

## 7. COMMERCIAL PERFORMANCE IN THE BROADER PUBLIC SECTOR

- The Government owns a number of corporations that deliver services to the community in a market-orientated manner and are governed by independent boards.
- Public corporations fall into two categories:
  - Public financial corporations (PFCs) which deliver financial services
  - Public non-financial corporations (PNFCs) which deliver services or products.
- Both PFCs and PNFCs are guided by a commercial policy framework. This framework aims to replicate the discipline and incentives that drive private sector businesses towards efficient and commercial outcomes.
- The Government is committed to the world-class management of its State Owned Corporations and is introducing improvements to:
  - strengthen their commercial performance
  - ensure best-practice governance
  - support them to lead the delivery of policy outcomes for the sectors in which they operate.
- The total dividends and tax equivalent payments by PNFCs and PFCs to the General Government sector are \$1.1 billion in 2020-21, and are forecast to be \$682.0 million in 2021-22.

### 7.1 Overview of the broader public sector

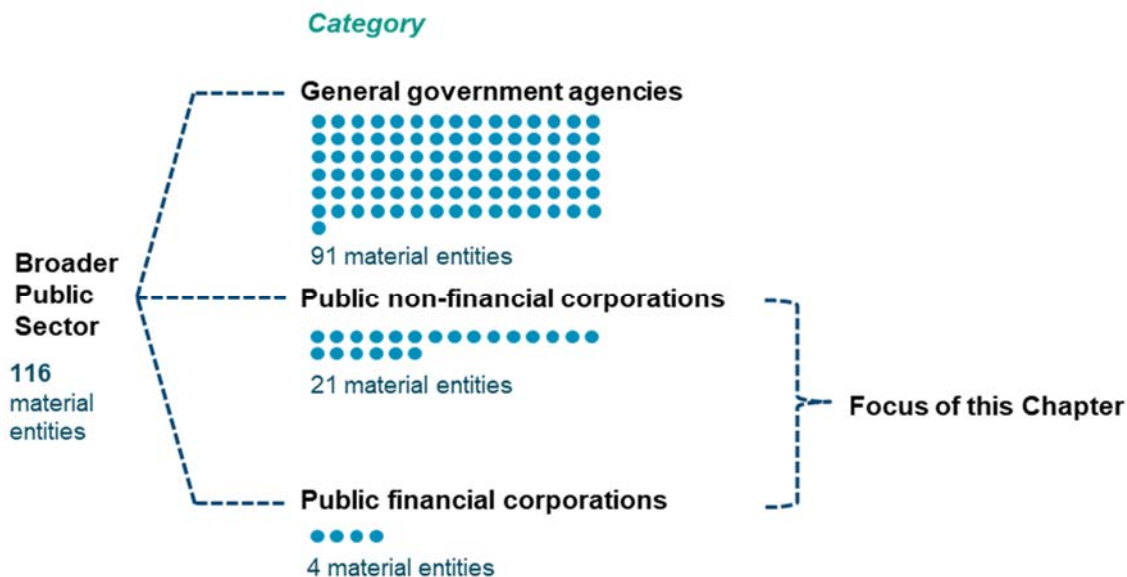
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The NSW Government adopts international practice in grouping its entities into three main categories, the latter two of which are the focus of this chapter:

- the **general government sector** covers all entities which deliver non-market services and which are funded primarily through taxation. All departments fall under this category.
- the **public non-financial corporation sector** covers entities that operate on a more commercial basis and recover most of their costs by charging for services. Common examples include water and electricity utilities. This category includes State Owned Corporations (SOCs) set up under the *State Owned Corporations Act 1989* (NSW). These corporations are self-supporting commercial entities that operate with a greater degree of autonomy than entities in the General Government sector and are governed by independent boards.
- the **public financial corporation sector** provides financial management services to the Government, including issuing bonds and providing insurance services.

See Appendix A4 for a full list of entities in the NSW public sector, including their classification.

Figure 7.1: The public sector and its commercial operations



**Box 7.1: Delivering world-class performance from NSW State Owned Corporations**

Following the economic shocks of the bushfires and COVID-19 in 2020, the role played by Government businesses in providing efficient and effective services has never been more important. To this end, the Government is committed to strengthening the commercial performance and policy outcomes delivered by the State’s eight SOCs.

