7. COMMERCIAL PERFORMANCE IN THE BROADER PUBLIC SECTOR

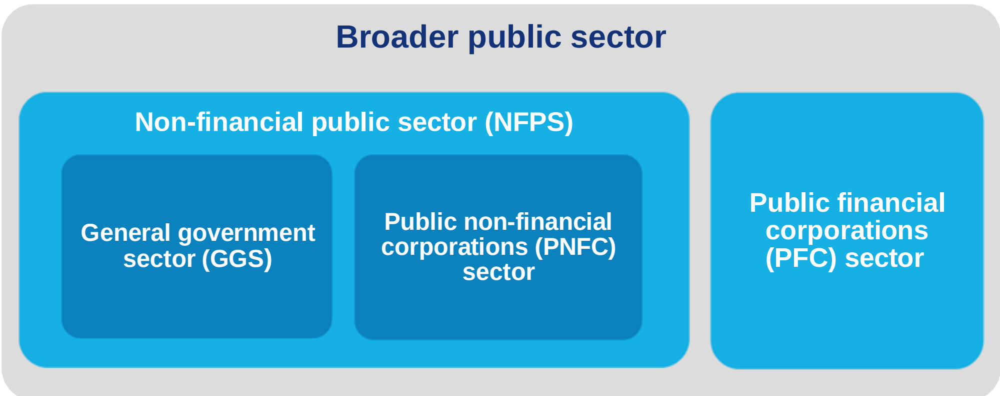
- The broader public sector comprises the total state government in New South Wales and includes the general government sector (GGS), public non-financial corporations (PNFC) sector and public financial corporations (PFC) sector.
- The PNFC and PFC sectors are guided by a Commercial Policy Framework (the Framework), which aims to replicate within government businesses the disciplines and incentives that lead private sector businesses toward efficient and commercial outcomes. The NSW Government continues to align the Framework with best practice.
- The total dividends and tax equivalent payments received by the GGS from the PNFC and PFC sectors in 2018-19 are $1.9 billion, which is $97.7 million higher than projected at the 2018-19 Budget. This result is largely due to the one-off dividend paid by Sydney Motorway Corporation prior to the successful WestConnex transaction in August 2018.

7.1 Overview of the broader public sector

The broader public sector is made up of entities within the public financial corporations (PFC) sector and non-financial public sector (NFPS). The NFPS is comprised of the general government sector (GGS) and the public non-financial corporations (PNFC) sector:

- entities within the GGS are funded mainly by taxation revenue and provide services such as health, education and emergency services
- entities within the PNFC sector operate on a more commercial basis and are able to recover most of their costs by charging for services such as transport, water and electricity distribution
- entities in the PNFC sector include State Owned Corporations (SOCs) set up under the *State Owned Corporations Act 1989* to operate with a greater degree of commerciality and autonomy than entities in the GGS
- the PFC sector provides financial management services to the government and insurance services to the people of New South Wales.

A full list of New South Wales public sector entities according to their classification as a GGS, PNFC or PFC entity is provided at Appendix A3 of this *Budget Statement*.



7.2 Reforms and initiatives of government businesses

The Commercial Policy Framework

The Commercial Policy Framework (the Framework) is a suite of policies that set expectations for government businesses in the PNFC and PFC sectors in order to drive better outcomes for the citizens of New South Wales. The Framework aims to replicate in government businesses the drivers and characteristics of an efficient private sector business. Importantly, it supports the efficient use of the State's capital, helps put downward pressure on cost of living expenses and contributes to the growth of the NSW economy.

The Framework is continuously reviewed and updated to ensure it reflects developments in government policy, changes in regulation and current best practice.

The following changes were made to the Framework in 2018-19:

- The release of Guidelines for Board Appointments managed by Treasury on behalf of the Shareholding Ministers. The guidelines introduce contemporary governance practices as well as improving transparency, consistency and engagement with candidates during the assessment process
- The release of the Guidelines for Community Services Obligations (CSO). The guidelines improve the transparency and consistency of CSO arrangements by establishing a framework to ensure the government's community service policy objectives are met without impacting on the commercial performance of businesses.

These initiatives support the accountable, commercial and transparent operation of government businesses.

Water

Sydney Water, WaterNSW and Hunter Water play a key role in supplying water to metropolitan and regional areas, including responding to drought and promoting water conservation.

Box 7.1: Addressing the drought in metropolitan Sydney

In accordance with the Metropolitan Water Plan, Sydney Water and WaterNSW have jointly established a dedicated team to coordinate delivery of drought response activities and improve system resilience.

