

## 7. COMMERCIAL PERFORMANCE IN THE BROADER PUBLIC SECTOR

- NSW public corporations are commercial businesses owned by the Government. They deliver goods and services to the community in a market-oriented manner and are governed by independent boards.
- The Government is committed to increasing the number of women in leadership positions across New South Wales and is leading the way with its government businesses by introducing gender diversity targets for the boards of State Owned Corporations (SOCs) and public financial corporations (PFCs). Statistics on SOC and PFC board gender diversity will be published annually on Treasury's website.
- The Government has taken further steps to support SOCs to deliver sector outcomes through the introduction of the Statement of Expectations. The Statement of Expectations will help SOCs better align their strategic direction with the Government's priorities, while maintaining their independence of operation in a commercial manner. The Shareholding Ministers and the relevant Portfolio Minister have issued the first Statement of Expectations for Forestry Corporation of NSW, Port Authority of NSW, Transport Asset Holding Entity of NSW and each water business.
- SOCs are seeking to deliver sustainability outcomes and have commenced a range of actions to address carbon reductions.
- The total dividend and tax equivalent payments by public corporations to the general government sector are \$627.1 million in 2021-22 and are forecast to be \$761.1 million in 2022-23. Over the Budget year and forward estimates, the total dividend and tax equivalent payments are \$925.3 million higher than the comparative forecast in the 2021-22 Budget.

### 7.1 Overview of the broader public sector

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The broader public sector comprises three categories, with this chapter focusing on the latter two (see Figure 7.1):

- the **general government sector** which includes entities that deliver non-market goods and services and are primarily funded by the State budget
- the **public non-financial corporation (PNFC)** sector which covers entities that deliver market goods and services. This category includes SOCs which are wholly owned by the Government but governed by independent boards. They operate commercially and can generally recover their costs from customers
- the **public financial corporation** sector which provides financial services to the Government, people and businesses of New South Wales. It includes NSW Treasury Corporation and Insurance and Care NSW.

Appendix A4 of Budget Paper No.1 *Budget Statement* provides detailed descriptions of these categories and includes a full list of NSW public sector entities according to their classifications.

Figure 7.1: The public sector and its commercial operations



**Box 7.1: Gender diversity targets for the boards of major government businesses**

The Government is committed to increasing the number of women in leadership positions across New South Wales and is leading the way with its government businesses.

In April 2022, the Treasurer introduced gender diversity targets for the boards of SOC and PFCs. The targets are:

- no less than 40 per cent of board director positions filled by women on each SOC and PFC board
- overall, 50 per cent of all SOC and PFC board director positions combined to be filled by women.

These targets will accelerate change and embed gender diversity within NSW government businesses.

Government businesses were already addressing gender equality on their boards before the introduction of these targets. As of April 2022, six out of the eight SOC boards have over 40 per cent of director positions filled by women, with the overall proportion of women directors for all SOC and PFCs at 42 per cent.

Improving diversity in the boardroom broadens a board’s perspective and improves its effectiveness and decision-making, which will benefit the business through enhanced consumer insight, strengthened financial performance, and improved corporate governance.

## 7.2 Reforms and initiatives of public non-financial corporations

### Water

Sydney Water, Hunter Water and WaterNSW supply water to metropolitan and regional areas. Sydney Water and Hunter Water are also responsible for wastewater management.

#### Box 7.2: Responses to extreme rainfall

The Government is committed to ensuring resilience of the water system in response to climate change. NSW water businesses have achieved successful outcomes in recent years in managing the impacts of extreme weather events. The businesses continue to progress initiatives to improve resilience of the water system, including the Lower Hunter Water Security Plan to be delivered by Hunter Water.

During the floods of early 2022, WaterNSW and Sydney Water successfully managed the impacts on the water system and ensured water safety. The rain across Metropolitan Sydney generated two major spill events at Warragamba Dam and other Sydney Metropolitan dams. WaterNSW worked closely with the State Emergency Service and the Bureau of Meteorology to monitor weather and dam inflows. WaterNSW also worked with Sydney Water and NSW Health to manage the water quality of drinking water catchments.

