

# Annual Report 2017-18



Sydney  
**WATER**



# Sydney Water Annual Report 2017-18

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## Letter to Shareholder Ministers

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Dear Treasurer and Minister Dominello

### Report on performance for the year ended 30 June 2018

We are pleased to submit the Annual Report of Sydney Water Corporation (Sydney Water) for the year ended 30 June 2018 for presentation to Parliament.

Our *Annual Report 2017–18* has been prepared in accordance with the requirements of section 24A of the *State Owned Corporations Act 1989* and the *Annual Reports (Statutory Bodies) Act 1984*. The financial statements for 2017–18, which form part of the *Annual Report 2017–18*, have been certified by the Auditor-General of New South Wales.

Yours sincerely,



**Bruce Morgan | Chairman**  
BComm, FCA, FAICD



**Kevin Young | Managing Director**  
BEng (Hons), MBA, FIE Aust, CPENG, FAICD



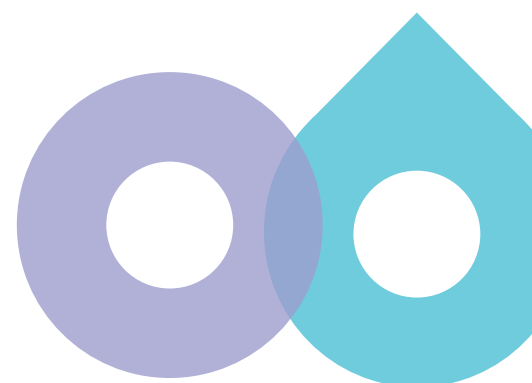
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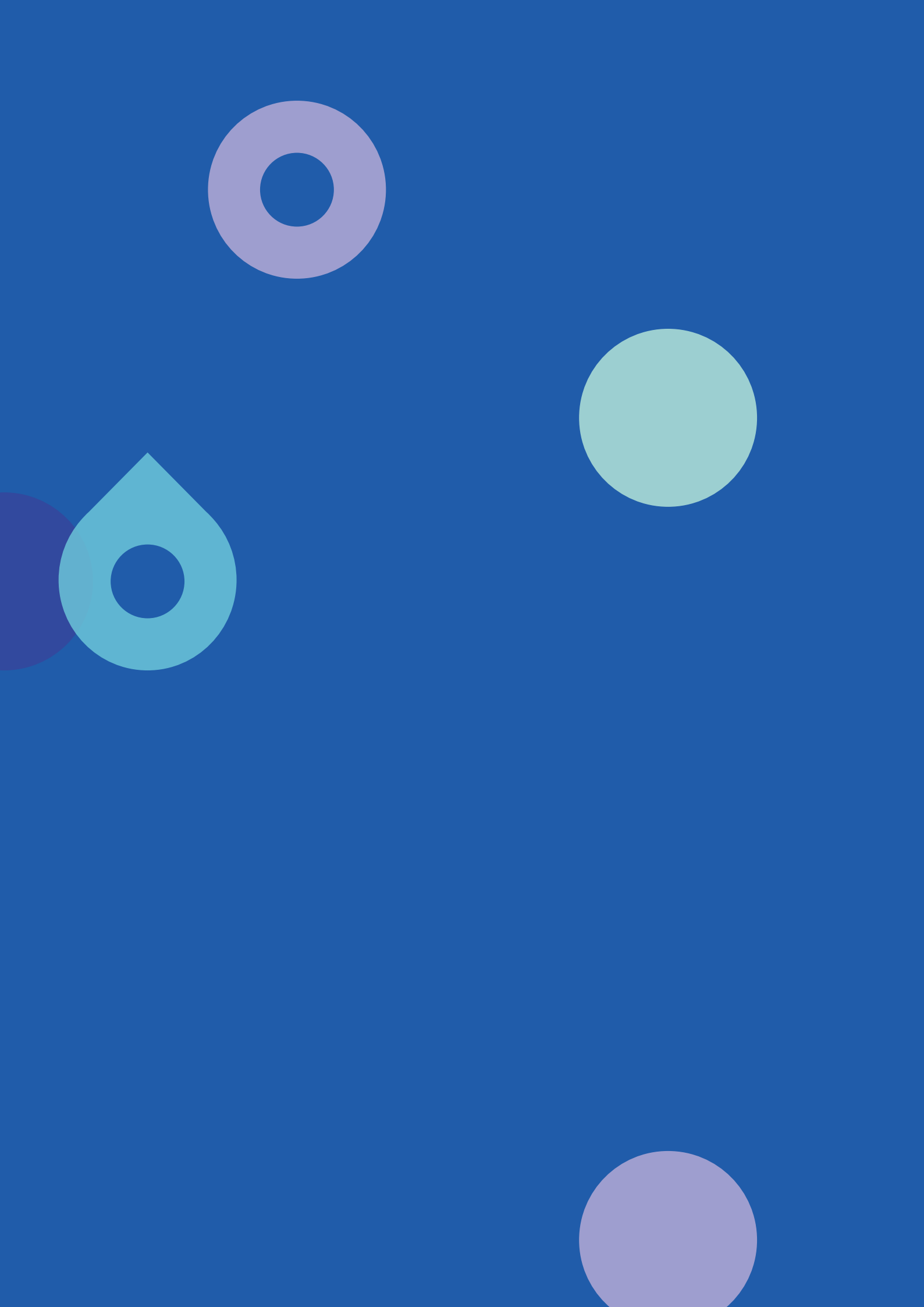
# Table of contents

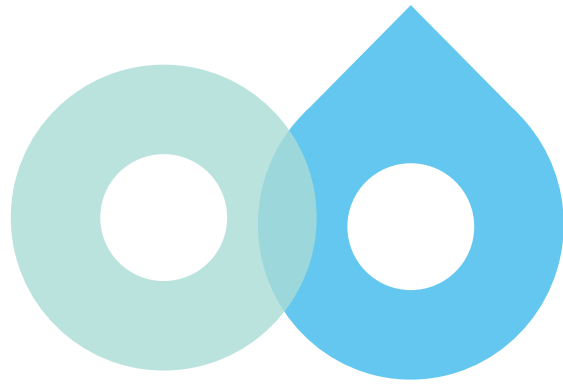
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Letter to Shareholder Ministers	3
<b>Chapter 1: Overview</b>	<b>7</b>
About Sydney Water	8
Principal statistics	9
Our area of operations	10
The year in review: A message from our Chairman and our Managing Director	11
This year's highlights	14
Corporate Strategy update	16
Strategic success measures – our performance	16
<b>Chapter 2: Our performance</b>	<b>21</b>
2.1 Caring for our community	22
Customer satisfaction	22
Our customer commitments	23
Multicultural policies and services program	25
Promotions	29
Privacy	30
2.2 Managing our workforce	31
Organisation chart	31
Workplace health and safety	32
Workforce diversity	34
Staff and industrial relations	36
Executive officers	37
Consultant engagements	37
Overseas travel	38

2.3 Running a successful business	39	<b>Chapter 5: Glossary and indexes</b>	<b>135</b>
Risk management	39	Glossary	136
Insurance	40	Index of figures, maps and tables	140
Legal events	40	Statutory information index	142
Research and development	41	<b>About this report</b>	<b>144</b>
Heritage delegation actions	43	<b>Contact us</b>	<b>144</b>
Capital expenditure	44	By telephone	144
<b>Chapter 3: Financial statements</b>	<b>49</b>	By post	144
Financial performance	50	By email	144
Pricing	53	By web	144
Auditor-General's statutory audit report	57		
Financial statements for year ended 30 June 2018	60		
<b>Chapter 4: Appendixes</b>	<b>121</b>		
Appendix 1: Corporate governance	122		
Our Corporate Governance Framework	122		
Board of Directors	122		
Board of Directors skills matrix	123		
Sydney Water Board Directors	124		
Board committees	127		
Board meetings and attendance	128		
Appendix 2: Government Information (Public Access) (GIPA)	129		
Appendix 3: Public interest disclosures	133		
Appendix 4: Annual Report external production costs	133		





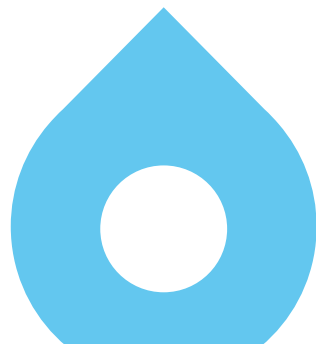


## Chapter 1

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# Overview

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# About Sydney Water

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At Sydney Water, we're proud to service our communities with some of the best water and wastewater services in the world. We believe water is key to Sydney's identity and plays a vital role in making our city great.