Initiatives and programs to manage the impacts of drought include:

- Implementation of Level 1 water restrictions for Greater Sydney
- Supporting the re-start procedures for the Sydney Desalination Plant, which at full production can supply Sydney Water with around 15 per cent of Sydney's daily water use
- Delivering community awareness campaigns such as Sydney Water's "Love water, don't waste it"
- Delivering water efficiency programs to help residential customers save water, including Sydney Water's successful WaterFix program, which will receive a $5.8 million boost from the NSW Climate Change Fund
- Additional investment in Sydney Water's Active Leak Reduction Program, estimated to be saving over 2 billion litres of water a year.

Water and wastewater customers in Sydney have gone from paying among the highest annual bills of any major city in Australia to the lowest, as a result of the NSW Government's strong financial management, prudent investment decision-making and focus on operational efficiency.

Consistent with the Greater Sydney Commission's vision for a growing Sydney, Sydney Water is investing in infrastructure projects particularly in the north-west and south-west growth centres. Major projects include significant upgrades to wastewater treatment plants in Riverstone and Quakers Hill/St Marys which are expected to be completed in 2019 and 2021 respectively.

Sydney Water also continues to improve water quality and protect public health with projects such as Refresh Vaucluse Diamond Bay that will improve the wastewater system on the South Head Peninsula by redirecting wastewater to the Bondi Wastewater Treatment Plant.

In addition, Sydney Water continues its focus on the customer with the roll out of the Customer Hub to all regions to enable early notification of faults, improved diagnosis and planning for infrastructure repairs, and more communication channels for customers. Its Customer Experience Platform (CxP), an information technology project delivering a new billing and data management system to improve customer experience, is also nearing completion.

Hunter Water is continuing to build on the success of its 'Love Water' community conservation campaign while exploring innovative ways to ensure it meets supply requirements. Hunter Water also continues to invest in reducing leakage and other water losses, building on work in recent years which has reduced losses by at least 17 per cent. Active leak detection is now deployed across all 5,000 kilometres of its water network in the Hunter Region every year.

Major infrastructure investments by Hunter Water include delivery of the Wyee Sewer Scheme, replacement of the aboveground pipeline between Duckenfield and Tarro, and growth-driven upgrades to numerous water and wastewater treatment plants.

Box 7.2: Investing in regional water security

The Government is committed to improving water security and building drought resistance in regional and rural New South Wales.

Work is being undertaken to improve water security and flood management for the Lachlan Valley region, including feasibility studies into upgrading Wyangala Dam. The Government and WaterNSW are also continuing to investigate water security investment opportunities in other priority regions including the Hunter River, Gwydir River and Macquarie River.

The Government has established a secure long-term water supply for Broken Hill following the completion of the 270 kilometre pipeline from the Murray River to Broken Hill. The pipeline became operational in April 2019 and will be funded from Restart NSW.

Additionally, the Government has committed to ensure that local customers do not see their water bills increase during the next pricing period as a result of construction of the pipeline. This was confirmed in the Independent Pricing and Regulatory Tribunal's final pricing determination in May 2019.

The Safe and Secure Water program continues to provide funding to a wide range of regional water and sewerage projects managed by both State Owned Corporations and council-run utilities.

Energy

The Electricity Price Guarantee, overseen by the NSW Electricity Price Commissioner, ensures that total network charges for the leased electricity network businesses will be lower in the year ending 30 June 2019 than for the financial year ended 30 June 2014. This is one of the reforms implemented to reduce network charges, a key component of electricity bills.

Based on the Australian Energy Regulator's (AER) 2019-24 regulatory determinations for Ausgrid, Endeavour Energy and Essential Energy, network charges will continue to fall in real terms until 30 June 2024 for typical residential and small business customers.

Essential Energy operates and maintains one of Australia's largest electricity networks delivering electricity network services across rural and regional New South Wales.

In April 2019 the AER released its final determination for Essential Energy for the 2019 to 2024 regulatory period. By 2024, the end of the next regulatory determination period, a typical residential network charge will be 43 per cent lower than in 2014 (in real terms). Holding all other components of the bill constant, a typical residential customer will pay $56 less per annum by 2024 compared to 1 July 2018.

Essential Energy continues to streamline its operations and invest in innovative and enabling technologies to deliver a safe, reliable and efficient electricity network to its customers which continues to put downward pressure on prices. Despite electricity generation, wholesale and retail price increases, greater electricity network efficiencies in recent years have significantly moderated the overall price increases.