Sydney Water successfully managed the record volume of rainfall flowing through its four key filtration plants. Sydney Water's Emergency Control Centre provided continuous monitoring to ensure the supply of clean and safe drinking water to its five million customers. During the two-week rain event in March 2022, Sydney Water's System Operating Centre which controls the water and wastewater network:

- handled over 1,700 responses compared to the monthly average of 800
- actioned over 20,000 network alarms, double the average amount under normal operations.

In April 2022, the Shareholding Ministers and the Portfolio Minister issued their first Statement of Expectations for each water business. The statement clarifies the Government's priorities in relation to the work of the business. Water businesses are expected to align their strategic direction with the Government's expectations, while operating in a commercial manner.

Over the next decade, Sydney Water plans to invest \$23.9 billion to service growing population and cities, maintain existing infrastructure, provide new and resilient sources of water, and improve environmental and drinking water standards. This will all be done while keeping customer bills among the lowest in Australia. \$4.6 billion of this investment will go towards addressing the challenges identified by the Greater Sydney Water Strategy, such as ensuring a resilient water supply, urban greening and cooling initiatives, and clean and healthy local waterways.

Sydney Water's capital investment program will create jobs and provide a significant contribution to the NSW economy. For example, the new Advanced Water Recycling Centre near the Western Sydney Airport will create 138 full-time jobs during the construction phase and generate 254 full-time indirect jobs in professional services, and scientific and technical sectors.

Hunter Water continues to invest in the Find and Fix Leaks program in partnership with community housing providers. Lower Hunter households have reduced their daily water consumption by 17 per cent over the last four years. Smart water choices in homes have translated into lower bills for Hunter Water customers, with the average annual household bill falling by \$90, to \$1,090 per year in 2021-22.

In April 2022, the Department of Planning and Environment released the Lower Hunter Water Security Plan. The plan is a whole-of-government approach to ensuring the Lower Hunter and Greater Newcastle region has a resilient and sustainable water future that contributes to regional health and prosperity. It outlines a series of initiatives, including:

- a water conservation target
- the delivery of a desalination plant at Belmont
- better interregional connections to the Upper Hunter.

The implementation of these initiatives has commenced.

Consistent with the Lower Hunter Water Security Plan, Hunter Water will be maintaining its focus on supporting its customers and community to reduce their potable water usage. This includes direct investment in innovative programs. For example, the washing machine replacement trial with the NSW Land and Housing Corporation provides an additional avenue for residents of social housing to replace older and high water-consuming washing machines with new and efficient ones.

WaterNSW continues to deliver its flagship IT transformation program. This program aims to achieve service and efficiency improvements, enhance transparency and mitigate risks. For example, WaterNSW has developed an online water information hub, the Water Insights portal. The portal uses the latest technology to deliver water management information to the customers and other key stakeholders. The information includes river flows, dam storage levels, water availability and weather outlooks.

## **Energy**

Essential Energy operates and maintains one of Australia's largest electricity networks, covering 95 per cent of New South Wales. As a regional electricity distributor, Essential Energy plays a critical role in securing safe, reliable and affordable energy delivery to more than 1,500 communities across regional, rural and remote New South Wales.

With significant change amid the electricity distribution industry, Essential Energy is responding by strengthening its core business through more efficient processes, enhanced employee capabilities and improved customer interactions. Essential Energy is embracing the energy transition through exploring new network technologies. These include microgrids, stand-alone power systems and other distributed energy resources, and other innovations that lower costs and improve power supply reliability.

## **Transport**

Transport Asset Holding Entity of NSW (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 is now in its second year of operation, after RailCorp was renamed TAHE and converted into a statutory State Owned Corporation on 1 July 2020.

TAHE is governed by a majority independent board which includes the Secretary of Transport for NSW who is a statutory appointee.

A series of commercial arrangements between TAHE and Transport for NSW, Sydney Trains and NSW Trains took effect from 1 July 2021. These arrangements set out the terms and charges by which the operators access and use TAHE's assets. The fees for the access and use of the assets currently represent the principal revenue streams of TAHE. The agreements also cover the development and delivery of heavy-rail assets for TAHE.