Optimising the capital structure of the SOCs to better align with industry best practice will provide these businesses with an opportunity to strengthen commercial performance and incentivise their efficient allocation of resources. This will deliver stronger returns on investment and ultimately place downward pressure on the businesses’ prices.

The Government also recognises the important role played by independent boards in driving the performance of the SOCs and supporting these businesses to deliver essential services for the people of New South Wales. The NSW Government is updating its governance policies for SOCs to better reflect outcomes from the Financial Services Royal Commission and the latest edition of the ASX Corporate Governance Principles and Recommendations.

The NSW Government is also developing Statements of Expectations to clearly communicate the service delivery and policy outcomes it is seeking from the SOCs. The Statement of Expectations will help to better align SOCs with government policy, while maintaining their independence over operational and commercial decisions.

These initiatives will ensure that the SOCs continue to deliver world-class essential services, infrastructure and commercial outcomes for New South Wales.

## 7.2 Reforms and initiatives of government businesses

### Water

Sydney Water, WaterNSW and Hunter Water supply water to metropolitan and regional areas, respond to the impact of drought and promote sustainable water management. Sydney Water and Hunter Water are also responsible for wastewater management.

The State-owned water utilities continue their focus on water conservation in partnership with the community. Demand for water has reduced across Greater Sydney stemming from Sydney Water's *WaterWise* water saving measures, and in the Lower Hunter as a result of Hunter Water's ongoing engagement with the community. The *National performance report 2019-20: urban water utilities* confirmed that Lower Hunter household water consumption fell by 11 per cent for the year, which is equivalent to 2,000 Olympic-size swimming pools and was the largest reduction by any major Australian water utility.

The Government is working with the State-owned water utilities to develop coordinated approaches to the State's water planning. The Department of Planning, Industry and Environment is working with Sydney Water and WaterNSW to develop the Greater Sydney Water Strategy and Hunter Water to develop the Lower Hunter Water Security Plan. These strategies outline future investments and ways of operating to ensure a resilient, adaptable and sustainable water supply now and for the longer term. Hunter Water is also leading the development of a Hunter River Estuary Wastewater Masterplan to understand factors impacting the health of the Hunter River. This includes developing a strategy for the upgrade of wastewater treatment plants that release treated wastewater into the Hunter River.

Innovation and digitisation form key parts of the State-owned water utilities' strategies. In November 2020, Hunter Water delivered its billing system, Velocity, which acts as a single system for billing all its customers, including trade waste customers and liquid waste carriers. Velocity will also be used as a platform to enhance customer experience more broadly, offering digital services like e-billing, self-service and online complaints lodgement.

Similarly, WaterNSW continues to develop its online water information hub, the Water Insights portal. The portal uses the latest technology to bring transparency to water management information, including river flows, dam storages, water availability, weather outlooks and more.

Renewable energy remains a focus of Sydney Water and Hunter Water. Initiatives include solar power generation, organic waste-to-energy schemes and generating renewable energy from biosolids at wastewater treatment plants.

WaterNSW continues to support Water Infrastructure NSW, the lead agency in the delivery of new water infrastructure projects, to progress several major projects for long-term water security. These include planning and business cases for:

- water security measures in the Lachlan Valley, Peel Valley and Border Rivers regions
- options for mitigating flood risk in the Hawkesbury-Nepean Valley
- re-regulating structures and fishways along the Barwon-Darling river system and Macquarie River
- a pipeline between Lake Rowlands to Carcoar Dam.

**Box 7.2: State-owned utilities helping New South Wales to recover**

The State-owned water utilities have continued to deliver essential services amid COVID-19 and the recent floods, in addition to supporting the Government's response to these challenges.

In March 2021, extreme rain across metropolitan Sydney generated a major spill event at Warragamba Dam and other Sydney metropolitan dams. WaterNSW successfully discharged its functions during the event in line with strict operating protocols and worked closely with the State Emergency Service and the Bureau of Meteorology to monitor weather and dam inflows. WaterNSW also worked closely with Sydney Water and NSW Health throughout the rain event to manage water quality impacts on untreated supply.

