

7. COMMERCIAL PERFORMANCE IN THE BROADER PUBLIC SECTOR

- The Government owns a number of corporations. These corporations deliver services to the community but are market-orientated in nature and are governed by independent boards.
- Public corporations fall into two categories: Public Financial Corporations (PFCs) which deliver financial services, and 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 encourage private sector businesses towards efficient and commercial outcomes.
- Like other areas of Government, Government corporations have been impacted by the drought, bushfires and COVID-19. The 2019-20 results and forward projections reflect these impacts.
- The total dividends and tax equivalent payments paid by PNFCs and PFCs to the general government sector was \$1.4 billion in 2019-20. Dividends are projected to be \$1.1 billion for 2020-21.

7.1 Overview of the broader public sector

The NSW Government adopts international best 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. Most 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*. 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, for example issuing bonds, as well as providing insurance services.

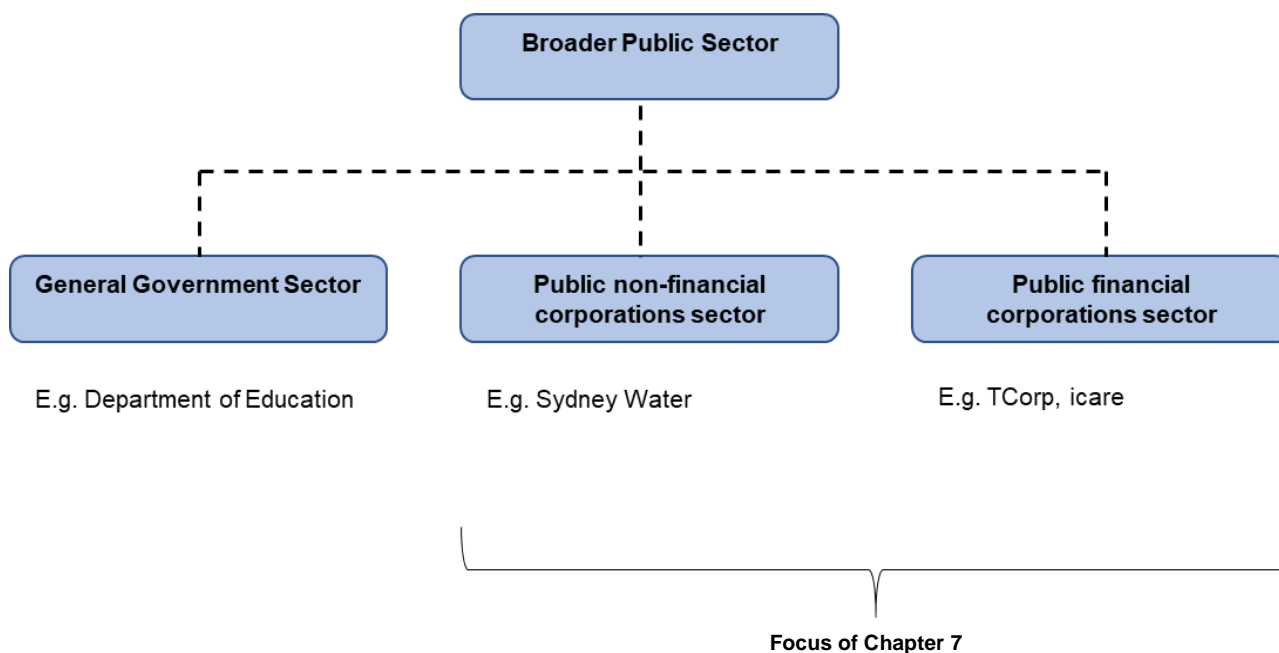
Appendix A.4 contains a full list of entities in the New South Wales public sector and their classification.

Box 7.1: Benefits of the Public Corporations

Public corporations are an effective structure for imposing private sector disciplines on government businesses. They have consistently delivered better service outcomes at a lower cost, while also having a net contribution to the State Budget.

Independent boards play a pivotal role in driving the performance of the SOCs, bringing best practice industry expertise and governance experience.

Figure 7.1 The public sector and its commercial operations



7.2 Reforms and initiatives of government businesses

Transport

On 1 July 2020, Rail Corporation New South Wales (RailCorp) was formally converted into the Transport Asset Holding Entity of New South Wales (TAHE). TAHE is a State Owned Corporation with a majority independent board.

TAHE holds significant rail property assets, rolling stock and rail infrastructure across the Sydney metropolitan area and in limited regional locations. These assets are made available to Sydney Trains and NSW Trains for their operations.

TAHE will aim to deliver the economic, productivity and consumer benefits of the SOC model. The operating model is being implemented progressively over time.