TAHE's annual capital expenditure is projected to exceed \$2.8 billion for 2021-22. The major elements of the capital plan include:

- More Trains, More Services
- Mariyung (InterCity) Fleet Program
- Regional Rail Fleet Program
- Transport Access Program
- Commuter Car Parking.

Through these investments, TAHE will continue to provide safe and reliable rail assets while driving economic growth through precinct investment and innovative solutions which will enhance communities into the future.

TAHE is also looking to develop underutilised assets within its extensive property portfolio. Successful execution of commercial activities will lay the foundations for increased commercial returns over the long term.

Port Authority of NSW (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. These include the statutory Harbour Master's function, the provision of pilotage and navigation services, and port safety functions as prescribed in the Port Safety Operating Licence.

Port Authority continues to demonstrate financial sustainability despite an expected three-year recovery of cruise activities to pre-pandemic levels. Key initiatives for the year ahead include:

- continuing work to promote and facilitate cruise tourism in established regional New South Wales cruise ports such as Eden, Newcastle, Batemans Bay and Trial Bay
- deploying two new purpose-built multi-purpose vessels based in Sydney Harbour and Port Botany, constructed in Port Macquarie by an NSW-based shipbuilding company
- collaborating with the Department of Planning and Environment and Transport for NSW to realise the Government's vision for the Bays West precinct.

## 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 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 \$2.1 billion in the development and delivery of new housing sites over the four years to 2025-26, including delivering 15,600 dwelling sites to the market over the same period.

Landcom is currently working on an 872-hectare site at North Wilton with the aim of delivering 5,600 dwellings. This project has a mix of diverse and affordable housing with the target of a 6 Star Green Star rating which will achieve a carbon neutral outcome.

In the regions, Landcom is partnering with Crown Lands to develop land for 2,100 dwelling sites at Tuncurry. The site will contain both diverse and affordable housing as well as meeting Landcom's sustainability objectives by preserving 300 hectares of land for environmental conservation.

## 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. It also delivers a range of other public services including recreation, tourism, conservation and firefighting.

Natural disasters including fires and floods in recent years have significantly impacted forest roads and bridges, timber assets and operations. Forestry Corporation is making significant ongoing investments in rebuilding infrastructure and regrowing plantations, with support from the Government.

Short-term timber supplies in the regions most impacted by fires have been bolstered by the redistribution of timber from the Walcha management area to domestic processors in Tumut and Tumbarumba.

Legislative changes passed in 2021-22 have also allowed new investigations into opportunities to produce renewable energy alongside renewable timber in softwood plantations. Market sounding has commenced to identify suitable locations and technologies.

### **Box 7.3: Delivering sustainability outcomes**

SOC customers and the communities in which they operate have increasingly high expectations about the sustainability of business operations.

SOCs such as Landcom, Forestry Corporation, and Hunter Water, have developed sustainability strategies which outline their objectives and targets for environmental, social, and governance outcomes.

SOCs have commenced a range of actions to address carbon reduction. For example:

- Sydney Water has started using its own operations-based renewable energy sources, which accounted for 16 per cent of its electricity use in 2020-21
- Essential Energy is supporting the energy sector's transition to distributed and renewable sources of electricity generation and partnering with external stakeholders in relation to Renewable Energy Zones
- Port Authority has committed to the installation of shore power infrastructure within the Bays Port Precinct, to reduce emissions and noise pollution from berthed ships.

## 7.3 Capital Expenditure

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In 2021-22, capital expenditure within the PNFC sector is projected to be \$5.6 billion, which is \$1.5 billion lower than the projection in the 2021-22 Budget. This is largely driven by decreased expenditure from TAHE and Sydney Water due to project timings and updated delivery profiles.