Essential Energy assisted emergency response agencies with drones and helicopters to scope network flood damage and support network repair in inaccessible areas. They also deployed over 30 small generators to assist residential customers while their power was restored and provided over 5,000 litres of fuel for rescue efforts.

On the back of the Government's COVID-19 stimulus initiatives and the State-owned utilities' support of customers experiencing hardship amidst the pandemic, the COVID-19 response effort continues in various forms. Sydney Water is implementing a routine wastewater testing program for COVID-19. This program provides surveillance data to NSW Health and is an important part of managing the pandemic and understanding the prevalence of the COVID-19 virus in the community. Sydney Water, NSW Health and Water Research Australia were recently recognised by the NSW Water Industry for this work.

**Energy**

Essential Energy operates and maintains one of Australia's largest electricity networks, covering 95 per cent of New South Wales. The business services more than 865,000 customers, including homes, hospitals, schools, businesses and community services, and is an economic enabler for regional, rural and remote communities.

Essential Energy is focused on continuing to drive network charges down, while delivering safe and reliable electricity to customers. In real terms, network charges for a typical residential customer have decreased by 40 per cent since their peak in 2012-13 and by 43 per cent for a typical business customer. By 2023-24, these charges are forecast to fall by a further 4 per cent for residential customers and 6 per cent for business customers. The fall in prices has not compromised reliability of supply, however, with a 20 per cent improvement compared to 15 years ago.

Essential Energy is investing in the development of new capabilities with an expanded apprenticeship program. Over 2019-20 and 2020-21, 58 apprentices and 26 trainees were recruited across various disciplines, including electrical technicians, asset inspections and other field operations. In 2021 the inaugural Aboriginal and Torres Strait Islander trainees will complete their apprenticeship and become trade qualified. In 2022 an additional 43 trainees and apprentices will commence with the organisation.

## Transport

On 1 July 2020, Rail Corporation NSW (RailCorp) was renamed Transport Asset Holding Entity of NSW (TAHE) and converted to a statutory SOC. TAHE has a majority independent board, which also includes the Secretary of Transport for NSW.

TAHE owns heavy-rail property assets, rolling stock and rail infrastructure across the Sydney metropolitan area, the country rail network and other regional locations. In implementing its operating model, TAHE will enter into agreements with Transport for NSW agencies covering rail access, project delivery and licensing for non-regulated assets.

## Ports

The Port Authority of NSW (Port Authority) is responsible for commercial marine functions in the ports of Sydney Harbour, Port Botany, Newcastle Harbour, Port Kembla, Port of Eden and Port of Yamba. Port Authority also has responsibility for the management of business activities and related assets in Sydney Harbour. These include cruise activities at the Overseas Passenger Terminal and White Bay Cruise Terminal, as well as management of the dry bulk facilities at Glebe Island.

Despite the impact of COVID-19, Port Authority continues to deliver its services. As part of its pandemic response, Port Authority accelerated its capital program to support service delivery, whilst generating jobs and economic stimulus. These projects include:

- refurbishment of Newcastle's Macquarie Pier (completed and reopened to the public in December 2020)
- construction of the Eden Welcome Centre to support regional cruises and development (completed in April 2021)
- ongoing construction of the Multi-User Facility on Glebe Island, following a pause for design improvements in 2020.

## Property

Landcom is the Government's land and property development organisation which aims to increase the supply of housing. Landcom's role includes unlocking surplus or underutilised Government-owned sites, or large institutional land holdings, to create vibrant urban spaces.

The Government is committed to ensuring an adequate supply of new dwellings that are affordable, diverse and sustainable. To achieve this, Landcom will invest \$2 billion in the development and delivery of new housing over the four years to 2024-25, including delivering 14,755 dwellings to the market.

Landcom purchased an 872 hectare site at North Wilton in December 2020. The project is expected to yield 5,600 dwellings and offer a variety of housing products at several price points. Early infrastructure works are set to commence in 2021-22, with the project expected to deliver environmental conservation land, sports recreation space and a new primary school to the area, amongst other community features.

## Forestry

Forestry Corporation of NSW (Forestry Corporation) manages over 2 million hectares of State forests, including the State's largest renewable timber production and plantation estate.

