

Half Yearly Report 2019-20

The Hon Dominic Perrottet MP
Treasurer
52 Martin Place
Sydney NSW 2000

The Hon Damien Tudehope MLC
Minister for Finance and Small Business
52 Martin Place
Sydney NSW 2000

29 January 2020

Dear Shareholders

On behalf of the Board and Executive Leadership Team we are pleased to present WaterNSW's consolidated financial results for the half year period ended 31 December 2019 for tabling in Parliament as required by Section 23 of the *State Owned Corporations Act 1989*.

Over the first six months of this year WaterNSW has continued to focus on supporting our communities through the worsening drought. In Greater Sydney and regionally across the State we are delivering a series of operational and asset solutions to extend water supplies for critical human needs in cities, towns and valleys where rainfall, inflows and storage levels are now the lowest ever recorded. This effort includes construction of a new 19km pipeline in the Peel Valley to extend water supply for Tamworth, as well as infrastructure to access low level storage in Burrendong Dam in the Macquarie Valley for Dubbo and other communities.

At the same time, we are progressing long-term water security solutions with work underway to deliver new dams at Dungowan and Mole River, raise the dam wall at Wyangala and planning for additional desalination supply for Greater Sydney, among others.

The unprecedented bushfire emergency has also placed significant demands on our people and assets. WaterNSW has sustained no major damage to water supply assets, and we have managed to maintain a continuous water supply to our customers even with fires occurring in the Blue Mountains (Fish River system and Cascades), south coast (Brogo Dam) and in the Snowy Mountains (Blowering Dam). Unfortunately, despite the absolute best efforts of the RFS, our Warragamba Special Areas have been extensively burnt out as have large parts of the Tallowa catchment. This impact presents short and medium term risks to water quality for customers in Greater Sydney.

As the State's drinking water catchment protection specialists, WaterNSW has bolstered its ongoing water quality safeguards with temporary measures, in a comprehensive strategy that includes the deployment of silt blankets and floating booms at key water inflow points to the dam storage, additional monitoring and modelling, and planning with other agencies.

We would be pleased to discuss any aspect of the half year results with you.

Yours sincerely

A handwritten signature in black ink, appearing to read "Anne McDonald".

Anne McDonald
Chair

A handwritten signature in blue ink, appearing to read "David Harris".

David Harris
Chief Executive Officer

Contents

Overview of WaterNSW	5
Who we are	5
Our purpose	5
Our vision	5
Our strategic goals	6
Our strategic priorities	6
Financial performance commentary	7
Progress against key performance indicators	9
Consolidated financial statements (unaudited)	11
Statement of profit and loss	11
Statement of financial position	12
Statement of cash flows	13
Statement of capital expenditure	14

Overview of WaterNSW

Who we are

WaterNSW is a State-Owned Corporation established under the *Water NSW Act 2014* that operates under an Operating Licence issued and monitored by the Independent Pricing and Regulatory Tribunal (IPART).

Our responsibilities include:

- **Source water protection** -- protection of the Greater Sydney drinking water catchment to ensure safe water is supplied to Sydney Water, local councils and other distributors for treatment and distribution to their customers.
- **Bulk water supply** -- supplying water from its storages to customers in the Greater Sydney drinking water catchment and in the state's regulated surface water systems.
- **System operator** -- efficient management of the state's surface and groundwater resources to maximise reliability for users through the operation of the state's river systems and bulk water supply systems, in collaboration with the Murray-Darling Basin Authority which directs operations of the River Murray system.
- **Infrastructure planning, delivery and operation** -- meet customer-defined levels of service consistent with NSW Government policy and priorities to increase the security and reliability of water supplies to customers and the communities of NSW.
- **Customer water transaction and information services** -- providing efficient and timely services to customers for water licensing and approvals, water trades, billing and to meet their water resource information needs for surface and groundwater quantity and quality.

Our purpose

To improve the availability of water resources that are essential to the people of NSW.