We're Australia's largest water and wastewater service provider, supplying more than five million customers across Sydney, the Blue Mountains and the Illawarra with safe, high-quality drinking water. We also look after wastewater, recycled water and some stormwater services to ensure our communities can enjoy healthy rivers and clean beaches. We're focused on the future, and we work with our stakeholders and regulators to make smart business decisions that our customers value, to keep Sydney liveable, prosperous and thriving for the future.

We are a statutory State Owned Corporation, wholly owned by the NSW Government. Our *Operating Licence* sets out the standards and requirements we must meet as a water utility, and is governed by the Independent Pricing and Regulatory Tribunal (IPART).

We operate under the *Sydney Water Act 1994*, and have three equal principal objectives:

1. To protect public health.
2. To protect the environment.
3. To be a successful business.

## **Our purpose, mission and vision**

We protect public health and the environment by providing essential water and wastewater services. It's our mission to be world-class, delivering essential services that our customers love, in our great city. Our vision is to be the lifestream of Sydney for generations to come.



# Principal statistics

**Table 1: Principal statistics, 1 July 2017 to 30 June 2018**

Approximate area of operations	12,700 square kilometres
Estimated population serviced by drinking water <sup>1</sup>	5,130,000 people
Quantity of drinking water we produced	593,069 million litres
Length of drinking water mains we own and operate	22,822 kilometres
Number of drinking water reservoirs in service	247 drinking water reservoirs
Number of drinking water pumping stations in service	151 drinking water pumping stations
Properties with drinking water service available	1,980,838 properties
Estimated population receiving wastewater services <sup>1</sup>	5,029,000 people
Wastewater we collected (includes discharge, bypass, overflows and other)	463,191 million litres
Length of wastewater mains we own and operate	25,863 kilometres
Number of wastewater treatment plants in service <sup>2</sup>	16 wastewater treatment plants
Number of wastewater pumping stations in service	686 wastewater pumping stations
Properties with wastewater service available	1,932,569 properties
Estimated population serviced by recycled water <sup>3</sup>	92,000 people
Quantity of recycled water we supplied	42,834 million litres
Length of recycled water mains we own and operate	726 kilometres
Number of water recycling plants in service	14 water recycling plants
Number of recycled water reservoirs in service	9 recycled water reservoirs
Number of recycled water pumping stations in service	10 recycled water pumping stations
Length of stormwater channels we control	452 kilometres
Properties with stormwater drainage available	620,110 properties

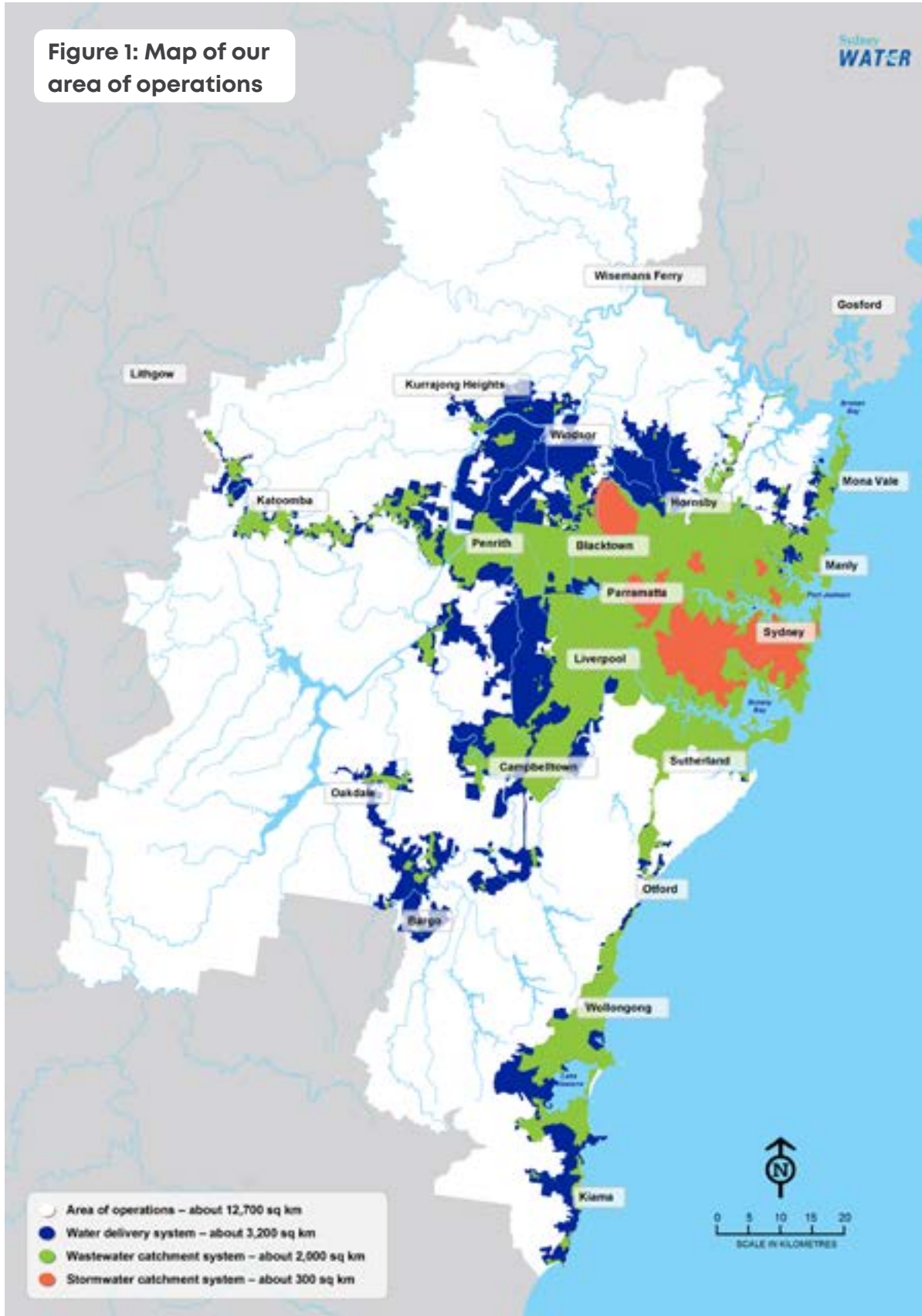
<sup>1</sup> Population serviced by drinking water and wastewater excludes dwellings serviced under the *Water Industry Competition Act 2006*, and includes shops on mixed-development properties.

<sup>2</sup> Number of wastewater treatment and recycled water plants is based on Sydney Water's classification.

<sup>3</sup> Population serviced by recycled water refers to Rouse Hill only and is an estimate as at 30 June 2018.