Water

Sydney Water, WaterNSW and Hunter Water play a key role in supplying water to metropolitan and regional areas.

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

Immediate COVID-19 responses included a focus on both customers and the supply chain, with increased hardship support and faster payments to suppliers. In addition, these entities are investing in significant capital programs to upgrade water systems to accommodate future growth, including exploring water recycling options. This investment is delivering jobs and economic stimulus, supporting an economic recovery.

Box 7.2: Recycled water in metropolitan NSW

The Government's State owned water utilities are investigating potential benefits from increased use of recycled water. Recycled water could significantly improve water security in metropolitan NSW. Recycled water schemes could diversify water supply, defer the need for significant water infrastructure spending and provide a source of climate-independent water supply.

Sydney Water has identified schemes that could collectively contribute 25 per cent of Sydney's water supply. This includes water supply options for key growth areas of Greater Sydney, such as Western Sydney. Recycled water also forms a focus of the Lower Hunter Water Security Plan, which is due for release in 2021.

While planning for the future, these water utilities continue to implement non-potable recycled water schemes. In 2019-20, Sydney Water supplied 47 billion litres of recycled water across 23 non-potable recycled water schemes. This water is used for residential, commercial and industrial uses, wastewater treatment and park irrigation. As such, these schemes save drinking water that would have otherwise been used for these purposes.

Hunter Water has been working with large customers to develop Water Efficiency Management Plans, incorporating the substitution of drinking water with recycled water where possible. These plans saved 377 million litres of drinking water in 2019-20. Additionally, two new recycled water schemes were implemented in November 2019, supplying over 1,100 properties with non-potable water. Hunter Water also plans to invest in recycled water infrastructure over the next four years to irrigate public open spaces.

The Independent Pricing and Regulatory Tribunal set prices for Sydney Water and Hunter Water from 1 July 2020, resulting in reduced customer charges. Accordingly, water customers in metropolitan NSW continue to pay amongst the lowest annual bills in the country.

The State owned water utilities continue their focus on water conservation in partnership with the community. During the recent drought, Hunter Water customers reduced water consumption by 15 per cent, or the equivalent water use of 52,000 homes. Meanwhile, Sydney Water's WaterFix programs included over 15,000 plumbing checks to reduce leaks and install environmentally friendly water fittings, resulting in an estimated annual saving of 347 million litres of water. Active leak detection remains a priority, with Sydney Water surveying over 18,000 kilometres of their water network, and Hunter Water surveying over 100 per cent of their network throughout 2019-20.

Sydney Water is working with Government agencies to support the Greater Sydney Commission's vision of a 'metropolis of three cities'. Sydney Water has signed landmark deals with the Western Sydney Airport and Sydney Science Park, both being key developments in Western Sydney's economic hub. In addition, Hunter Water is developing the Lower Hunter Water Security Plan (to be published in 2021) with key stakeholders and the community. This Plan explores new water sources and ways to save water, to ensure the Lower Hunter has an adaptable water system that can respond to future periods of drought.

WaterNSW is progressing critical and major infrastructure projects, including planning and business cases for:

- the construction of a new Dungowan Dam
- the raising of the Wyangala Dam wall
- a new dam on Mole River, in the Border Rivers region of NSW
- re-regulating structures and fishways along the Barwon-Darling river system and Macquarie River.

Energy

Essential Energy operates and maintains one of Australia's largest electricity networks, covering 95 per cent of New South Wales. The business serves more than 855,000 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 four per cent for residential customers and six per cent for business customers.

Essential Energy continues to streamline its operations and invest in innovative and enabling technologies to ensure it can continue to deliver safe, reliable electricity long into the future.

Box 7.3: Bushfire and drought emergency response from the SOCs

The 2019-20 bushfires caused significant damage to Essential Energy's network, resulting in power outages for more than 104,000 customers and damaging more than 3,200 power poles. The response effort was significant, including the deployment of over 470 field employees to repair and rebuild the network. Customer support included loaning portable generators, waiving reconnection fees and installing emergency power systems for remote residential customers and key telecommunications towers.

Forestry Corporation was actively engaged in firefighting for many months following the bushfire crisis. It committed staff and significant resources to the firefighting response led by the NSW Rural Fire Service (RFS).

WaterNSW also contributed to the bushfire response, working alongside the RFS and National Parks and Wildlife Service. This has included responding to fire events, monitoring and managing the impacts of the fires on water quality, and repairing impacted assets and catchments.

