

7. COMMERCIAL PERFORMANCE IN THE BROADER PUBLIC SECTOR

- The commercial entities in the NSW public sector deliver essential services including water, energy and port functions. The Government is committed to maintaining public ownership of its essential assets.
- These commercial operations are delivered through State Owned Corporations (SOCs), other entities in the public non-financial corporation (PNFC) sector and entities in the public financial corporation (PFC) sector (see Appendix A4 Classification of Agencies). These commercial entities operate at arm's length from the Government and are guided by Treasury's Commercial Policy Framework.
- The Government has safeguarded Sydney Water Corporation (Sydney Water) and Hunter Water Corporation (Hunter Water) from privatisation through an amendment to the *Constitution Act 1902* (NSW).
- SOCs are taking action to support the State's energy security and transition to net zero emissions. They are exploring a wide spectrum of renewable energy solutions, including renewable energy generation, energy storage and efficient connections to the network.
- icare has focused on fixing the foundations of its business and stabilising operations. Significant progress has been made and icare is now shifting focus towards improving outcomes for its customers – the people and businesses of New South Wales and NSW Government agencies.
- The total dividend and tax equivalent payments by entities in the PNFC and PFC sectors were \$714.8 million in 2023-24 and are forecast to be \$4.7 billion over the budget year and forward estimates to 2027-28.

7.1 Reforms and initiatives of State Owned Corporations

Water

The New South Wales Government owns three water businesses – Sydney Water, Hunter Water and WaterNSW. Sydney Water and Hunter Water deliver essential water and wastewater services to households in Greater Sydney, Illawarra and the Lower Hunter. WaterNSW supplies bulk water to metropolitan and regional areas.

The Government committed to safeguarding the State's essential water assets from privatisation. The *Constitutional Amendment (Sydney Water and Hunter Water) Bill 2023* was passed on 1 June 2023. The legislative changes ensures that essential water assets continue to belong to the people of New South Wales.

Sydney Water Corporation (Sydney Water)

Sydney Water's capital program focuses on the need to support the State's growth and maintain safe, resilient and reliable water. More specifically, Sydney Water is heavily focused on the Transport Oriented Development (TOD) Program which is a key Government policy to deliver housing around transport hubs.

Sydney Water is working with the Department of Planning, Housing and Infrastructure on servicing part 1 of the TOD Program, which covers the accelerated precincts within the Government's Housing Accord period. Sydney Water can also service part 2 of the TOD program, which includes locations within Sydney Water's area of operations that are reformed through new planning controls.

As part of Sydney Water's commitment to reaching net-zero emissions across the business by 2030, it will procure renewable energy to meet its electricity needs. Sydney Water is also assisting its suppliers in meeting net-zero emissions across its supply chain by 2040, including working to reduce carbon emissions per dollar of capital expenditure.

Among Sydney Water's range of net-zero programs, it is exploring delivery of lower-cost, zero-carbon emission energy across the industry. As part of its Malabar gas-to-grid partnership with Jemena and in collaboration with the Australian Renewable Energy Agency, Sydney Water is pioneering Australia's first biomethane-to-gas-pipeline. Biogas removed from wastewater at the Malabar Water Resource Recovery Facility is expected to power 6,300 homes in 2023-24. By 2030, that figure is set to double.

Hunter Water Corporation (Hunter Water)

Hunter Water is investing in water security and growth infrastructure, while balancing customer affordability. Major investments include:

- upgrades to the Farley, Belmont and Raymond Terrace Wastewater Treatment Works
- upgrades at the Grahamstown Water Treatment Plant
- water distribution and wastewater network upgrades to support growth and meet regulatory and environmental compliance.

Hunter Water and the NSW Government continue to support the Lower Hunter residents experiencing vulnerability and financial hardship. Hunter Water's assistance programs support:

- more than 47,000 pensioners and concession card holders
- eligible customers, including tenants experiencing financial hardship.

