable Energy and Storage Program

WaterNSW is progressing its Renewable Energy and Storage Program which looks to identify opportunities to use its land and assets to support renewable energy generation and storage projects in New South Wales.

The program aligns with the State's energy initiatives, including the NSW Electricity Strategy, the NSW Electricity Infrastructure Roadmap and the NSW Pumped Hydro Roadmap. WaterNSW is undertaking the program in close collaboration with the Energy Corporation of NSW (EnergyCo).

In December 2022, WaterNSW entered into the first development agreement under the program, which is with ACEN Australia for a pumped hydro scheme located near Lake Burrendong. If constructed, the large-scale power station will provide electricity for up to 400,000 households.

Forestry Corporation of NSW (Forestry Corporation) – wind farm opportunities

Forestry Corporation is working to identify opportunities to produce renewable energy within the 225,000 hectares of State forest pine plantations. Forestry Corporation has shortlisted renewable energy providers and requested formal proposals to understand if the development opportunities are compatible with forestry activities.

This initiative is consistent with EnergyCo's 2023 Network Infrastructure Strategy, with some of the potential sites being close to existing network infrastructure and being able to open opportunities for generation to connect to new parts of the grid which were previously difficult to access.

The scale, timing and location of this potential generation development could influence the planning and operational parameters of NSW Renewable Energy Zones. EnergyCo will work closely with Forestry Corporation to ensure coordinated development of the two programs to achieve the best outcome for NSW electricity consumers.

Initiatives by the other SOCs

Other SOCs have also commenced identifying renewable energy opportunities as part of their sustainability agenda, including:

- biogas production by Sydney Water
- shore power by Port Authority of New South Wales (Port Authority)
- onsite renewable energy systems by Hunter Water and Landcom
- fireproof (composite) power poles, microgrids, stand-alone power systems, electric vehicles, batteries and renewable generation network connections by Essential Energy.

¹ To review the Government response to the Electricity Supply and Reliability Check Up, please refer to the NSW Climate and Energy Action website (<https://www.energy.nsw.gov.au/>).

Transport

Transport Asset Holding Entity of NSW (TAHE)

TAHE owns an extensive asset portfolio of property, stations, rollingstock and rail infrastructure across the Sydney metropolitan area, the country regional network and other limited locations in New South Wales. TAHE is also the strategic asset manager of these assets.

TAHE will transition from its current operating model as a statutory SOC with a commercial imperative to a non-commercial PNFC. TAHE's new operating model will be implemented under a phased approach over the next 12 months. As part of the transition, the Government will no longer require TAHE to provide returns to Government in the form of dividends and income tax equivalents from 2023-24 onwards.

Port Authority

Port Authority is responsible for all commercial marine functions in the ports of Sydney Harbour, Port Botany, Newcastle Harbour, Port Kembla, Port of Eden and Port of Yamba.

Demand for cruises in 2023-24 is expected to remain strong which will facilitate sustainable tourism in New South Wales. Port Authority will invest \$43.3 million over the 10 years from 2023-24 to 2032-33 in key cruise infrastructure assets to improve customer experience, including upgrades to the Overseas Passenger Terminal and the White Bay Cruise Terminal.

The terminal capacity for cruise ships in Sydney Harbour is becoming constrained and Port Authority is examining options to improve the capacity.

Port Authority is leading the development of the Bays Port Integration and Innovation Plan which will provide a long-term vision for Bays Port. The plan will identify opportunities for increasing the utilisation of the port, introducing new uses and subsequently supporting an efficient and sustainable city. The development of this plan commenced in 2022-23 and will conclude in 2023-24.

Property

Landcom is the State's land and property development organisation that develops land to achieve both public outcomes and financial benefits for the State and people of New South Wales. Landcom supplies new dwellings through the delivery of master-planned communities and development projects, with a focus on expanding the stock of affordable and diverse housing.

Landcom settled 2,313 dwellings in 2022-23 and projects to settle 3,581 dwellings in 2023-24. The settlements in 2023-24 include the first settlements of 161 dwellings at Landcom's Panorama project in North Wilton. The North Wilton project is on an 871-hectare site and is expected to deliver over 5,000 dwellings over the next 25 years.