Our vision

We are recognised and valued by our customers for excellence in efficiently delivering their water needs to help make our communities healthy and prosperous.

Our strategic goals



Our strategic priorities

<div style="border: 1px solid #0070C0; padding: 5px;"> <p>Be Safe4Life </p> <p>Achieve our safety-first commitment to zero harm (employees, contractors and the public) through decisions, behaviours and leadership actions that embed and continually improve our safety performance.</p> </div>	<div style="border: 1px solid #0070C0; padding: 5px;"> <p>Be a Customer Centric Organisation </p> <p>Focus on activities that prioritise our customers in our decisions and actions so that we improve the value customers receive along with the quality of their experience. Ensure by 2021 more than 70% of our customers rank our service delivery as seven or greater out of 10.</p> </div>	<div style="border: 1px solid #FFD700; padding: 5px;"> <p>Deliver Reliable Performance in a Changing Environment </p> <p>Achieve reliable and consistently improving performance and operational strength across all of our key functional areas by continuing to build our capability, flexibility and resilience.</p> </div>	<div style="border: 1px solid #FFD700; padding: 5px;"> <p>Develop Our People and the Effectiveness of Our Team </p> <p>Create the high-performance business we want to be by investing in and developing the competencies and leadership capabilities of our people, and by uniting them into one engaged and effective team that takes personal accountability for outcomes.</p> </div>
<div style="border: 1px solid #FFD700; padding: 5px;"> <p>Improve Organisational Performance </p> <p>Improve organisational performance by embedding a mindset of 'real-world' continuous improvement in all that we do, by embracing new ideas from national and global benchmarking research and by creating effective internal customer delivery chains that are commercial and meet evolving customer needs and shareholder requirements.</p> </div>	<div style="border: 1px solid #FFD700; padding: 5px;"> <p>Support Performance Through and Adoption of New Technology and Scientific Advances </p> <p>Through innovation and adoption of new technology and scientific advances ensure we do things safer, automate routine activity, reduce waste and costs, provide value adding information products to our customers and improve our performance.</p> </div>	<div style="border: 1px solid #0070C0; padding: 5px;"> <p>Provide Strategic Solutions </p> <p>Proactively collaborate and demonstrate thought leadership so that we anticipate, influence and strategically respond to our changing external environment and paradigms, including the water market and the implementation of the Murray-Darling Basin Plan, and develop innovative solutions that go beyond traditional thinking and span asset, operational, rule change and funding solutions.</p> </div>	<div style="border: 1px solid #0070C0; padding: 5px;"> <p>Leverage our Water Quality and Water Information Expertise </p> <p>Use our specialised knowledge, leverage our water quality and water information expertise to provide enhanced services for water quality causes and effects consistent with the aspiration of our communities to ensure water quality outcomes across the state; and water information applications and modelling to enable us to convert data into value added information applications for our customers and improve our performance in operating water supply systems.</p> </div>

Financial performance commentary

Revenue

Revenue for the half year ended 31 December 2019 of \$194.5 million was \$2.1 million higher than the Statement of Corporate Intent (SCI) target, primarily driven by:

- higher revenue in Greater Sydney from partial recovery of energy expenses from Sydney Water for Shoalhaven water transfers (\$4.4 million recovered of the \$5.2 million operating expense recognised);
- recognition of an additional \$3.1 million of non-regulated revenue to recover expenses incurred for asset construction works undertaken on behalf of Essential Water;
- lower revenue from Rural Valley customers due to lower water sales volumes, partially offset by drought relief subsidy revenue; and
- lower revenue from WAMC customers, which is substantially offset by drought relief subsidy revenue.