Hunter Water is reducing the carbon footprint of its operations. Hunter Water continues to roll out its onsite renewable energy generation program, with 6.5 megawatts of renewable energy capacity to be installed across its treatment plants and pump stations by the end of 2024. In addition, Hunter Water has entered into a renewable power purchase agreement that will transition its large sites to 100 per cent renewable electricity by 2030.

WaterNSW

WaterNSW supports the implementation of the NSW Government's Town Water Risk Reduction Program. The program brings the strengths and expertise of major entities in the water sector to help NSW regional towns improve water security, quality, and reliability. WaterNSW is working collaboratively with the local water utilities on dam safety risk assessments and catchment and source water quality management.

WaterNSW continues to progress its Renewable Energy and Storage Program. This program identifies opportunities to use WaterNSW's land and assets to facilitate private sector investment in renewable energy generation and storage projects in New South Wales. The first agreement under the program for a pumped hydro scheme was executed between WaterNSW and ACEN Australia in December 2022. In early 2024, WaterNSW announced another two agreements for renewable energy and storage projects. They are:

- pumped hydro projects at the Glenbawn and Glennies Creek Dams with Upper Hunter Hydro
- a major pumped hydro project in Western Sydney with Zen Energy, capable of powering half a million homes or almost 30 per cent of Sydney households, if successfully delivered.

Energy

Essential Energy operates and maintains one of Australia's largest electricity distribution networks. Essential Energy focuses on the future needs of customers in regional, rural and remote communities. It seeks to optimise asset investment and use, maintain affordable network charges and facilitate new ways for customers to connect to the network and utilise services.

Essential Energy expects to spend over \$100.0 million in 2024-25 as part of its network resilience program. This will contribute towards its strategy of replacing 11,000 poles with fire resistant composite poles in high-risk areas over the period of 2024-25 to 2028-29 and introducing 1,123 portable community resilience assets by 2028-29.

Essential Energy is working with stakeholders to explore opportunities to materially increase renewable connections. For Essential Energy, this will utilise significant available capacity that exists in Essential Energy's high-voltage network. This will connect more wind, solar and storage in the short to medium term so that NSW consumers can benefit from cheaper and cleaner electricity as larger-scale network projects are developed.

Essential Energy has a focus in supporting regional development in New South Wales through undertaking works for the special activation precincts of Parkes, Wagga Wagga and Moree. Essential Energy is improving reliability for remote and rural customers and communities by transitioning high cost-to-serve customers to more efficient and reliable solutions where it is supported by the customer, and economically and technically feasible. This includes a target to deliver up to 400 stand-alone power systems by 2028-29 that will provide safe and reliable power to customers in remote, or in difficult to access, flood or bushfire-prone locations.

Over the regulatory period from 1 July 2024 to 30 June 2029, Essential Energy's revenue will increase, in real terms, by 1.3 per cent a year on average (excluding metering). For a typical residential customer in Essential Energy's network, their distribution network charge will increase by around 1 per cent in 2024-25 compared to current charges.

Transport

Transport Asset Holding Entity of NSW (TAHE)

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

TAHE will transition from its current operating model as a statutory state-owned corporation with a commercial imperative to a non-commercial statutory corporation. Legislative amendment to remove TAHE's status as a state owned corporation and establish TAHE's new operating structure was introduced into Parliament in June 2024.

As part of the transition, the Government no longer requires TAHE to provide returns to Government in the form of dividends and income tax equivalents from 2023-24 onwards.

Port Authority of NSW (Port Authority)

Port Authority is responsible for all commercial marine functions in the ports of Sydney Harbour, Port Botany, Newcastle Harbour, Port Kembla, Port of Eden and Port of Yamba. These include the statutory Harbour Master's function, pilotage and navigation services, port safety functions, and port and terminal operations.

In 2024-25, Port Authority will:

- continue to work with key stakeholders to identify how the future Bays Port can support the Government's strategic priorities including affordable housing and Shore Power
- undertake further economic analysis and cruise market research to understand future demand and cruise capacity for New South Wales.