Additionally, WaterNSW has been at the forefront of drought responses in regional NSW. Emergency drought projects that have been delivered to extend supply in regulated valleys include:

- construction of the Peel Valley Pipeline to prolong Tamworth town water supplies
- construction of the temporary Dungowan weir
- pumping for deeper water storage within Burrendong Dam.

Hunter Water, as part of its emergency drought response, has been progressing plans for a desalination plant that would be constructed should Lower Hunter dam levels reach certain trigger points. The proposed plant would have capacity to deliver 30 million litres of water per day to the drinking water network if required.

Ports

The 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. The Port Authority also has responsibility for the management of business activities and related assets in Sydney Harbour. These include the cruise activities at the Overseas Passenger Terminal (OPT) and White Bay Cruise Terminal, as well as management of the dry bulk facilities at Glebe Island.

These functions have been adversely impacted by COVID-19. The cruise business has been particularly impacted, along with container, bulk liquids and vehicle trades.

Port Authority has reprioritised its efforts in response to the unfolding health and economic crisis. Key initiatives include an accelerated capital expenditure program aiming to support the organisation post COVID-19, generating jobs and local stimulus. The accelerated capital program includes:

- construction of a multi-user facility at Glebe Island. This facility will provide a low cost, low impact and sustainable entry point to receive, store and distribute bulk construction materials imported by sea
- refurbishment and capacity upgrade of the OPT at Circular Quay
- construction of the Eden Welcome Centre to support regional cruise and development
- refurbishment of Newcastle's Macquarie Pier.

Port Authority has recently adopted a more flexible approach to its pricing and profitability strategy and will aim to maintain this flexibility until the impacts of COVID-19 to shipping become clearer. A freeze on all existing statutory and miscellaneous charges has been put in place to 30 June 2021 to support the shipping industry and the broader supply chain.

Other initiatives included a six-month rental abatement for all retail tenants and ongoing rental relief assistance.

Property

Landcom is the government's land and property development organisation, and 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.

Landcom projects delivered over 2,260 home sites in 2019-20. It has a goal of delivering 5-10 per cent affordable housing on all new projects, and Landcom remains on track to achieve this target. Landcom also continues to exceed its target of 10-15 per cent diverse housing in all new projects. Diverse housing includes housing that responds to local needs and varied housing types.

A key achievement for Landcom was being internationally recognised as fourth in the world and third across Asia Pacific in the Global Real Estate Sustainability Benchmark (GRESB) Developer Assessment. The Benchmark assesses environmental, social and governance management and implementation performance.

Box 7.4: 5,600 new home sites in South West Sydney

The Government recognises that new housing supply is critical to a liveable and vibrant state. It drives jobs and stimulates the economy.

Landcom has proceeded with the acquisition of 873 hectares of land at North Wilton to enable new housing. This project will create 5,600 new home sites, including a minimum of 10 per cent affordable dwellings.

The project will provide two sites for education purposes, 52 hectares of new open space including new sports fields, 360 hectares of dedicated environmental woodland and an 11 hectare lake.

It will also meet Landcom's sustainability and environmental standards and targets a 6 Star Green Star Communities rating.

This initiative is expected to generate an estimated 5,500 jobs within the community and an estimated 20,000 construction-related jobs over the life of the project. The project is also expected to generate over \$1 billion in financial returns for the Government over the life of the project (26 years).

Forestry

Forestry Corporation of NSW (Forestry Corporation) manages over two million hectares of State forests, including the State's largest renewable timber production and plantation estate. The 2019-20 bushfires were unprecedented in both their intensity and their geographical coverage across the State. This natural disaster had a significant effect on the assets managed by Forestry Corporation. In total, more than 890,000 hectares of State Forest has been impacted as well as 65,000 hectares of hardwood and softwood timber plantations.

Forestry Corporation commenced salvage harvesting of the softwood plantations following the fires. As at 30 June 2020, approximately 1.5 million tonnes of fire-affected timber had been salvaged, with five to six million tonnes expected to be salvaged in total. Salvage operations have boosted local employment in timber regions such as Tumut and Bombala.

In early 2020, the NSW Government provided a \$46 million equity injection to Forestry Corporation to allow it to accelerate recovery efforts. This enabled a substantial program including the repair of fire-damaged infrastructure and expansion of seedling nurseries.

Work has begun on the replanting of fire-affected plantations. Over 10 million seedlings were dispatched for planting in the winter of 2020. Work is also beginning on expansion of the two nurseries at Grafton and Tumut to bolster seedling supplies into the future.

7.3 Capital expenditure

The Public Non-Financial Corporation sector is an important driver of infrastructure across the State. It has played a critical role in job creation through the COVID-19 economic crisis.