Box 7.3: Landcom accelerates the supply of affordable housing

The Government is committed to addressing the cost-of-living pressures by ensuring housing is more affordable. As part of this commitment, Landcom will accelerate investment in delivering affordable housing by reinvesting \$300.0 million of dividends planned to be declared in 2024-25. The investment will allow Landcom to deliver an estimated 1,409 affordable dwellings and 3,288 market dwellings.

In addition to the \$300.0 million investment, Landcom remains committed to delivering 10 per cent of its new housing in metropolitan areas and 20 per cent in regional areas as affordable housing.

Landcom released 237 dwellings in 2022-23 as affordable rental housing to community housing providers, and expects to release 579 dwellings in 2023-24.

Excluding the dwellings to be delivered as part of the \$300.0 million investment, New South Wales has committed to build 3,100 affordable housing dwellings by 2028-29 as part of the National Housing Accord, of which 1,800 dwellings will be supplied by Landcom.

Landcom is also improving the supply of affordable housing in regional New South Wales. It is in the process of acquiring two regional sites for developing build-to-rent housing in the South Coast and Northern Rivers Region. The two projects are estimated to deliver a total of 100 dwellings over the next five years.

Forestry

Forestry Corporation manages the State forests. It also delivers a range of other public services including recreation, tourism, conservation and firefighting.

Forestry Corporation continues to invest in the State's future timber resource through improved estate evaluation plans and replanting plantations affected by the 2019-20 bushfires. In 2022-23, Forestry Corporation invested \$15.3 million to repair roads and bridges impacted by the floods and reopen crucial links to forests for regional communities, industry and visitors.

Major investments are being made in strategic fire trails and installation of hardware for the transition to the Government Radio Network. Forestry Corporation also remains prepared and equipped for fires through retrofitted fire tanks and light vehicles in line with the recommendations from the NSW Bushfire Inquiry into the 2019-20 bushfire season.

The Government has made an election commitment to establish the Great Koala National Park (GKNP) on the Mid North Coast. While the GKNP is being established, Forestry Corporation ceased forestry harvesting operations in high density koala population areas of the proposed GKNP, effective from 1 September 2023. The Government is working with Forestry Corporation on timber supply options.

7.2 Capital expenditure

In 2022-23, capital expenditure within the PNFC sector was \$5.6 billion, which is \$1.4 billion lower than projected in the 2022-23 Half-Yearly Review. This is largely driven by the updated project delivery profile of TAHE.

Over the four years to 2026-27, capital expenditure within the PNFC sector is projected to be \$31.0 billion, which is \$4.7 billion higher than projected in the 2022-23 Half-Yearly Review. Key movements include:

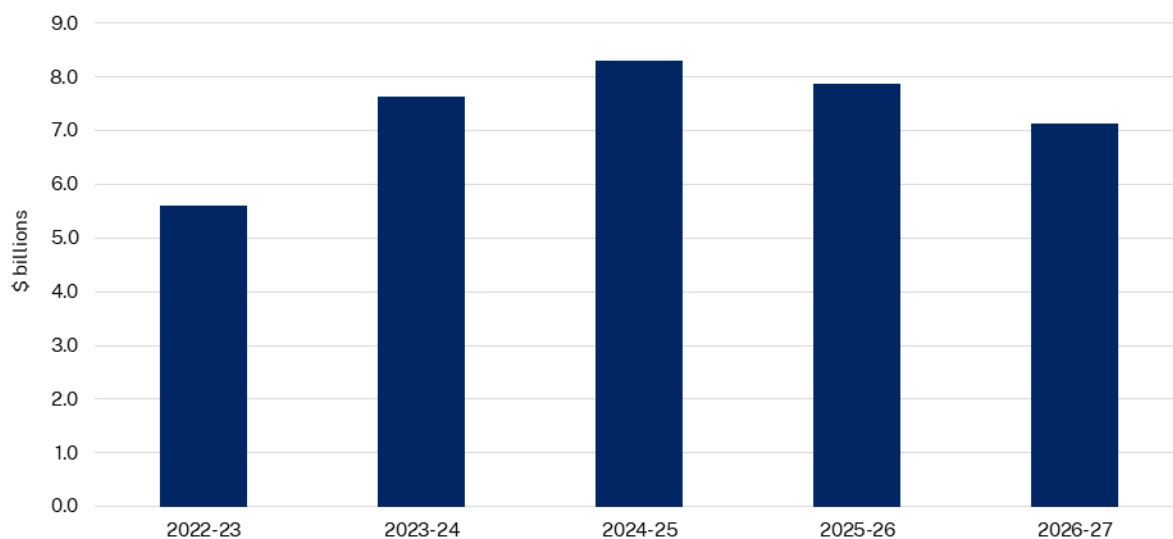
- \$3.1 billion increase from Sydney Water predominantly driven by new growth projects, particularly in the Western Sydney Aerotropolis Growth Area and South West Growth Area
- \$668.4 million increase from TAHE largely driven by updated project delivery profiles, new investment to increase accessibility facilities and car parks at train stations as well as increased financial costs associated with rail delivery programs