Operating expenses

Operating expense for the half year ended 31 December 2019 of \$105.3 million was \$7.6 million higher than the SCI target, primarily driven by:

- higher salary and wages expense due to unbudgeted resources to support drought projects, an increase in the number of positions, a lower than expected attrition rate, increases in leave balances to account for a change in the discount rate applied, and an increase in overtime to support asset planning and maintenance activities (\$9.7 million);
- higher other employee related expenses due to an increase in temporary staff to support drought projects, implementation of new corporate systems and maintenance (\$1.9 million) and higher recruitment expenses (\$1.0 million);
- higher materials, plant and equipment expenses due to energy use for Shoalhaven water transfers (\$5.2 million operating expense recognised with \$4.4 million recovered in revenue);
- lower contractor expenses (\$6.4 million), primarily driven by lower maintenance and water monitoring expenses; and
- lower administration expenses following application of accounting standard AASB 16 'Leases' resulting in operating lease payments now being recognised as depreciation of a right-to-use asset and interest expense (\$2.1 million).

Profit before tax

Profit before tax for the half year ended 31 December 2019 of \$12.9 million is \$7.0 million lower than the SCI target, primarily driven by:

- operating expense performance described above;
- higher depreciation and amortisation expense due to the increase in asset values at 30 June 2019; partially offset by
- lower net financing costs, primarily due to lower than budgeted interest rates and a lower Government Guarantee Fee on lower average borrowings.

Assets

Assets as at 31 December 2019 of \$3,208.9 million was \$114.4 million higher than the SCI target, primarily driven by:

- an increase in the fair value of property, plant and equipment as at 30 June 2019 and the higher than expected capitalisation of work in progress in the final quarter of FY19 (\$70 million in higher than forecasted capitalisations); and
- application of accounting standard AASB 16 'Leases' resulting in recognition of right of use assets of \$27.5 million.

Liabilities

Liabilities as at 31 December 2019 of \$1,730.6 million were \$79.3 million higher than the SCI target, primarily driven by:

- amounts owing to other government agencies in respect of administered assets billed by WaterNSW which will be remitted on receipt of cash (\$24.8 million);
- application of accounting standard AASB 16 'Leases' resulting in recognition of lease liabilities of \$28.1 million;
- remeasurement of the defined benefit superannuation liability as at 30 June 2019 resulting in an increase in provisions of \$26.5 million;
- total borrowings being \$37.9 million lower due to lower capital expenditure in 2018-19, primarily as a result of the final construction costs for the Wentworth to Broken Hill Pipeline being lower than expected.

Equity

Equity as at 31 December 2019 of \$854.9 million was \$47.8 million higher than the SCI target, primarily driven by asset revaluations recognised as at 30 June 2019.

Progress against key performance indicators

Financial key performance indicators

	FY20 target	YTD target	YTD actual	Comments
Returns to shareholders ¹	\$69.5 million	\$23.6 million	\$17.2 million	Lower returns are the result of lower income tax due to higher operating expenses, and lower Government Guarantee Fee due to lower interest rates.
Core operating expenditure ²	\$166.4 million	\$83.2 million	\$90.6 million	Higher core operating expenditure primarily due to increased energy costs for Shoalhaven water transfers and higher salary and wages expenses, partly offset by reduced costs of contractors.
Core capital expenditure	\$231.8 million	\$100.7 million	\$98.3 million	In line with target
Target credit rating	Baa2	Baa2	Baa2	In line with target
Net debt to RAB ³	59%	58%	58%	In line with target
Core EBITDA ⁴	\$191.8 million	\$91.9 million	\$83.1 million	Lower core EBITDA due to higher operating expenditure.

1. Returns to shareholders is calculated on an accruals basis and comprises current income tax, government guarantee fees and dividends.
2. Core operating expenditure is incurred in line with a regulated pricing determination.
3. RAB – Regulated Asset Base
4. EBITDA – Earnings before interest, taxation, depreciation and amortisation