Box 7.3: Customers at the centre of service delivery

The Australian Energy Regulator (AER) commended Essential Energy on its high level of customer engagement in relation to investments it will make to deliver network charge reductions and increased choice for customers in rural and regional New South Wales.

The AER also importantly commended Essential Energy for its efficiency gains to date, with network expenditure at some of its lowest levels in 20 years.

Essential Energy's stewardship of its 2019-24 regulatory proposal is a clear example of the value of a comprehensively designed and well-implemented consumer engagement program for network service providers. This led to successful passage through the regulatory determination process with a high degree of support from its stakeholders. Essential Energy's efforts were also recognised by Energy Networks Australia as winner of its 2018 Energy Network Consumer Engagement Award.

Tourism

The Government continues to extend tourism opportunities with the Sydney Opera House progressing the $202 million upgrade for Stage 1 Renewal works, as funded by Restart NSW. The Concert Hall upgrades will modernise the Opera House's largest and most popular venue. It will greatly improve acoustics, theatre machinery systems and wheelchair accessible seating, as well as extending and automating stage configuration. These improvements will enrich the experience for the eight million tourists who visit the global icon each year, as well as enhancing services for the citizens of New South Wales.

The Government is proud to have recently completed the Yallamundi Rooms, a new function centre at the north-eastern end of the Sydney Opera House. Named in recognition of the original custodians of Bennelong Point, the Rooms allow visitors to enjoy this world-class venue with one of the world's best views.

Property

Landcom works in collaboration with other parts of government to achieve urban management objectives by improving the supply, diversity and affordability of new housing with a clear focus on sustainability.

Landcom has achieved its key target of supplying 20,000 home sites over the four years to March 2019, with 12,000 homes developed in Western Sydney alone. It has also met its goals of releasing 500 first home buyer lots and delivering 5-10 per cent affordable housing on all new projects.

Forestry

The Forestry Corporation of NSW (FCNSW) is investing in new timber plantations, funded from $24.0 million provided in the 2018-19 Budget. Over 350 hectares of land have been added to date near Bathurst and Tumut. FCNSW has purchased over 7,000 hectares of radiata pine plantations near Oberon, Tumut and Tumbarumba over the past few years as part of expanding its existing private plantation. Expanding state-owned plantations is in line with the goal of the NSW Government's Forestry Industry Roadmap to increase softwood plantation and drive industry growth.

FCNSW replants every harvested plantation with another crop of trees in order to sustainably produce the local timber required by the community well into the future. FCNSW will hand-plant nine million seedlings in 2019 over an area the equivalent of 8,000 football fields.

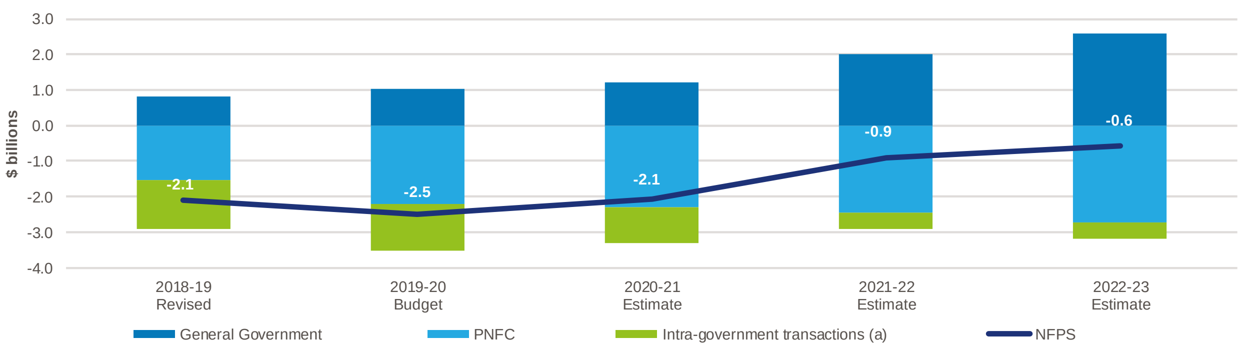
Operations in public native forests in NSW are regulated by Integrated Forestry Operations Approvals (IFOAs), which integrate the regulatory regimes for environmental planning and assessment, protection of the environment, and biodiversity conservation. The Coastal IFOA commenced in November 2018, replacing four separate IFOAs for the Upper North East, Lower North East, Southern and Eden regions.