- \$434.4 million increase from Essential Energy in relation to increased expenditure on network resilience, and higher future network related spend that supports changes in the way energy is sourced and shared and enables greater levels of renewables to connect to the network
- \$388.0 million increase from WaterNSW primarily driven by higher projected expenditure on renewals and replacements of WaterNSW's existing assets, along with investments in the previously deferred capital projects caused by the flood events and supply chain challenges.

Chart 7.1 shows capital expenditure in the PNFC sector from 2022-23 to 2026-27.

Further details on PNFC entities' capital investment program are provided in Budget Paper No.3 *Infrastructure Statement*.

Chart 7.1: Capital expenditure of the PNFC sector



7.3 Major public financial corporations

NSW Treasury Corporation (TCorp)

TCorp is the State's investment management agency and central financing authority.

TCorp's total funds under management was around \$106.0 billion as at 30 June 2023, making it one of Australia's largest fund managers. TCorp raised \$33.3 billion face value in debt funding and retired \$3.3 billion during 2022-23. This includes raising \$2.0 billion in sustainability bonds, taking the program to \$9.2 billion and making TCorp one of the largest government issuers of sustainability bonds in Australia.

Chapter 6 and Appendix B of this budget paper provide further detail on TCorp's investment and financial risk management activities which contribute to delivering the whole-of-state financial outcomes over the budget year and forward estimates.

Insurance and Care NSW (icare)

icare is the State's social insurer with the purpose to protect, insure and care for the State's people, businesses and assets.

icare's multi-year improvement program ensures:

- effective embedment of governance and risk management
- cultural improvements
- improved return to work outcomes
- improved claims servicing
- better outcomes for the customers they serve.

There has been strong focus on change management and maintaining momentum to address the remaining 86 recommendations from the McDougall Review and GAC Review which underpin this improvement program. icare will progressively complete the recommendations throughout 2023-24.

The move to multiple service providers and the introduction of performance-related incentives for claims management is intended to deliver significantly improved claims experience for injured workers across the State and help them to return to work as soon as possible.

Box 7.4: Mental health return to work trial initiative for essential workers

icare's Front of Mind initiative involves rolling out interventions that provide prevention and early intervention support for first responders and frontline workers across the State. The five-year integrated initiative commenced in July 2020 and involves collaboration between icare and a consortium of leading experts in mental health, and four participating NSW Government agencies:

- Department of Communities and Justice
- Fire and Rescue NSW
- NSW Ambulance
- NSW Police.

The initiative aims to develop a range of tailored, innovative interventions to reduce the risk and severity of psychological injury and associated injury claims. Front of Mind puts research into practice, allowing icare and the NSW Government agencies to understand some of the underlying drivers or causal factors for psychological injuries and claims. Through this initiative, NSW Government agencies are better equipped to integrate preventative mental health measures into their workplaces to help reduce the incidence of psychological distress in their workforce.

Front of Mind's interventions include:

- a training program aimed at line managers to help them identify and manage staff members at risk or affected by psychological stress
- an online mental health assessment followed by feedback tailored to the level of psychological distress reported
- a self-guided app-based program aimed at individuals who have mild to moderate levels of distress or subclinical symptoms
- an app-based program for Post Traumatic Stress Disorder designed to complement clinical treatment.

7.4 Returns to the Government from the PNFC and PFC sectors

SOCs and TCorp pay dividends to the State as return on its investments in these entities. These entities also make tax equivalent payments and debt neutrality charges (government guarantee fees) to ensure competitive neutrality.