# Our area of operations

Figure 1: Map of our area of operations



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# The year in review:

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## A message from our Chairman and our Managing Director

Sydney Water has experienced another successful year delivering world-class water, wastewater and stormwater services to more than five million people a day. We achieved strong customer outcomes with our service performance, and performed well financially, recording higher income and lower operating expenses than forecast. We continue to efficiently service the Sydney of today, but our sights are firmly on the future. We are investing in the right people, tools and technology, and creating innovative solutions for our customers to prepare for sustainable, liveable cities of tomorrow.

### We're planning for our future cities

To meet the needs of a growing and changing population – and its growing and changing expectations and needs – we need to consider challenges such as changing technology, mounting pressures on our natural resources and increased demand for our infrastructure. We have developed a fresh, collaborative approach so we are ready to design, plan and deliver new solutions for our current and future customers. We strive to be master water planners of Greater Sydney and the Illawarra, playing a key role in delivering better services for our customers. At the same time, we will support a resilient, sustainable city, while continuing to proficiently manage our existing products and services.

Over the next 20 years we will see Sydney reshaped into a metropolis of three cities, through the NSW Government's *Greater Sydney Region Plan*. We will have the Eastern Harbour City, the Central River City and the Western Parkland City, which will rebalance growth and deliver benefits to everyone across Greater Sydney. Our involvement with government agencies is key to bringing this vision to life. We are developing a Long-Term Strategy in line with the Greater Sydney Commission's plan for a liveable, productive and sustainable city. This will enable us to better focus beyond a five-year timeframe (the term of our *Operating Licence*) to understand the needs of our future customers, community and city.

In 2017–18, we began developing our 30-year infrastructure investment plan, which focuses on designing solutions to provide quality water services to our ever-expanding cities. Our investment plan will consider the needs of our customers and communities, incorporating them into our asset planning and investment decisions. It will support sustainable population growth, while continuing to protect the environment and public health.

In December 2017, we introduced our *Growth Servicing Plan: 2017–2022*, which outlines our plans to provide infrastructure to service growth to 2022. With an extra one million people forecast to live in Sydney in the next 10 years, this plan is critical to enable a coordinated approach to land supply and infrastructure delivery between Sydney Water, local councils and developers.

Sydney experienced a period of prolonged hot and dry weather in 2017–18, which increased total water use. However, we have a secure, affordable water supply system, backed by the NSW Government's *2017 Metropolitan Water Plan* to ensure the water supply for a liveable, growing and resilient greater Sydney. We continue to work with planners, government agencies, our customers and other stakeholders to make sure there is sufficient water to meet the needs of the people and environment of the greater Sydney region, now and for the future.

## **We're listening to our community**

We value input from and collaboration with our stakeholders and trusted business partners, but collaborating and engaging with our customers is just as important. Our customers have told us they want greater transparency in our decision making, so we need to be mindful in balancing their needs with affordability and liveability.

In February and March 2018, we engaged with more than 2,000 residential customers and more than 250 business customers across greater Sydney and the Illawarra to better understand their current values and expectations on the essential services we provide, our prices and our customer service. The insights we gained will help inform our 2020 Pricing and 2018 Operating Licence submissions to the Independent Pricing and Regulatory Tribunal (IPART). Early feedback indicates that our customers feel empowered to be able to contribute, and that they're genuinely being heard. We have further opportunities for engagement planned for later this year.

We also continue to engage with our local communities on issues that are important to them. We do so using various methods, regarding small and large projects.

We have established a community reference group to investigate long-term solutions for the wastewater outfalls at Vaucluse and Diamond Bay. We know there is an opportunity here to work with the community and local stakeholders on a long-term solution to improve the water quality and environment around the outfalls, while minimising the impact on our customers.

We're also talking to customers and stakeholders in the Hawkesbury-Nepean catchment area, to better understand pressures facing waterways in the region, what customers and stakeholders value about the catchment area, and the options for future management. We'll use this information to guide our decisions and identify the best way to manage the health of this important waterway system.

## We're improving experiences for customers

We have made significant progress against our Lifestream Plan, and it's exciting to see the changes we're making starting to deliver real customer benefits.

In September 2017, we introduced Customer Hub West – a pilot program that has enabled us to provide a more proactive and customer-centric experience for customers experiencing water and wastewater faults. We've trialled initiatives such as early notification of faults, improved diagnosis and planning for infrastructure repairs, and more channels for customers to interact with us. We've made a real difference to the customer experience by avoiding or minimising water interruptions for more than 47,000 customers, proactively notifying more than 33,000 customers of water interruptions and keeping about 14,000 customers informed on the progress of reported faults. We plan to expand the Customer Hub to all regions by December 2018.

Our continuing work to drive customer improvements is having an impact on how our customers see us. Our most recent customer satisfaction score saw us reach 7.9 out of 10, which puts us in a great position to reach our target of 8.0 by 2020. Our corporate reputation score reached an all-time high of 7.1 out of 10 in March 2018, exceeding our 2020 target score of 7 out of 10. We're working hard to maintain this good result.

## We're empowering and supporting our people

In a changing world, it is vital to ensure that our people are equipped with the knowledge, skills and capabilities to adapt.

Connection to our purpose and strategy helps our people understand their roles and what we are trying to achieve today and in the future. Our culture results are improving, with about 75% of staff understanding how their role contributes to achieving our goals. Employee engagement remained steady over the year.

We have a team of skilled, passionate, smart people, and we know that, to keep progressing towards our goals, we must make sure everyone is working safely. Last year we introduced our 'Safe and Well Together Strategy 2.0'. This year, we're pleased to report considerable improvement in our results, with a 49% reduction in staff injuries, a 59% decrease in lost time injuries, and a Total Recordable Injury Frequency Rate of 11.5, well below our target of 16. It is great to see a positive change in safety culture across the business, but we all acknowledge there is more to be done.

We have a number of exciting projects underway that will continue over the next 12 months. With a strong team behind us, we look forward to facing the challenges of the future, as we keep contributing to the liveability of Sydney both now and in years to come.

**Bruce Morgan**  
Chairman

**Kevin Young**  
Managing Director



Our performance



Financial statements



Appendixes

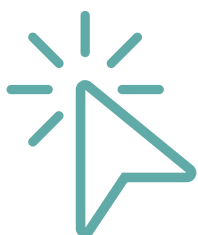


Glossary and indexes

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# This year's highlights

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We are progressively rolling out a new work management platform for field staff. Piloted in August 2017, the Click mobility platform helps connect systems, staff and customers, and improves the visibility of work across our Customer Delivery team. The system helps manage planned and reactive work, enables us to analyse and improve our processes, and enables field staff to access various corporate applications from the field.



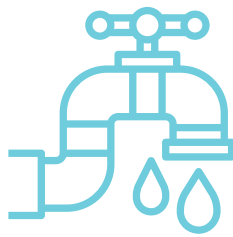
We have successfully embedded a new customer-centric Operating Model, exceeding the targeted benefits for 2017–18 by almost 45%. At the same time, Sydney Water's corporate reputation improved from 4.5 in 2005–06 to 6.9 at the end of 2017–18, with a peak of 7.1 in the third quarter. The sustainable reputation 'golden zone' of between 6.8 and 7.8 is where Australia's strongest organisations perform.



We have finished the core build of the SAP software that will be at the heart of our new customer billing and relationship management infrastructure. The Customer Experience Platform (CxP) will provide a base for adding more functionality beyond what the ageing current system can provide, and is an important long-term investment for the future.



As part of our Supply Chain initiative, we're simplifying how we buy goods and services, and implementing processes and systems to improve how we work with our suppliers while making it easier for staff to get what they need. Through better resource management, and by refining our supplier base, we've seen around \$19 million in savings so far.