Non-financial key performance indicators

	FY20 target	YTD target	YTD actual	Comments
Zero harm: lost time injuries (LTIs)	No more than 3 LTIS		One LTI	A continued focus on safety behaviours and culture has resulted in a low incidence of LTIs.
Total reportable injury frequency rate (TRIFR)	5.16	5.16	6.09	TRIFR performance is impacted by a higher than anticipated number of medical treatment injuries reported.
Safety observations and resulting actions addressed within agreed timeframes	Monitor only			Reporting on the safety observation program will be available in the final quarter of 2019-20 once it is transitioned to the new Risk Assurance and Compliance System.
Skyline	By 2021 more than 70% of our customers rank our service delivery as greater than 7 out of 10		Performance not available	Skyline is assessed in the last quarter of each financial year. Performance will be available in the first quarter of 2020-21.
Quality of water provided to Sydney Water	Meets standards under the raw water supply agreement > 95%		99.9%	Performance has exceeded target.
Minimise operational water losses	River system operational water losses will not exceed the long term average losses by more than 5%			River system operational losses for the half year are lower than the long term average.
Staff engagement	Midpoint (50%) of the 'Best Employer' group			An employee survey was conducted late in 2019. Results are being assessed to determine our position within the 'Best Employer' group.
Asset projects overall measure of delivery	250 points	94.3 points	29.5 points	A number of planned asset projects have been deferred to next financial year.

Consolidated financial statements (unaudited)

Statement of profit and loss

For the half year ended 31 December 2019	Dec 2019 Actual	Dec 2019 SCI	Dec 2019 Variance	2019-20 SCI
	\$m	\$m	\$m	\$m
Revenue				
Greater Sydney	113.3	109.8	3.5	219.8
Rural valleys	11.0	21.0	(10.0)	49.8
WAMC	6.4	14.5	(8.1)	29.0
Drought relief subsidy	13.4	0.0	13.4	0.0
Broken Hill	12.5	13.1	(0.6)	26.1
Government contribution	15.7	16.0	(0.3)	31.9
Operating subsidy	0.8	0.7	0.1	1.5
Non-regulated	21.4	17.3	4.1	34.5
	194.5	192.4	2.1	392.7
Operating expenditure				
Administration	(11.7)	(14.5)	2.8	(29.7)
Salary and wages	(62.9)	(53.2)	(9.7)	(105.5)
Other employee related	(4.4)	(1.7)	(2.7)	(3.4)
Contractors	(22.7)	(29.1)	6.4	(58.0)
Consultancies	(0.8)	(0.6)	(0.2)	(1.2)
Materials, plant and equipment	(16.9)	(10.1)	(6.8)	(20.1)
Capital WIP write off	0.2	0.0	0.2	0.0
Capitalised overhead	13.9	11.5	2.4	22.8
	(105.3)	(97.7)	(7.6)	(195.1)
Earnings before interest, tax, depreciation & amortisation	89.2	94.7	(5.5)	197.6
Depreciation and amortisation	(39.0)	(32.8)	(6.2)	(65.7)
Net financing cost	(37.3)	(42.0)	4.7	(84.5)
	(76.3)	(74.8)	(1.5)	(150.2)
Net profit before tax	12.9	19.9	(7.0)	47.4
Income tax	(3.9)	(6.0)	2.1	(14.2)
Net profit after tax	9.0	13.9	(4.9)	33.2