Capital expenditure within the PNFC sector over the Budget year and forward estimates is projected to be \$24.3 billion. The projection is \$1.4 billion higher than the comparative estimate in the 2021-22 Budget. Key movements between budgets include:

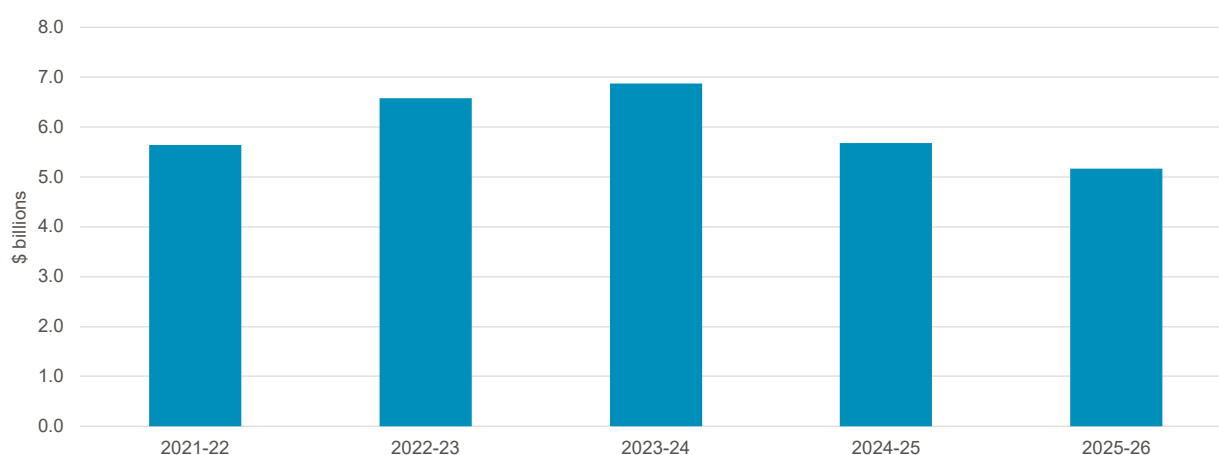
- \$1.2 billion increased expenditure from Sydney Water due to reprofiling of expenditure and increased investment in water and wastewater infrastructure driven by the Greater Sydney Water Strategy to service growing population and cities, maintain existing infrastructure, provide new and resilient sources of water, and improve environmental and drinking water standards
- \$1.1 billion increased expenditure from New South Wales Land and Housing Corporation in relation to additional investment for social homes and increased maintenance for the State-owned social housing portfolio

- \$471.7 million increased expenditure by Venues New South Wales in relation to rebuilding and maintaining existing stadium infrastructure
- \$359.1 million increase from Hunter Water Corporation largely due to investment in projects under the Lower Hunter Water Security Plan to improve the resilience of the water system to population growth and climate variability
- \$2.1 billion decreased expenditure from TAHE due to the completion of the majority of expenditure on the More Trains, More Services program, Regional Rail Fleet Program, and the Transport Access Program by the end of 2024-25.

Chart 7.1 shows capital expenditure in the PNFC sector from 2021-22 to 2025-26.

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 Major public financial corporations

### NSW Treasury Corporation (TCorp)

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

TCorp's total funds under management was approximately \$107.1 billion as at 31 March 2022, making it one of Australia's largest fund managers. In its funds management role, TCorp has generated total absolute investment returns of approximately \$38.0 billion between 1 July 2015 and 31 March 2022.

TCorp raised \$19.0 billion face value in debt funding and retired \$7.3 billion during 2021-22 (up to 31 March 2022). This includes raising \$1.6 billion in green or sustainability bonds, taking the sustainability bond programme to \$6.8 billion, which makes TCorp one of the largest Government issuers of green bonds in Australia.

### Insurance and Care NSW (icare)

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 three million NSW workers and more than 329,000 employers, including over 100 Government agencies. In addition, icare provides critical support for more than 1,500 Lifetime Care and 340 Workers Care participants, and more than 5,700 people with a dust disease and their dependents. icare also ensures 20,000 homeowners can complete their homes or renovations when their builder cannot and protects more than \$291.7 billion in Government-owned assets.

icare has embarked on a significant multi-year change and improvement program. The program has already delivered positive outcomes, including:

- establishing a new vision, purpose and values
- bringing in a new organisation structure and executive team
- embedding new robust risk and procurement practices
- introducing new capital management policies
- introducing professional standards for claims managers.