7.3 Non-financial public sector

For the NFPS, the negative $2.1 billion net operating balance in 2018-19 is $258.0 million lower than forecast in the 2018-19 Budget resulting from lower performance in the GGS sector which was partially offset by stronger performance in the PNFC sector. The NFPS net operating balance over the budget and forward estimates is lower than forecast in the 2018-19 Budget. This is driven by lower revenue forecasts in the PNFC sector.

Further details on GGS performance are in Chapters 5 and 6 of this *Budget Statement*.

Chart 7.1: Components of the non-financial public sector net operating balance



Capital expenditure

In 2018-19 capital expenditure within the PNFC sector is forecast to $5.3 billion, which is $1.8 billion lower than forecast at the time of the 2018-19 Budget. This result was primarily driven by the de-consolidation of the WestConnex project from the State's accounts following the sale of a 51 per cent stake in August 2018 and a reprofiling of a number of RailCorp projects.

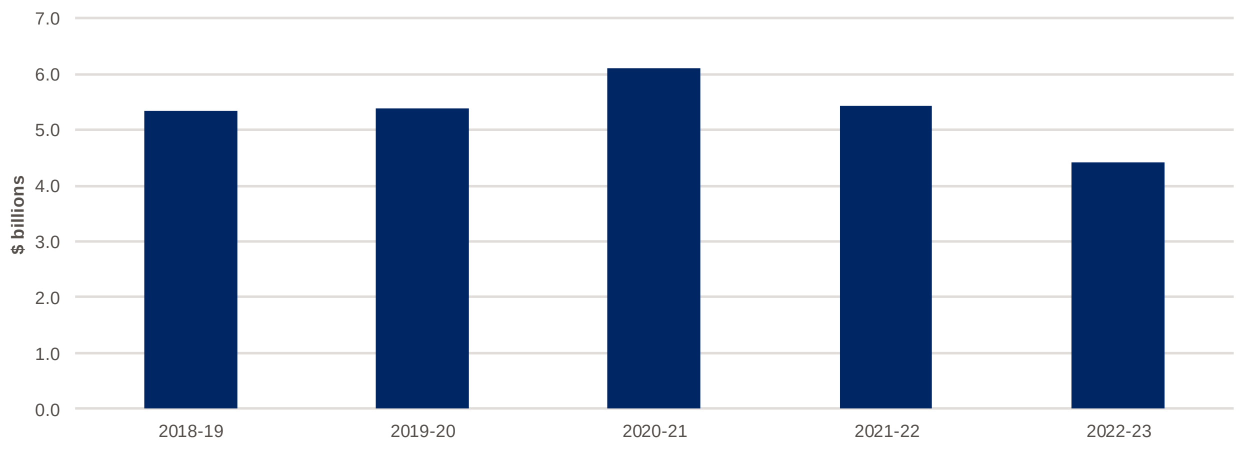
Capital expenditure within the PNFC sector over the budget and forward estimates will be $21.3 billion. This is $158.3 million lower than the comparative forecast in the 2018-19 Budget. Key movements between budgets include:

- $2.1 billion higher spend by RailCorp for the delivery of new intercity and Waratah trains under the More Trains, More Services program, a commitment to provide more express trains for Western Sydney, and funding for the Fast Rail Program
- $1.2 billion higher expenditure by Sydney Water on growth works, new and upgraded wastewater infrastructure to cater for forecast increases in population and development
- De-consolidation of the WestConnex projects, accounting for a $2.4 billion reduction over 2018-19 and 2019-20
- $440.5 million reduction in Land and Housing Corporation's property acquisition spend due to a softening property market, reducing the forecast asset sales available for reinvestment.

Chart 7.2 shows capital expenditure in the PNFC sector from 2018-19 to 2022-23.

Further details on the Government's capital expenditure strategy is provided in Budget Paper No.2: *Infrastructure Statement*.

Chart 7.2: Capital expenditure of the public non-financial corporations' sector



Capital expenditure is expected to reach $6.1 billion in 2020-21 driven by the timing of various RailCorp and Sydney Water projects. Capital expenditure is forecast to fall to $4.4 billion in 2022-23 as projects are completed.

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 continues to manage financial risks for the State by providing foreign exchange, commodity and interest rate hedging services with $2.4 billion of transactions executed over the past year to 31 May 2019.