In 2019-20 capital expenditure within the PNFC sector was \$4.3 billion, which is \$1.1 billion lower than forecast at the time of the 2019-20 Budget. This result was primarily driven by the reprofiling of spend on a number of TAHE projects from 2019-20 and 2020-21 into later years to align with contract awards and updated delivery profiles.

Capital expenditure within the PNFC sector over the budget and forward estimates will be \$22.8 billion. This is \$1.5 billion more than the comparative forecast in the 2019-20 Budget. Besides the initial decrease in spend on TAHE projects noted above, key movements between budgets include:

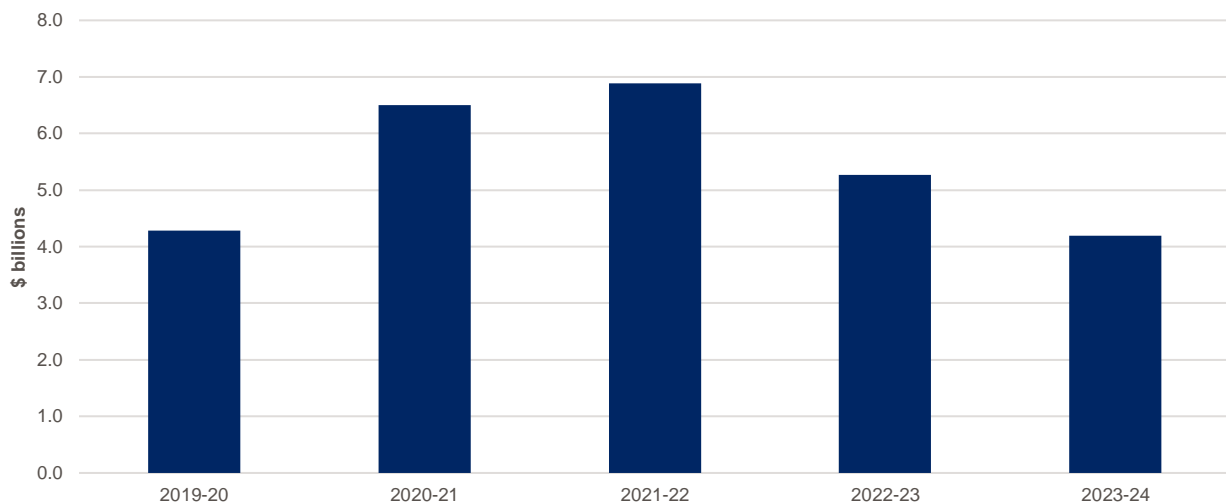
- \$1 billion increased expenditure by Sydney Water for various projects including asset renewals to meet mandatory standards, and investment in water and wastewater infrastructure to cater for forecast increases in population and development

- \$512.1 million increased expenditure by Essential Energy, driven by increased spend on the electricity network, bringing forward of major technology investment, public lighting programs and water infrastructure in Broken Hill
- \$506.6 million higher expenditure from NSW Land and Housing Corporation projects driven by stimulus-related measures, primarily redevelopment. This spend includes preparation of vacant land lots for private sale, social housing new supply, as well as maintenance and upgrades.

Chart 7.1 shows capital expenditure in the PNFC sector 2019-20 to 2023-2024.

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 public non-financial corporations 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 continued to manage financial risks for the State by providing foreign exchange, commodity and interest rate hedging services with \$1.1 billion of transactions executed over the past year to 30 June 2020.

In 2019-20 TCorp raised \$27.8 billion in debt funding, \$13.3 billion more than planned at the start of that financial year, providing critical support to the State's needs during the COVID-19 pandemic. A further \$11.9 billion was raised to 30 September 2020.

TCorp's total funds under management decreased by \$3.7 billion to \$103.0 billion over the past year to 30 June 2020. This change primarily reflects a \$4.8 billion cash outflow from the NSW Infrastructure Future Fund to meet government infrastructure spending and \$2.1 billion cash outflows to fund the governments defined benefit superannuation payments. These outflows were offset by \$1.8 billion of positive investment returns during the same period, which were achieved despite difficult markets during the COVID-19 pandemic. This brings total absolute investment returns since 1 July 2015 to \$24.9 billion as of 30 June 2020.

Box 7.5: NSW Infrastructure Future Fund

Delivery of the Government's infrastructure program has been supported by TCorp's successful management of the NSW Infrastructure Future Fund ("NIFF").

The NIFF was established in 2016 as the investment vehicle to temporarily hold the net proceeds from the Government's past asset sales. The capital, along with the investment earnings, are used to support the delivery of the Government's committed capital expenditure under the Restart NSW/Rebuilding NSW infrastructure programs.