Port Authority is working towards meeting the net zero target of a 75 per cent reduction in Scope 1 and 2 carbon emissions. Key programs include:

- trialling a vessel energy efficiency program
- alternative fuel and propulsion technology research
- behind the meter solar installations
- LED replacement in passenger terminals.

Subject to meeting funding requirements, Port Authority is committed to the installation of shore power infrastructure within the Bays Port Precinct which is a key component in achieving Scope 3 carbon emission reductions.

Property

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

Landcom is committed to improving the supply of affordable housing in New South Wales. Key initiatives being delivered include:

- two pilot Build to Rent projects in the South Coast and Northern Rivers regions. Landcom will deliver 60 dwellings in Bomaderry and 50 dwellings in Lismore, with 20 per cent affordable housing onsite
- continuing to acquire projects under the \$300.0 million dividend reinvestment to deliver 4,697 dwellings, including a minimum 30 per cent or 1,409 affordable housing dwellings
- partnering with Orange City Council to deliver 330 dwellings in regional New South Wales, with 20 per cent affordable housing
- delivering 65 affordable dwellings at Schofields together with a community housing provider.

Landcom is also focused on incorporating sustainability initiatives in new projects and developments, including:

- designing the two pilot Build to Rent projects with measures to reduce water and energy usage to reduce tenants' cost-of-living pressures
- targeting net zero energy usage on the Wilton project, with the development fully electrified
- offering sustainability rebates on the Wilton and Macarthur Heights projects to reduce cost-of-living pressures through reduced energy usage and supporting the energy transition to renewables.

Box 7.1: Landcom key worker Build to Rent Program

The NSW Government will provide Landcom with a \$450.0 million equity injection to purchase sites and construct between 400 to 450 new Build to Rent dwellings for key workers.

The program will increase the supply of well built, secure and accessible rental accommodation for the key public sector workers who keep Sydney running but find it difficult to find accommodation close to work and are being priced out of the market.

Forestry

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

Forestry Corporation has been progressing work to explore the opportunity of locating wind farms for renewable electricity generation within the State forest pine plantations. They have issued investigation permits in four locations across New South Wales to four successful proponents.

The permits will allow proponents to carry out detailed wind testing, environmental studies and community engagement ahead of seeking development approvals from the Government. This opportunity will have the potential to deliver significant energy resources and financial returns to New South Wales.

In 2024-25, Forestry Corporation will continue to support the Government, which is working to deliver the Great Koala National Park and NSW Forestry Industry Roadmap to support the delivery of the Government's environmental, economic and social priorities for the forestry sector.

7.2 Capital expenditure

In 2023-24, capital expenditure within the PNFC sector is projected to be \$6.0 billion, which is \$1.3 billion lower than projected in the 2023-24 Half-Yearly Review.

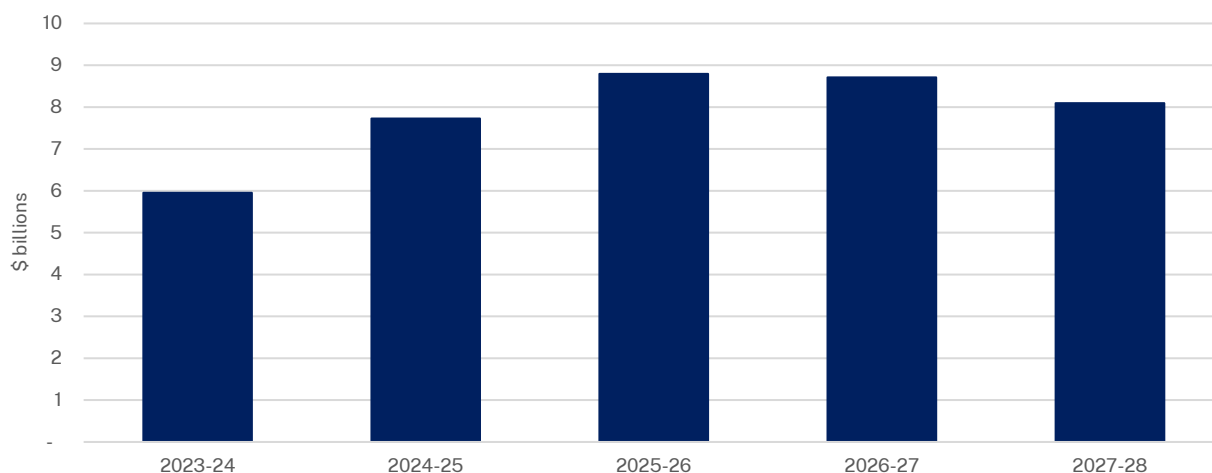
Over the four years to 2027-28, capital expenditure within the PNFC sector is projected to be \$33.3 billion. This is \$3.1 billion higher than projected in the comparative forecast periods in the 2023-24 Half-Yearly Review. The major drivers of this increase are:

- \$1.1 billion increase from Land and Housing Corporation over the next four years reflects significantly increased capital maintenance expenditure across a significant portion of their social housing portfolio
- \$607.3 million increase from Essential Energy related to expenditure on delivering connection services, unregulated business growth and replacement of water sewer treatment plant within the Essential Water business
- \$420.1 million increase from WaterNSW is related to investments in regulatory projects and updates to its asset renewals and replacements program based on identified needs.

Chart 7.1 shows capital expenditure in the PNFC sector from 2023-24 to 2027-28.

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

Chart 7.1: Capital expenditure of the PNFC sector



7.3 Major public financial corporations

NSW Treasury Corporation (TCorp)

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

TCorp's total funds under management was around \$109.0 billion as at 30 April 2024, making it one of Australia's largest fund managers. TCorp raised \$34.0 billion face value in debt funding and retired \$7.8 billion during 2023-24. This includes raising \$2.7 billion in sustainability bonds, taking the program to \$11.9 billion and making TCorp one of the largest government issuers of sustainability bonds in Australia.

TCorp has been working to implement the Government's policy to centralise the investment management for six NSW Treasury controlled funds into a single whole-of-state fund, OneFund which is expected to deliver higher investment returns on behalf of the State. OneFund is expected to include approximately \$46.7 billion in assets under management.

Further detail on TCorp's investment and financial risk management activities are outlined in Chapter 6 Managing the State's Assets and Liabilities and Appendix B Fiscal Risks and Budget Sensitivities. These activities contribute to delivering the whole of state financial outcomes over the budget year and forward estimates.

Insurance and Care NSW (icare)

icare is the State's insurer and its aim is to protect, insure and care for people injured at work and on the road, businesses, government agencies, builders and homeowners.

icare is currently undertaking a multi-year strategic transformation program to deliver long-term benefits for those they serve, such as improved return to work outcomes and improved service experience for employers and injured workers. The initial focus of this program has been to fix the foundations and stabilise the schemes.

The Enterprise Improvement Program is designed to promote efficiency, transparency, and accountability in the conduct of icare operations, as per legislative objectives. It will also respond to the *State Insurance and Care Governance Act 2015* Independent Review led by the Hon Robert McDougall QC (McDougall Review) and the *Governance, Accountability and Culture Review* conducted by PwC.

icare is increasing its focus on those they serve. This includes refreshed strategic priorities to deliver fair and empathetic interactions, enhanced experiences using digital and data, driving better performance through their partnerships, efficient, effective and focused on what matters, and strengthening the culture of collaboration, growth and achievement.

Box 7.2: Enhancing experiences using digital and data

icare has refreshed its strategic priorities and will focus on delivering digital products and automation, driving services aligned to the NSW Government's Digital Strategy. This is highlighted in the following three initiatives.