Forestry Corporation undertook salvage harvesting of the softwood plantations following the 2019-20 bushfires, with over 4 million tonnes of fire-affected timber recovered and delivered to local timber mills for processing. Production ran at twice the normal level over the last year with salvage operations boosting local employment in timber regions such as Tumut and Bombala.

The NSW Government provided a \$46.0 million equity injection to Forestry Corporation last year to accelerate bushfire recovery efforts. This has been utilised to repair fire-damaged infrastructure, replant fire affected plantations and expand the seedling nurseries, with 14 million seedlings to be planted in 2021.

Following a detailed fire intensity mapping process and an independent review, Forestry Corporation released updated 100-year wood supply models for hardwood timber yields from NSW State forests in March 2021.

### 7.3 Capital expenditure

The PNFC sector is an important driver of infrastructure investment across the State.

In 2020-21, capital expenditure within the PNFC sector is forecast to be \$5.3 billion, which is \$1.2 billion lower than forecast in the 2020-21 Budget. This is largely driven by lower expenditure from Sydney Water, TAHE and WaterNSW, resulting from changes in project timing and updated delivery profiles. As the changes are primarily attributable to reprofiling of expenditure, a related increase in investment is projected over the Budget and Forward Estimates.

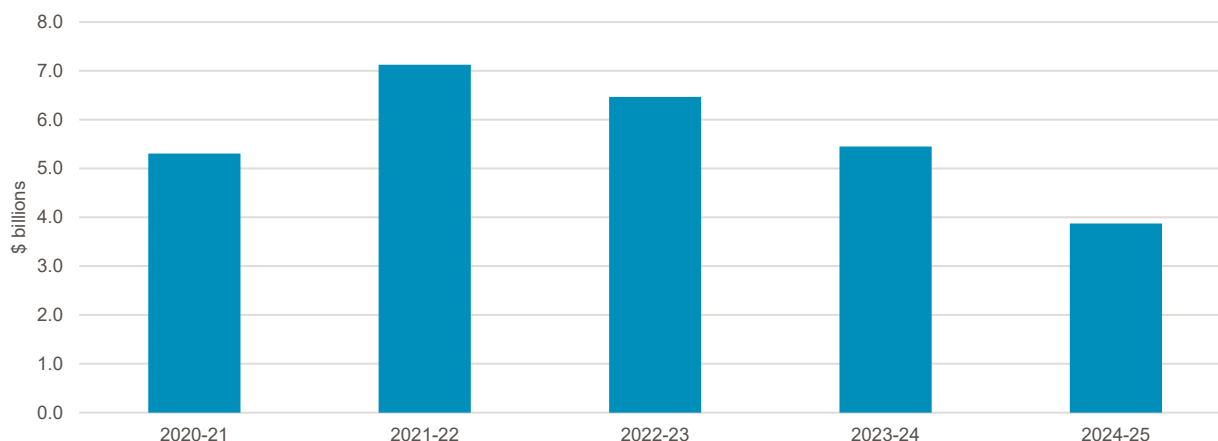
Capital expenditure within the PNFC sector over the Budget and Forward Estimates is projected to be \$22.9 billion. The forecast for the period 2021-22 to 2023-24 is \$2.7 billion higher than the 2020-21 Budget. Key movements driving this variance include:

- \$1.2 billion increased investment from Sydney Water for the period 2021-22 to 2023-24. Besides the aforementioned reprofiling of expenditure, there will be increased investment driven by water and wastewater infrastructure to cater for increased population and development, as well as the delivery of asset upgrades in line with mandatory standards
- \$1.2 billion increased expenditure from TAHE for the period 2021-22 to 2023-24 in relation to further investment in the More Trains, More Services program, and the impact of reprofiling on TAHE projects noted above.

Chart 7.1 shows capital expenditure in the PNFC sector from 2020-21 to 2024-25.

Further details on the Government's capital expenditure strategy are provided in Budget Paper No.3 *Infrastructure Statement*.

Chart 7.1: Capital expenditure of the PNFC sector



### 7.4 Public financial corporation sector

The PFC sector includes NSW Treasury Corporation (TCorp) and Insurance and Care NSW (icare).

TCorp is the State's central financing authority and funds management agency. TCorp manages financial risks for the State by providing foreign exchange, commodity and interest rate hedging services.