Since its establishment, the NIFF has generated annualised returns of 5.0 per cent and has added \$2.8 billion of value from investment returns (to September 2020). By effectively managing the NIFF, TCorp has generated a competitive rate of return for taxpayers.

In 2019-20, \$4.8 billion was drawn down from the NIFF to fund infrastructure projects that will benefit the people of NSW over the long-term, including:

- continuing the expansion of Sydney Metro City and Southwest (\$1.2 billion) and commencing the Parramatta Light Rail (\$289 million)
- establishing a new, state-of-the-art fleet of intercity trains between Sydney and the Central Coast, Newcastle, the Blue Mountains and the South Coast (\$381 million)
- regional Growth Roads (\$290 million), Regional Road Freight Corridor (\$285 million) and Fixing Country Roads (\$89 million).

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 328,000 employers, including 202 NSW Government agencies. In addition, icare cares for almost 1,600 Lifetime Care and 350 Workers Care participants, and almost 5,800 people with a dust disease and their dependents. icare also supports homeowners and protects more than \$228 billion in NSW Government-owned assets.

Over the past 12 months, icare has kept workers compensation average base premiums at record lows of 1.4 per cent for 328,000 employers. It has also provided reduced premiums and payment deferrals for almost 20,000 businesses impacted by the 2019-20 bushfires and COVID-19. Toolkits have been developed to assist businesses establish safe work practices in the COVID-19 environment. The icare 'Lung Bus' also traversed the State providing important lung health monitoring in bushfire affected regions and in responding to the increasing incidence of silicosis.

A new Authorised Provider model was introduced, giving employers more choice of insurance provider for workers compensation claims management. In addition, Risk Education eXpress (REX), icare's learning program for NSW Government agencies, transitioned its full curriculum online to ensure our support continued for frontline workers.

icare also continues to work with the State Insurance Regulatory Authority (SIRA) to deliver on core actions arising from the 21 Point Action Plan and the independent Compliance and Performance Review of the Workers Compensation Nominal Insurer.

The Government has announced it will bring forward and broaden a scheduled statutory five-year review into workers compensation to include a comprehensive organisational review of icare. The Review is being led by the Hon Robert McDougall QC. The Review will ensure that the workers compensation system in NSW remains sustainable and continues to improve.

7.5 Dividends and tax equivalent payments

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

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 2020-21, the dividend and tax equivalent payments from the PNFC and PFC sectors are forecast at \$1.1 billion and Government guarantee fees at \$317 million. Over the budget and forward estimates, dividends and tax equivalent payments are forecast to be \$3.8 billion.

- A recent capital structure optimisation initiative by Sydney Water has supported higher relative distribution levels from the water sector, with distributions in 2020-21 forecast to be \$865.7 million. Distribution levels are expected to moderate over the three years to 2023-24, with estimated distributions over the budget and forward estimates of \$2.2 billion being 27 per cent lower compared to the 2019-20 Budget.
- Distributions from the electricity sector over the budget and forward estimates are forecast to be \$297.8 million, \$102.5 million higher than the comparative estimate at the 2019-20 Budget. This is driven by ongoing operational efficiencies consistent with the expectations of the Australian Energy Regulator. Of this total amount, \$202.6 million is tax equivalent payments.
- Distributions from the property and resources sector are forecast at \$530 million over the budget and forward estimates. This is \$268 million lower than forecast in the 2019-20 Budget. This is due to Landcom's deferral of dividends in 2019-20 and 2020-21, necessitated by the impacts of COVID-19 on the property market. Following the devastating 2019-20 bushfires, Forestry Corporation is also projecting greatly reduced profitability over the forward estimates which will limit their ability to pay dividends or tax equivalent payments during this period.
- The Port Authority's distributions are forecast at \$118.8 million over the budget and forward estimates, a decrease of 24 per cent from the 2019-20 Budget. This is largely due to the impacts of COVID-19, in particular the Commonwealth Government cruise ship ban.
- TCorp's distributions over the budget and forward estimates are \$659 million, a reduction of \$46.7 million from the 2019-20 Budget. This is largely due to the deferral of a special dividend from TCorp which was partly offset by increased dividends and tax equivalents over the forward estimates due to higher revenue from funding activities.

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

	2019-20 Actual	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24
	\$m	\$m	\$m	\$m	\$m
Electricity	29	24	72	85	118
Water	1,159	866	436	411	452
Property and Resources	48	33	42	224	231
Ports	20	13	23	36	46
Public Financial Corporations	98	135	150	177	197
Total Dividends and Tax Equivalent Payments	1,354	1,070	723	933	1,044