- Improving payment capability – icare will enable and drive broader adoption of digital invoicing and payment capability across its provider network. Rollout of these capabilities will commence before the end of 2024.
- Enhanced digital experience – icare will develop an improved digital experience supporting injured workers and businesses to self-service, enabling fast, frictionless, transparent and equitable interactions for all, aimed at returning workers to health in a more timely manner. The first improvements will be rolled out before 30 June 2025.
- Refreshed website – icare is updating its public website for improved communication and engagement, with the current refresh to be implemented during the remainder of 2024.

7.4 Returns to the Government from the PNFC and PFC sectors

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

The government guarantee fees are projected to be \$366.0 million in 2023-24 and are forecast to total \$2.0 billion over the budget year and forward estimates.

Total dividend and tax equivalent payments from the PNFC and PFC sectors are forecast to be \$714.8 million for 2023-24, which is \$100.4 million lower than the comparative forecast in the 2023-24 Half-Yearly Review.

Over the four years to 2027-28, total dividend and tax equivalent payments to the Government from the PNFC and PFC sector are forecast to be \$4.7 billion, which is \$439.5 million lower than the comparative forecast in the 2023-24 Half-Yearly Review.

Key movements include:

- a \$272.4 million reduction in Sydney Water's income tax equivalents, which were caused by a reduction in profit before tax and from revenue expected due to lower infrastructure contributions of \$1.0 billion. This is driven by a deferral in investments and a consequential reprofiling of Sydney Water's capital expenditure to later years and a reprofiling of infrastructure contributions to cover growth expenditure
- a \$139.3 million decrease in Essential Energy's income tax equivalents after a review of its taxation affairs was completed. Following the review, several changes have been made to the way Essential Energy treats certain expenditures for tax purposes. The largest of these changes includes the claiming of immediate deductions for certain replacement expenditures relating to poles, crossarms and conductors. The changes bring the tax practices of Essential Energy in line with industry peers and would have the potential to put downward pressure on network prices for customers in future regulatory periods
- a \$102.3 million decrease in dividends and income tax equivalents from Forestry Corporation, due to:
 - a drop in softwood revenues from a softening housing market
 - end of sustainable softwood supply from the Walcha to Tumut rail initiative in 2026-27
 - litigation/regulatory issues in native forestry disrupting hardwood operations
- an increase of \$59.2 million in dividends and tax equivalents from TCorp due to higher revenues mainly from TCorp's borrowing program.

Table 7.1 below shows the dividend and tax equivalent payments from the PNFC and PFC sectors across 2023-24 to 2027-28.

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

	2023-24 Projection \$m	2024-25 Budget \$m	2025-26 \$m	2026-27 Forward Estimates \$m	2027-28 \$m
Public non-financial corporations					
Essential Energy	-	-	40	28	36
Forestry Corporation of NSW	-	1	5	4	11
Hunter Water Corporation	63	48	68	90	105
Landcom ^(a)	24	18	21	21	26
Port Authority of NSW	52	56	42	35	32
Sydney Water Corporation	290	408	722	700	766
Water NSW	57	40	77	88	82
Public financial corporations					
NSW Treasury Corporation ^(b)	189	216	234	246	257
Total Dividend and Tax Equivalent Payments in Revenue from Transactions section	675	786	1,208	1,212	1,315
Public non-financial corporations					
Landcom	40	40	34	35	43
Total Dividends in Other Economic Flows section^(c)	40	40	34	35	43
TOTAL DIVIDEND AND TAX EQUIVALENT PAYMENTS	715	826	1,241	1,246	1,359

- (a) Landcom's returns classified under the 'Revenue from Transactions' section in the General Government Operating Statement relate to tax equivalent payments.
- (b) Following finalisation of the budget aggregates, an error was identified in the NSW Treasury Corporation total dividend and tax equivalent figures. The error results in an overstatement of revenue in the table above of \$12 million in 2024-25 and \$15 million in 2025-26. This error will be corrected for the 2024-25 Half-Yearly Review.
- (c) Dividends paid by Landcom across the five years to 2027-28 are classified as income within the 'Other Economic Flows' section of the General Government Operating Statement.