In August 2017, we began work on our 'Refresh Woolloomooloo' project. We are separating the combined wastewater and stormwater systems in Woolloomooloo, Darlinghurst and Potts Point. When we finish, these areas will have new pipes, the stormwater flowing into Woolloomooloo Bay will be cleaner and odours will be significantly reduced.



We have introduced an organisation-wide Quality Management System (QMS) to document and structure the way we work. In March 2018, our QMS was certified to ISO 9001. This significant milestone helps structure the way we work as a business, supports compliance with our *Operating Licence* and enables us to consistently deliver quality products and services to our customers.

# Corporate Strategy update

## Strategic success measures – our performance

Our strategic success measures (SSMs) help us track the progress we are making in executing our strategy. We launched the SSMs as part of the *2015–16 Corporate Plan*, to support Sydney Water’s Lifestream strategic priorities:

- Customer at the Heart
- World Class Performance
- High Performance Culture.

The measures focus on safety, our corporate reputation and customer experience, supported by business sustainability and organisational culture.

### Safety

**Table 2: Safety performance, 1 July 2016 to 30 June 2018**

Strategic theme	Metric	2016–17 target	2016–17 score	2017–18 target	2017–18 score	2020 target
Safety	Total Recordable Injury Frequency Rate (TRIFR) <sup>4</sup>	10	23.01	16	11.5	Year-on-year decrease

We implemented our Safe and Well Together Strategy 2.0 during 2017–18, and introduced the TRIFR measure as an additional tool to provide more regular indicators of safety performance.

Key initiatives of the Safe and Well Together Strategy 2.0 include introducing:

- the Safety Differently campaign
- the Alcohol and Other Drugs program
- the safety governance and reporting framework
- the Safety Fundamentals (Fatal Risks, Just and Fair, Lifesaving Rules and Fit for Life)
- the Risk Reduction program
- new Safety Standards

- a revised Corporate Safety Induction
- a new Health and Wellbeing Strategy
- a new Injury Management Strategy
- a restructured Safety team, focusing on higher capability and a new business partnering model
- a new Safety Assurance function.

These initiatives, with the support of targeted business group activities, have enabled a cultural shift. Frontline staff members now demonstrate greater engagement and are more empowered to manage safety. This has resulted in a significant increase in the number of Sydney Water and contractor staff participating in safety and wellbeing initiatives.

<sup>4</sup> The TRIFR calculation method is a 12-month rolling average.



These positive outcomes are reflected in our results:

- Our employee TRIFR decreased from 23.01 in 2016–17 to 11.5 in 2017–18.
- We saw a 48% reduction in employee injuries (from 91 Medical Treatment Injuries (MTIs) in 2016–17 to 48 MTIs in 2017–18) and contractor injuries (from 42 MTIs in 2016–17 to 19 MTIs in 2017–18).

- Injury severity also decreased over the year.
- Our Safety Maturity score (independently assessed by SafeWork NSW), has improved from low transitional maturity in 2015 to high transitional maturity in 2017.

## Corporate reputation

**Table 3: Corporate reputation performance, 1 July 2016 to 30 June 2018**

Strategic theme	Metric	2016–17 target	2016–17 score	2017–18 target	2017–18 score	2020 target
Customer trust	Corporate reputation score	6.6	6.7	6.7	6.9	7.0

Sydney Water’s corporate reputation score continued to improve, from 4.5 in 2005–06 to 6.9 at the end of 2017–18. The sustainable reputation ‘golden zone’ of between 6.8 and 7.8 is where Australia’s strongest organisations perform.

These positive results are also supported by the Water Services Association of Australia (WSAA) biennial Customer Experience Monitor 2016–18, which collected data on 34 water utilities across Australasia. WSAA data confirms that Sydney Water continues to compare favourably with other water utilities, and is one of the very few water utilities that is regarded better than all other utility types in Australia.

During 2017–18, we continued to build our social media footprint across multiple platforms such as Instagram (92% audience growth), LinkedIn (23% audience growth) and Facebook (3.25% growth), where we continue to set the industry standard.

Our community involvement activities have supported the increase in corporate reputation and brand awareness. During 2017–18, more than 1.6 million people saw us at events and accessed our portable water stations, which distributed 282,000 litres of water. We increased the number of education tours on our sites to accommodate 9,240 people

– including young professionals, students, community, staff and industry stakeholders (up from 8,900 people in 2016–17).

Key achievements in reputation management around capital works projects included:

- Green Square Stormwater Drain Project
- Strangers Creek Project
- Johnstons Creek and Powells Creek stormwater naturalisation
- Hawkesbury Nepean Nutrient Licensing Framework
- Refresh Vacluse and Diamond Bay
- Refresh Woolloomooloo
- Liverpool CBD Wastewater Phase 1
- Erskineville Flood Safe
- Northern Suburbs Ocean Outfall Sewer (NSOOS)
- local information days as part of the Healthy Waterways projects.

We proactively engaged with more than 70,000 customers impacted by planned maintenance work, and continue to work closely with community members and stakeholders affected by Sydney Water projects and programs.

## Customer experience

**Table 4: Customer experience performance, 1 July 2016 to 30 June 2018**

Strategic theme	Metric	2016–17 target	2016–17 score	2017–18 target	2017–18 score	2020 target
Customer experience	Customer experience score	7.9	7.9	8.0	8.0	8.2

The Customer Experience score averaged over 2017–18 was in line with our target. Contributing factors include our consistently high service delivery standards, and the numerous customer sentiment and experience improvement initiatives we have undertaken.

We track Customer Advocacy in addition to Customer Experience. Customer Experience captures satisfaction with our physical service, whereas Customer Advocacy reflects our progress towards being more than just ‘master plumbers’ for Sydney.

We determine our Customer Advocacy score based on customers’ responses to a question about their willingness to recommend Sydney Water on a 0 to 10 scale. The score represents the proportion of those rating 9 or 10, minus those rating 0 to 6.

Customer Advocacy can be as low as –100 (everybody is a detractor) or as high as +100 (everybody is a promoter). A Customer Advocacy score that is positive (higher than zero) is deemed good, and a Net Promoter Score (NPS) of +50 is excellent. Advocacy scores vary widely; banks tend to score around 0, and very strong performers may score more than 20. The following initiatives resulted in some very good Customer Advocacy scores:

- Customer Hub West, including positive (near) real-time customer experience feedback, resulting in a Customer Advocacy score of +50.

- Cx Lab: A creative methodology and space to drive improved customer experience and business outcomes. Through this program, we added the ‘Fixed charges self-serve tool’ to our website, which led to a 78% reduction in real estate agent calls to the contact centre.
- Developer Direct: A new and simple experience for small developers to obtain their Section 73 development certificates from Sydney Water. This initiative has received a Customer Advocacy score of +89.
- Home Owner Onboarding experience: A new way for Sydney Water to welcome customers and provide them with helpful information when they open an account with us. The Customer Advocacy score for this new experience was +83.

We also completed several ‘discovery’ initiatives that created a more informed picture of who our customers are, how they rate their experiences dealing with us and what they expect from us. Based on this work, in 2018–19 we are adopting a lifecycle approach to measuring and tracking customer sentiment and experience. This will give us greater ability to respond to customer feedback in real time, facilitate cross-business collaboration and enable us to embed ‘the voice of the customer’ into our operational and strategic decision making.