Box 7.4: Sustainability Bond Programme launched with Australia's largest Green Bond

In the last year, TCorp has issued the State's first Green Bond under the newly established Sustainability Bond Programme. The Sustainability Bond Programme enables investors to contribute capital to assets and projects that deliver measurable environmental and social benefits to New South Wales and contribute to the United Nations Sustainable Development Goals. These bonds will complement existing general-purpose bonds and provide the State with diversification of its investor base.

The 10-year bond successfully raised an historic $1.8 billion in funding, the largest green bond issued in Australian dollars in the market. The projects to receive financing from the issuance include Sydney Metro Northwest, Newcastle Light Rail and the Lower South Creek Treatment Programme being delivered by Sydney Water.

Building on the success of the first bond, the NSW Government will continue to lead the nation on the social and environmental investment front by issuing a new Sustainability and Social Bond later this year. Sustainability and social bonds provide institutions with opportunities to invest in programs that have positive environmental and social impacts on communities and which serve the needs of women, children, the elderly, people with disabilities and those in vulnerable situations.

TCorp manages funds on behalf of Insurance and Care NSW (icare), SAS Trustee Corporation, the NSW Generations (Debt Retirement) Fund (NGF) and the NSW Infrastructure Future Fund (NIFF), among others. TCorp's total funds under management have increased by $10.8 billion to $104.6 billion over the past year to 31 May 2019, exceeding $100 billion for the first time, largely due to investment growth and new funds flowing into the NGF.

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

Over the past 12 months, icare has delivered over $100 million in workers compensation premium discounts. icare will provide a further $300 million in premium discounts over the next three years for 280,000 employers, delivering an average discount of 8 per cent and a maximum of 12.5 per cent for employers with the safest workplaces.

icare launched a new single website, aggregating documents and information into an easy-to-use and transparent online portal. icare also redesigned and simplified the application and eligibility process for people with a dust disease as well as their family members.

Through the Medical Support Panel, icare has reduced average treatment approval times for injured workers from six weeks to five days and assessed 2,400 cases.

7.5 Dividends and tax equivalent payments

Dividends received by the GGS from PNFCs and PFCs are based on the operating performance of those businesses. Tax equivalent payments and debt neutrality charges (government guarantee fees) are also paid by PNFCs and PFCs to ensure competitive neutrality with private sector businesses. For 2018-19, the dividend and tax equivalent payments from the PNFC and PFC sectors are forecast at $1.9 billion and Government guarantee fees to be $299.7 million. Over the budget and forward estimates, dividends and tax equivalent payments are forecast to be $4.8 billion.

Dividends and tax equivalent payments from the electricity sector over the budget and forward estimates are forecast to be $195.3 million, $57.4 million lower than the comparative estimate at the 2018-19 Budget. This is primarily driven by lower earnings for Essential Energy as a result of new regulatory determinations. Of this total amount, $156.7 million are tax equivalent payments fulfilling the Government's competitive neutrality obligations.

A recent capital structure optimisation initiative by Sydney Water has supported higher relative distribution levels from the PNFC water sector, with distributions in 2019-20 forecast to be $1.2 billion. Distribution levels are expected to reduce over the three years to 2022-23 with estimated distributions over the budget and forward estimates of $3.0 billion being 23 per cent lower compared to the 2018-19 Budget.

Distributions from the property and resources sector are forecast at $797.9 million over the budget and forward estimates. This is $114.9 million lower than forecast in the 2018-19 Budget and is driven largely by Landcom reaching the end of their multi-year plan to return historic profits to Government.

The Port Authority estimated dividend and tax equivalent payments of $156.6 million over the budget and forward estimates, an increase of around 30 per cent from the 2018-19 Budget.

The PFC sector's distributions over the budget and forward estimates years are $705.7 million, an increase of $282.1 million from the 2018-19 Budget, largely resulting from an expected increase in dividends from T-Corp in 2019-20 as part of a capital restructuring that allows them to return previously retained earnings to Government. TCorp's capital requirements will be met via an equity contribution from the Crown Finance Entity.

Table 7.1: Dividends and tax equivalent payments from public non-financial corporations and public financial corporations

	2018-19	2019-20	2020-21	2021-22	2022-23
	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m
Electricity	62	32	50	52	61
Water	1,282	1,195	858	467	435
Property and Resources	265	310	290	97	101
Ports	11	12	41	50	55
Public Financial Corporations	301	329	121	129	128
Total Dividends and Tax Equivalent Payments	1,921	1,877	1,359	796	779