The transformation of the claims model for management of private sector workers compensation claims has also commenced. The new model builds in consultation with participants, business groups and key stakeholders.

Collectively, these actions have addressed some of the key recommendations in external reviews of icare last year. To date, icare has commenced implementing 96 per cent of the 107 recommendations.

icare's remediation program to address the accuracy of workers compensation benefit payments has continued throughout 2021-22. icare has reviewed over 29,000 files and found 1,500 quantifiable underpayments for workers totalling \$9.9 million. Payments to another 53,000 workers of \$38.8 million is also underway.

## **7.5 Returns to the Government from PNFC and PFC sectors**

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The entities in the PNFC and PFC sectors pay dividends to the Government as a return on its equity investments in these businesses. PNFCs and PFCs also pay the Government tax equivalent payments and debt neutrality charges (government guarantee fees) to ensure they do not enjoy a competitive advantage over private sector businesses.

Total dividend and tax equivalent payments from the PNFC and PFC sectors are forecast at \$627.1 million for 2021-22, and \$5.3 billion over the Budget year and forward estimates. The government guarantee fees are forecast to be \$310.3 million in 2021-22, and \$1.5 billion over the next four years.

Total dividend and tax equivalent payments to the Government from PNFC and PFC sector are \$925.3 million higher over the Budget year and forward estimates than the comparative forecast in the 2021-22 Budget. Key movements include:

- increase of \$1.1 billion dividends and tax equivalent payments from TAHE, driven by increased revenue and asset values resulting from renegotiated access and licence fees with rail operators based on the Government's updated shareholder guidance to TAHE in December 2021. The updated guidance shifted the expected rate of return on equity from the 10 Year Commonwealth bond yield to the expected long-term inflation rate of 2.5 per cent (consistent with the middle of the Reserve Bank of Australia's target band)
- reduction of \$219.5 million in TCorp's dividends, primarily due to the decision not to proceed with a previously planned capital restructure for which additional dividends were projected at the time of the 2021-22 Budget
- reduction of \$455.4 million in Sydney Water's dividends, which is required to maintain Sydney Water's investment grade credit metrics in light of the water system augmentation identified as being required in the Greater Sydney Water Strategy. This is partially offset by a \$241.5 million increase in tax equivalent payments
- increase in dividends and tax equivalent payments from Landcom of \$133.2 million, due to increasing delivery of dwelling sites over the forward estimates.



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

	2021-22 Projection	2022-23 Budget	2023-24	2024-25 Forward Estimates	2025-26
	\$m	\$m	\$m	\$m	\$m
<b>Public non-financial corporations</b>					
Essential Energy	10	16	63	81	78
Forestry Corporation of NSW	1	16	22	34	29
Hunter Water Corporation	48	54	55	34	40
Landcom <sup>(a)</sup>	8	21	24	51	56
Port Authority of NSW	29	36	47	56	48
Sydney Water Corporation	295	259	352	435	652
Transport Asset Holding Entity of NSW	...	125	264	429	568
Water NSW	18	47	50	50	48
<b>Public financial corporations</b>					
NSW Treasury Corporation	133	152	159	169	179
<b>Total Dividends and Tax Equivalent Payments in Revenue from Transactions section</b>	<b>542</b>	<b>726</b>	<b>1,036</b>	<b>1,339</b>	<b>1,698</b>
<b>Public non-financial corporations</b>					
Landcom	14	35	40	347	91
Transport Asset Holding Entity of NSW	71	...	...	...	...
<b>Total Dividends in Other Economic Flows section<sup>(b)</sup></b>	<b>85</b>	<b>35</b>	<b>40</b>	<b>347</b>	<b>91</b>
<b>TOTAL DIVIDENDS AND TAX EQUIVALENT PAYMENTS</b>	<b>627</b>	<b>761</b>	<b>1,075</b>	<b>1,685</b>	<b>1,788</b>

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

(b) Dividends paid by TAHE in 2021-22 and by Landcom across the five years to 2025-26 are classified as income within the 'Other Economic Flows' section of the General Government Operating Statement, rather than the 'Revenue from Transactions' section.