## Business sustainability

**Table 5: Business sustainability performance, 1 July 2016 to 30 June 2018**

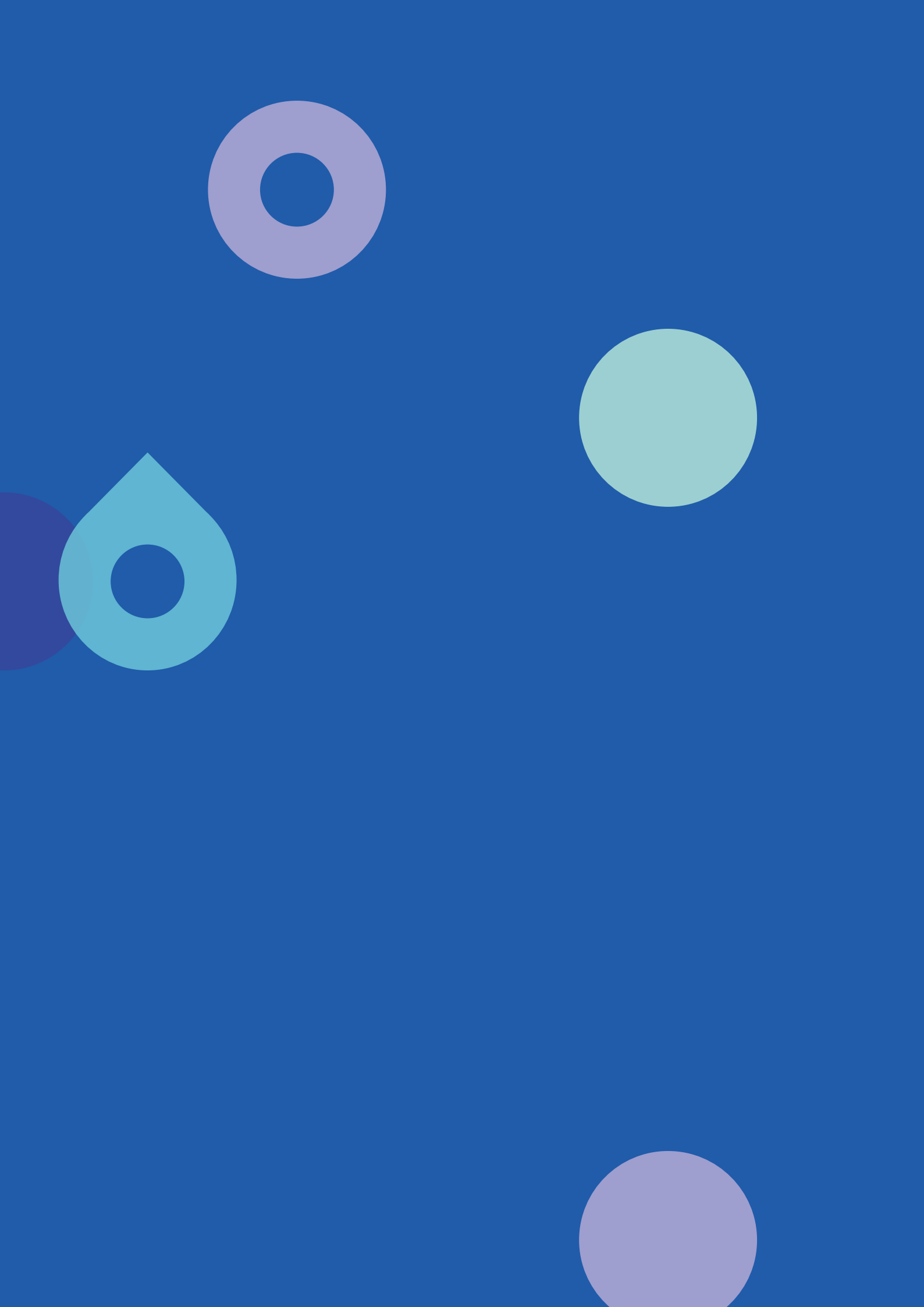
Strategic theme	Metric	2016–17 target	2016–17 score	2017–18 target	2017–18 actual score	2020 target
Business sustainability	Strategic Value Add	>\$12.4 billion	\$13.9 billion	>\$13.9 billion	\$14 billion	Year-on-year increase

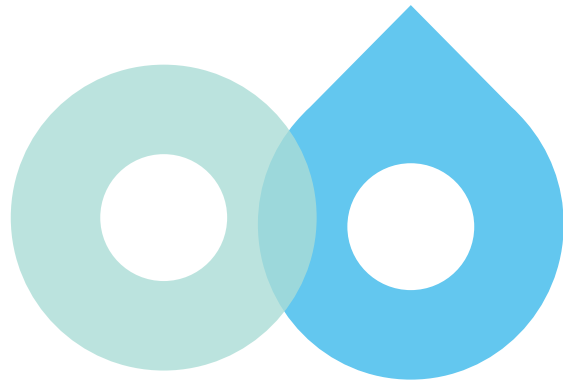
Based on the 2017–18 outcome, our current enterprise value (excluding terminal value) is \$14.0 billion. This is an increase compared to the previous year’s enterprise value calculation of \$13.9 billion, and in line with our target of increasing value year on year.

### Organisational culture

Sydney Water measures culture every two years using the Organisational Culture Inventory and Organisational Effectiveness Inventory. We will conduct our next survey in 2019, and report the results in our Annual Report 2018–19 .

We conduct an Employee Pulse survey each quarter to understand how connected our employees are to our strategy, whether they are engaged, and seeing our signature behaviours and safety leadership being demonstrated. These results provide insights on what we can do to improve our culture and make Sydney Water an even better place to work.



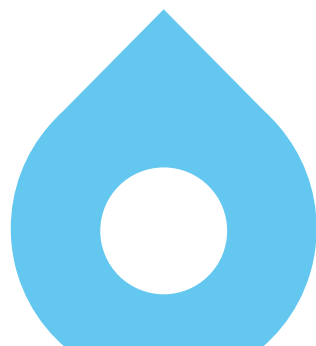


## Chapter 2

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# Our performance

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# 2.1 Caring for our community

## Customer satisfaction

Under our *Operating Licence*, we define a complaint as ‘an expression of dissatisfaction made to Sydney Water related to its products or services, staff or the complaints-handling process itself, where a response or resolution is explicitly or implicitly expected or legally required’.

During 2017–18, we resolved 4,822 complaints that we deemed to be Sydney Water’s responsibility. This is less than 0.6% of the more than 820,000 customer contacts we received via phone, email, fax, mail and online (excluding self-service contacts). The total number of complaints is lower than five years ago, mainly due to fewer complaints about account and meter adjustments.

If a customer is dissatisfied with the action we take to resolve a complaint, they may

contact the Energy and Water Ombudsman of NSW (EWON) at [ewon.com.au](http://ewon.com.au) and ask the Ombudsman to independently review the complaint. During 2017–18, EWON received 486 complaints about us.

Over 2017–18, we surveyed more than 1,600 customers to find out how they would rate the overall quality of our service. Customers rated us on a scale of zero (extremely poor) to 10 (excellent). Survey results show that our customers continue to have a positive view of the overall quality of our service, with an average satisfaction rating of 8 (out of 10). This is our highest score to date and reflects our ongoing commitment to maintaining quality services for our customers.

We aim to resolve customer enquiries and complaints quickly, efficiently and to customers’ satisfaction. In 2017–18, we resolved 86.6% of complaints within 10 business days.

**Table 6: Customer satisfaction indicators, 2014 to 2018**

	2014	2015	2016	2017	2018
Average customer rating of overall service quality <sup>5</sup>	7.7	7.7	7.9	7.9 <sup>6</sup>	8.0
Average customer rating of overall quality of drinking water <sup>6</sup>	8.4	8.4	7.7	7.6	7.7
Total number of complaints (including EWON)	6,935	5,945	5,321	5,090	5,308
Complaints resolved within 10 business days (%) <sup>7</sup>	91.3	90.9	88.9	87.2	86.6

<sup>5</sup> Data before 2016 was collected as part of the Customer Relationship Study.