The government guarantee fees were \$319.7 million in 2022-23, and are forecast to total \$1.9 billion over the budget year and forward estimates.

Total dividend and tax equivalent payments from the PNFC and PFC sectors were \$653.7 million for 2022-23, which is \$65.5 million lower than forecast at the 2022-23 Half-Yearly Review. This is primarily due to Sydney Water's lower income tax equivalents, which was driven in part by lower profit caused by increases in finance costs and operating expenses.

Over the four years to 2026-27, total dividend and tax equivalent payments to the Government from the PNFC and PFC sector are forecast to be \$4.1 billion, which is \$2.1 billion lower than forecast at the 2022-23 Half-Yearly Review. Key movements include:

- decrease of \$2.0 billion dividends and tax equivalents from TAHE in line with the Government's decision that TAHE will no longer be required to pay dividends and income tax equivalents from 2023-24, as part of its transition to a non-commercial PNFC operating model
- decrease of \$364.2 million dividends and tax equivalents from Landcom, primarily driven by the decision not to proceed with the \$300.0 million dividend that was previously planned to be declared in 2024-25. The funding will be invested to accelerate the delivery of affordable housing
- increase of \$155.5 million dividends and tax equivalents from TCorp due to higher revenues mainly from lending margins payable on new client loans to meet the State's funding program
- decrease of \$153.1 million dividends and tax equivalents from Essential Energy, driven by higher expenditure in relation to major IT projects, increased insurance premiums, higher depreciation following the revaluation of non-current system assets and initiatives to enable more consumer energy resources on the network. In addition, Essential Energy will be subject to an Efficiency Benefit Sharing Scheme penalty following an issues paper released by the Australian Energy Regulator in March 2023. The penalty will be the result of projected operating expenditure in 2022-23 and 2023-24 exceeding the allowances approved by the Australian Energy Regulator, which was driven by increased resourcing requirements to support customers in the energy transition
- increase of \$97.2 million dividends and tax equivalents from Sydney Water, due to higher revenue resulting from the gradual introduction of infrastructure contributions from 2024-25 and increased forecast revenue in line with the anticipated Independent Pricing and Regulatory Tribunal's (IPART) pricing determination for Sydney Water commencing from 1 July 2025. After reflecting these updated assumptions, Sydney Water's dividends and tax equivalents are forecast to increase significantly in 2025-26 (to \$626.0 million)
- decrease of \$64.9 million dividends and tax equivalents from Forestry Corporation, due to softening of market demand for softwood timber resulting from lower housing starts, inflationary cost pressures and increased investments in community and environmental projects.

Table 7.1 below shows the dividend and tax equivalent payments from the PNFC and PFC sectors across 2022-23 to 2026-27.

Table 7.1: Total dividend and tax equivalent payments from the PNFC and PFC sectors

	2022-23 Estimated Actual \$m	2023-24 Budget \$m	2024-25 \$m	2025-26 Forward Estimates \$m	2026-27 \$m
Public non-financial corporations					
Essential Energy	2	16	22	38	54
Forestry Corporation of NSW	33	3	9	14	42
Hunter Water Corporation	39	56	45	66	83
Landcom ^(a)	26	24	28	25	40
Port Authority of NSW	40	48	57	63	55
Sydney Water Corporation ^(b)	140	361	386	626	637
Transport Asset Holding Entity of NSW	129
Water NSW	40	61	65	65	65
Public financial corporations					
NSW Treasury Corporation	161	183	203	219	236
Total Dividend and Tax Equivalent Payments in Revenue from Transactions section	612	752	816	1,116	1,212
Public non-financial corporations					
Landcom	42	39	40	41	65
Total Dividends in Other Economic Flows section^(c)	42	39	40	41	65
TOTAL DIVIDEND AND TAX EQUIVALENT PAYMENTS	654	791	855	1,156	1,276

(a) Landcom's returns classified under the 'Revenue from Transactions' section in the General Government Operating Statement relate to tax equivalent payments.

(b) Dividends and tax equivalents from Sydney Water are forecast to rise to \$626.0 million in 2025-26 due to the gradual reintroduction of infrastructure contributions and the forecast higher revenue resulting from the commencement of the next IPART pricing determination.

(c) Dividends paid by Landcom across the five years to 2026-27 are classified as income within the 'Other Economic Flows' section of the General Government Operating Statement.