TCorp has raised \$29.2 billion face value in debt funding during 2020-21 (as at 31 May 2021). This includes \$1.6 billion in green or sustainability bonds, taking the program to \$5.2 billion and making TCorp the largest Government issuer of green bonds in Australia.



TCorp's total funds under management increased by \$5.7 billion to \$108.6 billion over the year to 31 May 2021, making it one of Australia's largest fund managers. This change primarily reflects \$10.4 billion of positive market movements, partly offset by \$4.7 billion in net cash outflows. Cash outflows included \$3.6 billion from SAS Trustee Corporation to fund the Government's defined benefit superannuation payments and \$2.5 billion from the NSW Infrastructure Future Fund to meet Government infrastructure spending. Total absolute investment returns since 1 July 2015 are \$35.3 billion as of 31 May 2021.

icare is the Government's social insurer with the purpose to protect, insure and care for the State's people, businesses and assets. icare insures, supports and cares for over 3 million NSW workers and more than 328,000 employers, including over 100 NSW Government agencies. In addition, icare manages almost 1,600 Lifetime Care and 350 Workers Care participants, and over 5,000 people with a dust disease and their dependents. icare also supports homeowners and protects more than \$267 billion in NSW Government-owned assets.

icare's remediation program to address the accuracy of workers compensation benefit payments has continued throughout 2020-21. NSW Treasury and the State Insurance Regulatory Authority (SIRA) continue to work with icare to remediate historical underpayments resulting from the calculation of statutory Pre-Injury Average Weekly Earnings requirements that were in place before icare's inception. Deloitte's Workplace Integrity Team has been engaged to support the review and speed up the remediation process for injured workers.

The Government welcomed the recommendations of the Independent Review of icare and the *State Insurance and Care Governance Act 2015* (NSW), handed down by retired Supreme Court Judge The Hon Robert McDougall QC on 30 April 2021. The Government immediately accepted 35 recommendations, which are being implemented operationally by icare and SIRA. Additionally, icare has commenced a program of organisational reform to address the recommendations for which it is responsible.

## 7.5 Dividends and tax equivalent payments

As a shareholder, the NSW Government receives dividends from entities in the PNFC and PFC sectors.

PNFCs and PFCs also pay the Government tax equivalent payments and debt neutrality charges (government guarantee fees) to ensure they are not placed at a competitive advantage over private sector businesses that compete against them.

For 2021-22, the dividend and tax equivalent payments from the PNFC and PFC sectors are forecast at \$682.0 million and government guarantee fees at \$358.1 million. Over the Budget and forward estimates, dividends and tax equivalent payments are forecast to be \$4.4 billion.

Dividends and tax equivalent payments are forecast to increase by \$1.1 billion from 2023-24 to 2024-25. This is primarily attributable to:

- increase in dividends from capital structure optimisation and other initiatives undertaken by Sydney Water (\$489.5 million increase) and TCorp (\$225.5 million increase). Similar initiatives of Sydney Water also resulted in increased dividends in 2020-21, as forecast in the previous Budget
- increase in dividends from Landcom of \$269.1 million, driven by reprofiling of forecast Landcom dividends from the 2020-21 Budget. Dividends previously forecast between 2021-22 and 2023-24, were realigned to 2024-25.

Capital structure optimisation is pursued on an ongoing basis by SOCs alongside NSW Treasury. This is undertaken in accordance with NSW Treasury's policies and frameworks. Capital structure reviews seek to achieve the efficient use of the State's debt and equity capital in line with world-class commercial performance while maintaining investment grade credit ratings. Financing decisions arising out of capital structure reviews do not have an impact on the businesses' prices, capital investment levels or quality of services to the people of New South Wales.

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

	2020-21 Projection	2021-22 Budget	2022-23	2023-24 Forward Estimates	2024-25
	\$m	\$m	\$m	\$m	\$m
Electricity	27	69	48	83	129
Water	868	427	401	426	947
Property and Resources	22	11	58	99	365
Ports	19	23	56	54	61
Transport	0	8	42	84	118
Public Financial Corporations	131	144	159	173	401
<b>Total Dividends and Tax Equivalent Payments</b>	<b>1,066</b>	<b>682</b>	<b>763</b>	<b>919</b>	<b>2,021</b>