<sup>6</sup> We replaced the Customer Relationship Study with the Customer Experience Monitor in 2015–16. These results are the average from the first six months of 2017.

<sup>7</sup> Complaints to EWON are not lodged with Sydney Water and are not included in this indicator.

# Our customer commitments

## Customer Contract

Our *Customer Contract* explains how we manage customers' access to water, wastewater and stormwater services. It outlines our obligations to customers, including:

- which services we maintain
- how we help customers experiencing hardship
- how and when we charge customers for services
- when we restrict, disconnect and restore services
- how we respond to customer enquiries and complaints.

## Customer assistance programs

We run several social programs to help ensure all customers have adequate access to water, wastewater and stormwater services. We provide concessions to eligible recipients, for which the NSW Government reimburses us.

### Community outreach

We work with community welfare agencies to increase awareness of our payment assistance options and concession entitlements. In the past year we visited public schools, attended community events and inter-agency meetings, and held information sessions with culturally and linguistically diverse (CALD) customers, seniors and mental health community groups.

In 2017–18, Sydney Water trained 46 people from 14 different community welfare agencies on our Payment Assistance Scheme (PAS). Since the program started, we have engaged with 402 agencies accredited to assess our customers in financial hardship and apply payment assistance credits to their bill.

### Pensioner concessions

We give concessions to customers who hold a Pensioner Concession Card or Department of Veterans' Affairs (DVA) Gold Card, and to those who receive a DVA intermediate rate pension. The rebates cover:

- 100% of the water service charge
- 50% of the drainage service charge
- 80% of the wastewater service charge.

### Hardship Support Scheme

We provide various forms of help to customers experiencing financial hardship. We aim to help customers having financial difficulties to manage payments, reduce debts and use mainstream payment channels. Under this program, we give customers credit to ensure they can maintain their connection to essential water and wastewater services.

We spent more than \$1 million on this scheme in 2017–18, through the following means:

#### *Payment arrangements*

We provide flexible payment plans to customers facing financial difficulties. We can defer payments for a short time and arrange smaller, regular payments using the customer's preferred payment method.

#### *BillAssist®*

Our qualified professional case coordinators provide personalised support and advice to customers in financial hardship. We also refer customers to other external specialist services.

#### *PAS*

We help customers who are having difficulty paying their water bill. After completing a hardship assessment, community welfare agencies or Customer Care Case Coordinators can approve credit directly to the customer's Sydney Water account. This service is available to customers who own and occupy their home, and to private tenants who are responsible for paying for their water use. Customers must agree to a payment plan if they have already received PAS credits in the last 12 months.

### *PlumbAssist®*

This program provides essential or emergency plumbing repairs where there is a risk to health or public safety, or to improve water efficiency or reduce water costs. To be eligible, customers must own and live in their home, and be experiencing financial hardship that prevents them from affording plumbing repairs. This service usually involves repairing leaks, and repairing or replacing broken taps, showerheads and toilets.

### *Centrelink referral*

Customers who receive Centrelink payments can register for Centrelink, a free service that allows them to pay bills through regular deductions from their Centrelink payments. We can help customers set up Centrelink over the phone.

For more information on our financial assistance programs, visit [sydneywater.com.au/helpwithyourbill](http://sydneywater.com.au/helpwithyourbill).

### **Exempt Properties Scheme**

The *Sydney Water Act 1994* states that certain types of properties are exempt from paying service charges. We give exemptions following an application and on-site inspection. Land owned and used by not-for-profit community service organisations is generally exempt.

We spent more than \$17 million this year on service charge exemptions, which we granted to more than 10,000 properties.

### **Blue Mountains Septic Pump-out Scheme**

At the direction of the NSW Government, we continued the Blue Mountains Septic Pump-out Scheme subsidy. Around 20 properties with wastewater pump-out services benefit from the scheme, receiving assistance with ongoing pump-out costs. We spent about \$70,000 on this scheme in 2017–18.

**Table 7: Social program expenditure, 2013–14 to 2017–18**

<b>Social programs</b>	<b>2013–14 (\$m)</b>	<b>2014–15 (\$m)</b>	<b>2015–16 (\$m)</b>	<b>2016–17 (\$m)</b>	<b>2017–18 (\$m)</b>
Pensioner concession	137.5	140.5	140.7	125.5	125.0
Exempt Properties Scheme	19.3	21.3	23.9	17.3	17.7
Hardship Support Scheme	0.9	0.9	1.1	1.0	1.1
Blue Mountains Septic Pump-out Scheme	0.2	0.3	0.2	0.3	0.1
<b>Total</b>	<b>173.6</b>	<b>167.8</b>	<b>165.9</b>	<b>144.1</b>	<b>143.9</b>



## Multicultural policies and services program

CALD customers represent a significant part of our community, with 36% of people speaking a language other than English at home. In some Local Government Areas (LGAs), more than two-thirds of residents are from CALD communities.

We understand that a diverse community means varied preferences for engaging and communicating with us, and we factor this into our planning. Different beliefs and backgrounds may also influence customers' willingness to access financial support options or preferences about drinking tap water.

We are also proud to have a diverse workplace, which promotes our constructive culture and supports great customer outcomes.

**Table 8: CALD initiatives, 1 July 2017 to 30 June 2018**

Focus	Activities
<b>Service Delivery</b>	
Mainstream services delivered for everyone	<p>As CALD customers represent a significant part of our community, we consider multilingual communications in all engagement and communication activities.</p> <p>We regularly engage with specialist organisations to better understand how best to engage and communicate with CALD customers, newly settled communities and people with a disability.</p>
Targeted programs fill the gaps	<p>As part of our restoration and upgrade projects, in areas with high CALD populations, we use translated information to notify customers about the work being done. We may also provide access to a translator to ensure customers understand how our work may impact them.</p> <p>Our phone interpreter service offers translation services for free in more than 150 different languages.</p>
People from culturally diverse backgrounds are aware of NSW Government (funded) services, programs and functions	<p>Through our outreach program, we engage with and train community organisations to financially assist customers who are having difficulty paying their water bill. Of these agencies, 30 have a specific focus on CALD communities.</p> <p>We have produced multilingual brochures with information on support services for customers in financial hardship. These are available in Arabic, English, Greek, Italian, Korean, Simplified Chinese, Traditional Chinese and Vietnamese. We also translate further information about payment options, support options, and our drinking water and wastewater education campaigns.</p> <p>We regularly translate media stories into our most-used languages and pitch them to multicultural radio, print, online and social media channels. Media stories over the past year included:</p> <ul style="list-style-type: none"> <li>• the high quality of our tap water</li> <li>• the importance of keeping wet wipes out of pipes</li> <li>• plumbing services saving water within high-rise buildings</li> <li>• installation of water stations into public places across greater Sydney.</li> </ul> <p>Using these media channels for translated stories is a consistent part of our external communications. We understand the importance of these stories, particularly for recently settled communities.</p>

## Planning

Strong plans to deliver services

We have updated our understanding of where our CALD communities live in the amalgamated council areas, and updated census results. This refreshed data informs our communication and engagement activities, particularly those conducted within high CALD areas.

Sydney Water has a Customer Council with representation from the Ethnic Communities' Council of NSW, Multicultural NSW and the Illawarra Local Aboriginal Land Council, all of which represent CALD communities. People with Disability Australia and the Council on the Ageing are also part of the Customer Council, representing people with a disability and seniors. We regularly engage with Customer Council members to gain their feedback on our planning and operations for the interests of our diverse customers.