Statement of financial position

As at 31 December 2019	Dec 2019 Actual \$m	Dec 2019 SCI \$m	Dec 2019 Variance \$m	2019-20 SCI \$m
Current assets				
Cash and cash equivalents	21.1	8.1	13.0	5.0
Trade and other receivables	133.7	125.3	8.4	130.1
Other non-financial assets	(0.0)	0.0	(0.0)	0.0
	154.8	133.4	21.4	135.1
Non-current assets				
Property, plant and equipment	3,025.5	2,952.4	73.1	3,112.5
Intangible assets	28.6	8.7	19.9	7.8
Other non-financial assets	0.0	0.0	0.0	0.0
	3,054.1	2,961.1	93.1	3,120.3
Total assets	3,208.9	3,094.5	114.4	3,255.4
Current liabilities				
Trade and other payables	(90.1)	(50.8)	(39.3)	(70.6)
Contract liabilities	(1.5)	(4.2)	2.7	(4.2)
Borrowings	(453.5)	(513.6)	60.1	(682.7)
Income tax	13.1	(1.1)	14.2	(1.5)
Provisions	(53.0)	(44.5)	(8.5)	(65.0)
Other current liabilities	(38.4)	(21.9)	(16.5)	(21.9)
	(623.4)	(636.1)	12.7	(846.0)
Non-current liabilities				
Borrowings	(1,305.7)	(1,283.3)	(22.4)	(1,162.7)
Contract liabilities	0.0	(0.6)	0.6	(0.6)
Deferred tax	(213.0)	(197.3)	(15.7)	(219.4)
Provisions	(103.3)	(80.1)	(23.2)	(80.1)
Other non-current liabilities	(108.6)	(90.0)	(18.6)	(87.4)
	(1,730.6)	(1,651.3)	(79.3)	(1,550.2)
Total liabilities	(2,354.0)	(2,287.4)	(66.6)	(2,396.2)
Net assets	854.9	807.1	47.8	859.1
Equity				
Retained earnings	(202.2)	(188.1)	(14.1)	(187.3)
Contributed equity	(388.1)	(390.9)	2.8	(390.9)
Asset revaluation reserve	(264.6)	(228.1)	(36.5)	(280.9)
Total equity	(854.9)	(807.1)	(47.8)	(859.1)

Statement of cash flows

For the half year ended 31 December 2019	Dec 2019 Actual \$m	Dec 2019 SCI \$m	Dec 2019 Variance \$m	2019-20 SCI \$m
Cash flows from operating activities				
Receipts from customers and other	214.4	195.4	19.0	396.9
Payments to suppliers and employees	(122.8)	(103.9)	(18.9)	(206.9)
Interest received	0.1	0.1	0.0	0.2
Interest paid	(32.8)	(34.9)	2.1	(43.9)
Income tax paid	(13.2)	(6.6)	(6.6)	(14.9)
Net cash from operating activities	45.7	50.1	(4.4)	131.3
Cash flows from investing activities				
Payments for property, plant and equipment	(91.2)	(115.1)	23.9	(231.8)
Proceeds from sale of property, plant and equipment	1.0	0.0	1.0	0.0
Net cash used in investing activities	(90.2)	(115.1)	24.9	(231.8)
Cash flows from financing activities				
Repayment of borrowings	(80.3)	0.0	(80.3)	(480.3)
Proceeds from borrowings	156.2	88.1	68.1	600.8
Repayment of principal - leases	(1.3)	0.0	(1.3)	0.0
Dividends	(20.0)	(20.0)	0.0	(20.0)
Net cash used in financing activities	54.6	68.1	(13.5)	100.4
Net increase / (decrease) in cash and cash equivalents	10.1	3.1	7.0	0.0
Cash at beginning of period	11.0	5.0	6.0	5.0
Cash at end of period	21.1	8.1	13.0	5.0

Statement of capital expenditure

For the half year ended 31 December 2019	Dec 2019 Actual \$m	Dec 2019 SCI \$m	Dec 2019 Variance \$m	2019-20 SCI \$m
Resources				
Administration	(1.1)	(3.2)	2.1	(8.2)
Salary and wages	(7.4)	(7.1)	(0.3)	(14.2)
Other employee related	(0.7)	(0.7)	(0.0)	(1.3)
Contractors & consultancies	(69.1)	(68.2)	(0.9)	(163.4)
Materials, plant and equipment	(5.3)	(11.1)	5.8	(21.9)
Allocated indirect cost	(14.7)	(10.4)	(4.3)	(22.8)
Total resources	(98.3)	(100.7)	2.4	(231.8)
Capability				
Augmenting	(4.5)	(3.4)	(1.1)	(12.8)
Maintaining	(52.0)	(56.6)	4.6	(127.6)
New	(21.8)	(32.3)	10.5	(73.7)
Regulatory	(20.0)	(8.4)	(11.6)	(17.6)
Total capability	(98.3)	(100.7)	2.4	(231.8)