Evidence driven planning

This year, we conducted research to better understand the different CALD communities across our area of operations. This research focused on the size of each language group, their proficiency in English and growth in population size. From this we have chosen five priority languages – Arabic, Mandarin, Cantonese, Korean and Vietnamese – to focus on when translating relevant information.

Where relevant, we also translate information and campaign messaging in up to 10 of our most commonly used languages.

This research and our relationship with culturally diverse community organisations helps us better understand recently settled residents and provide education on available support services and our drinking water and wastewater systems.

In September 2017, we collaborated with Western Sydney University to research trust in drinking water among Mandarin speakers. The outcomes of the research helps target our communications investment, and informs our education, marketing and engagement activities.

## Leadership

Demonstrated leadership in culturally inclusive practices

Through our *Diversity and Inclusion Plan 2015–20*, we celebrate and continue to build on the diversity that already exists within our workforce. We are also focused on increasing the participation of women in the workforce, and have targets for increasing the number of women in leadership roles.

Our staff proactively celebrate diversity through internal events such as cultural lunches, fundraising activities and social events.

Increased recognition of the value of cultural diversity

This year, Sydney Water engaged with a sample of customers to inform our submission for the review of our *Operating Licence*. We used translators to ensure we included the attitudes and preferences of Arabic and Mandarin speakers as well as those of English speakers.

Our Local Community Support Grants offer a helping hand to organisations that support local activities and services. We promote these grants to everyone, including organisations that specifically support CALD communities and people with a disability.

## Engagement

Collaboration with diverse communities

Our portable water station program offers local councils and key stakeholders free water refill stations at events, to encourage the community to drink tap water and reduce their reliance on single-use plastic. The water stations display translated messages about tap water in a range of languages. We provided these stations at 15 cultural events in 2017–18, including Lunar New Year and NAIDOC celebrations.

These portable water stations are also used at various other events such as the Royal Easter Show, Australia Day celebrations in Parramatta, and Sculpture by the Sea. These events help to ensure our community is aware of the great quality of Sydney's drinking water and the environmental benefits of choosing tap water over other drinks.

We also engaged with strata building residents through our WaterFix® plumbing program, providing customer notifications and surveys in Mandarin and Thai to the residents.

Understanding the needs of people from diverse backgrounds

During 2017–18, we partnered with councils to install 170 water stations across greater Sydney. Through consultation with councils with large CALD communities, we translated key messages about the benefits of choosing tap water into 11 different languages: Arabic, Assyrian, Dhari, Filipino, Hindi, Japanese, Khmer, Korean, Napoli, Simplified Chinese and Vietnamese.

Community feedback has been very positive, and high usage reiterates the community's appreciation of the water stations we have provided.

As the main hydration partner of Cricket NSW, we engage with CALD communities through their love of cricket. Sponsoring the Thunder Nation Cup allows us to celebrate the cultural diversity of the teams and spectators, and to engage with CALD communities regarding the benefits of staying hydrated with tap water.

Overview

Our performance

Financial statements

Appendixes

Glossary and indexes

## Community investments

Through our sponsorships, we can form deeper relationships with our stakeholders and customers. They help us to educate the broader community about our high-quality drinking water, the urban water cycle, and the importance of environmental protection and sustainability. Our donations are linked to our employee giving program which allows us to support registered Australian charities.

**Table 9: Funds granted to organisations, 1 July 2017 to 30 June 2018**

Program	Organisation	Project	Amount (\$)
Sponsorship	Australian Museum	Streamwatch citizen science program	288,454 <sup>8</sup>
	Cricket NSW	Hydration sponsor	
	Surf Life Saving Illawarra	Naming rights partner	
	Sculpture by the Sea	Founding partner and sponsor	
	Orange Sky Australia	Western Sydney sponsor	
	WaterAid Australia	Major partner of NSW Ball	
Local Community Support Grants	AASHA Australia Foundation	Support for local activities or services provided in one of the following four categories: Arts and heritage, Environment, Health and wellbeing or Education.	51,610 <sup>9</sup>
	The Aboriginal Child, Family and Community Care State Secretariat (AbSec)		
	Addison Road Community Centre		
	Airds High School		
	Al Minia Charitable Association		
	Auburn Youth Centre		
	Australian Mitochondrial Disease Foundation		
	Balmain Public School		
	Bankstown Community Resource Group		
	Bannockburn Rovers Football Club		
	Belrose Public School		
	Beverly Hills North Public School		
	Bexley North Public School		
	Boronia Multicultural Services		
	City of Wollongong Brass Band		
	Civic Disability Services		
	Connect Marrickville		
	Dharma Karta		
	Galston High School		
	Glenfield Public School		
Glossodia Public School			
Helensburgh Lions Club			
Illawarra Blue Stars Athletics Club			
Keiraville Community Preschool			
Kiama Preschool			
Lapstone Preschool Kindergarten Association			
Lebanese Film Festival			
Llandilo Public School			
Lynwood Park Public School			

<sup>8</sup> Sponsorship contracts contain commercial information. We follow standard business practice to keep details commercial-in-confidence.

<sup>9</sup> Total amount paid.

Mama Lana's Community Foundation  
 Marrickville Heritage Society  
 Marrickville Public School  
 Medius Dei  
 Mountains Outreach Community Service  
 Narrabeen Lakes Public School  
 Newington Public School  
 North Rocks Carlingford Little Athletics Centre  
 North Rocks Junior Rugby Union Club  
 Parramatta Mission  
 PCYC Auburn  
 Peakhurst Public School  
 Petersham Public School  
 Platform Youth Services  
 Revesby South Public School  
 Russell Vale Public School  
 South Coogee Public School  
 Surfrider Foundations  
 Tahmoor Public School  
 The Point Preschool  
 The Sanctuary – The Hills Women's Shelter  
 Winmalee Community Preschool  
 Yeo Park Infants School

Donations	Good2Give (across 122 charities)	Dollar matching employee donations	112,622
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## Promotions

We develop a wide range of communication material to inform, educate and engage with more than five million customers through traditional and digital channels.

In 2017–18, we produced more than 280 reports, newsletters, brochures, fact sheets and other collateral for external audiences. Some of these contain information we must communicate to customers to comply with regulatory requirements, while others inform or educate our customers and the community about our water, recycled water, wastewater and stormwater services.

Our most widespread communications are our quarterly customer newsletters, *Water wrap* and *Business update*. We send these together with the quarterly bill to residential and non-residential customers, which enables us to communicate on water quality, payment assistance, complaints procedures and pricing. We also use these newsletters to provide information about customer programs, campaigns and initiatives.

We run promotional campaigns throughout the year, to:

- educate customers about water efficiency initiatives
- encourage the community to choose to drink tap water over bottled water
- raise awareness of the issue of plastic pollution in our waterways
- continue to drive behavioural change around wastewater system health.

We continue to engage with our customers and stakeholders through digital channels, which is reflected in increased engagement results. Our social media presence across Facebook, LinkedIn, Instagram and Twitter has seen a 12% increase in the last 12 months.

We refreshed our community engagement platform, Sydney Water Talk ([sydneywatertalk.com.au](http://sydneywatertalk.com.au)), to make it easier for our customers and communities to engage with us and provide feedback on various projects in their local community. We have also improved the design of the 'Our Sydney, our water' site ([oursydneyourwater.com.au](http://oursydneyourwater.com.au)) to create a simpler interface and more interactive features for visitors.

As we seek to ensure a consistent, repeatable customer experience across all our communications, we are focusing on giving customers the information they want and need, when they need it, using the channels they understand and can relate to. We continue to develop communication collateral for CALD communities, as we know about one-third of our community speak a language other than English at home. We have produced multilingual brochures with general customer information, and, where relevant, we also translate information and campaign messaging in up to 10 of our customers' most commonly used languages.

If customers want more specific information than we have published during the year, they can apply to access it under the *Government Information (Public Access) Act 2009*. You can learn more about what information is available and how to access it at [sydneywater.com.au/GIPA](http://sydneywater.com.au/GIPA).

## Privacy

We're committed to protecting the personal information of our customers, business partners, staff members and the general public. We voluntarily comply with the principles of the *Privacy and Personal Information Protection Act 1998*, and we have publicly stated this commitment in clause 13.3 of our *Customer Contract*. We're also subject to the *Health Records and Information Privacy Act 2002*.

We ensure that we:

- only collect relevant personal information for lawful purposes directly related to our activities
- protect personal information from misuse and unauthorised access

- take reasonable steps to check the accuracy of personal information before we use it
- don't give personal information to other organisations for marketing purposes
- only use personal information for the purposes it was collected
- make all relevant staff members aware of their obligations to protect privacy
- don't disclose a customer's personal information when performing customer validation checks over the phone
- only disclose personal information to third parties if:
  - we're authorised or required to by law
  - we have verbal or written authority
  - we can reasonably assume, in the circumstances, that the person would consent
  - there's a danger of injury or loss of life
  - our contractors need the information for essential activities.

In 2017–18, we:

- received 133 privacy enquiries. Of these, 120 were internally raised and 13 were raised by external parties
- investigated nine privacy complaints, using the internal review protocols issued by the NSW Privacy Commissioner
- provided input into new and existing projects and practices from a privacy perspective using the Privacy Impact Assessment (PIA) tool
- briefed the Executive team on privacy
- promoted the PIA tool to staff during Privacy Awareness Week in May 2018
- commenced a review of our privacy policy
- introduced changes to the internal data breach procedure to accommodate the Notifiable Data Breaches (NDB) Scheme
- participated in privacy practitioner's network events.

# 2.2 Managing our workforce

## Organisation chart

Figure 2: Organisation chart as at 30 June 2018

**Chairman:** Bruce Morgan

**Managing Director:** Kevin Young

**Non-executive Directors:** Dr Abby Bloom, Trevor Bourne, Richard Fisher AM, Dr Marlene Kanga AM, Greg Couttas, Cameron Robertson

**General Counsel and Corporate Secretary:** Denisha Anbu

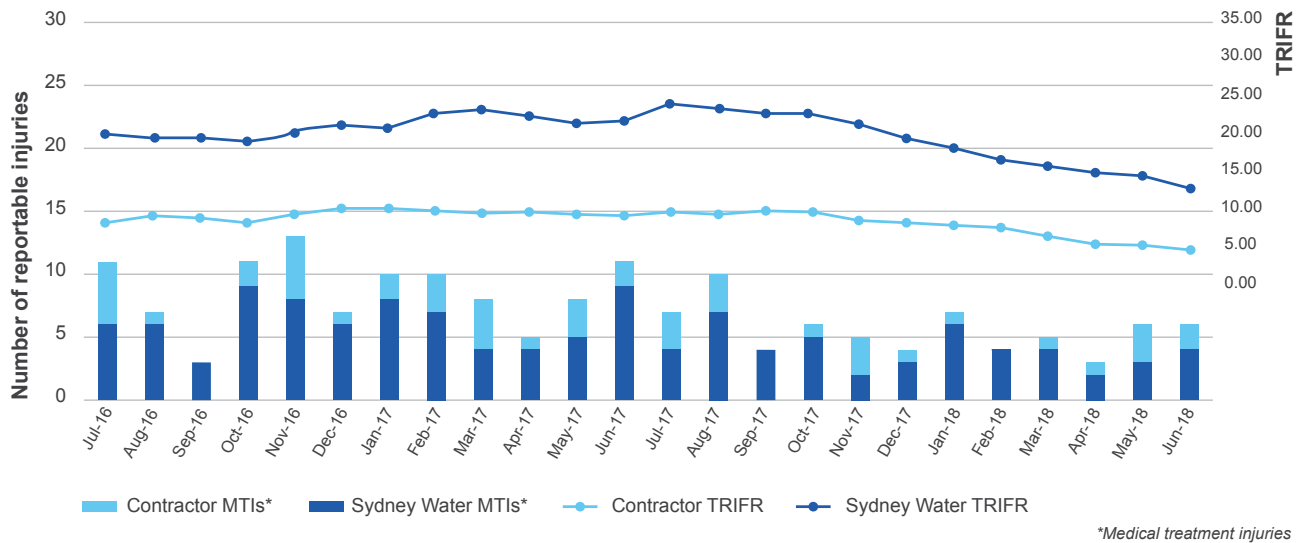
<p><b>Customer, Strategy and Regulation</b></p> <p><b>General Manager:</b> Sian Leydon (Acting General Manager: Angela Tsoukatos, December 2017 – current)</p>	<ul style="list-style-type: none"> <li>• Communications and Public Affairs</li> <li>• Corporate Strategy and Business Planning</li> <li>• Customer Direction and Experience</li> <li>• Operation Model</li> </ul>	<ul style="list-style-type: none"> <li>• Regulatory Economics</li> <li>• Strategic Change Management Office</li> <li>• Strategic Implementation Portfolio Office</li> </ul>
<p><b>Liveable City Solutions</b></p> <p><b>General Manager:</b> Paul Plowman</p>	<ul style="list-style-type: none"> <li>• Asset Knowledge</li> <li>• Delivery Management</li> <li>• Development and Infrastructure Portfolio Services</li> </ul>	<ul style="list-style-type: none"> <li>• Integrated Systems Planning</li> <li>• Service Planning and Asset Strategy</li> </ul>
<p><b>Customer Delivery</b></p> <p><b>General Manager:</b> Andy Willicott</p>	<ul style="list-style-type: none"> <li>• Civil Delivery</li> <li>• Customer Services</li> <li>• Networks</li> </ul>	<ul style="list-style-type: none"> <li>• Projects and Services</li> <li>• Treatment</li> </ul>
<p><b>People and Corporate Services</b></p> <p><b>General Manager:</b> Angela Tsoukatos (Acting General Managers: Patrick Gallagher August – September 2017, Denisha Anbu December 2017 – April 2018, Nigel McGarrick April 2018 – current)</p>	<ul style="list-style-type: none"> <li>• Audit and Assurance</li> <li>• Business Centre</li> <li>• Legal and Corporate Secretariat</li> </ul>	<ul style="list-style-type: none"> <li>• People and Culture</li> <li>• Risk</li> <li>• Safety and Wellbeing</li> </ul>
<p><b>Finance Services</b></p> <p><b>Chief Financial Officer and General Manager:</b> Kevin Jones</p>	<ul style="list-style-type: none"> <li>• Commercial Management</li> <li>• Financial Accounting</li> </ul>	<ul style="list-style-type: none"> <li>• Property</li> <li>• Supply Chain</li> <li>• Finance Transformation</li> </ul>
<p><b>Digital Services</b></p> <p><b>Chief Information Officer and General Manager:</b> George Hunt</p>	<ul style="list-style-type: none"> <li>• Business Engagement</li> <li>• Corporate Solutions</li> <li>• Digital Assurance and Compliance</li> </ul>	<ul style="list-style-type: none"> <li>• Digital Infrastructure</li> <li>• Digital Operation</li> </ul>

## Workplace health and safety

We achieved a significant improvement in safety this financial year, largely due to a shift in culture, where all staff and contractors are encouraged and empowered to manage safety. There has been an increase in staff and contractor participation in a range of safety and wellbeing initiatives.

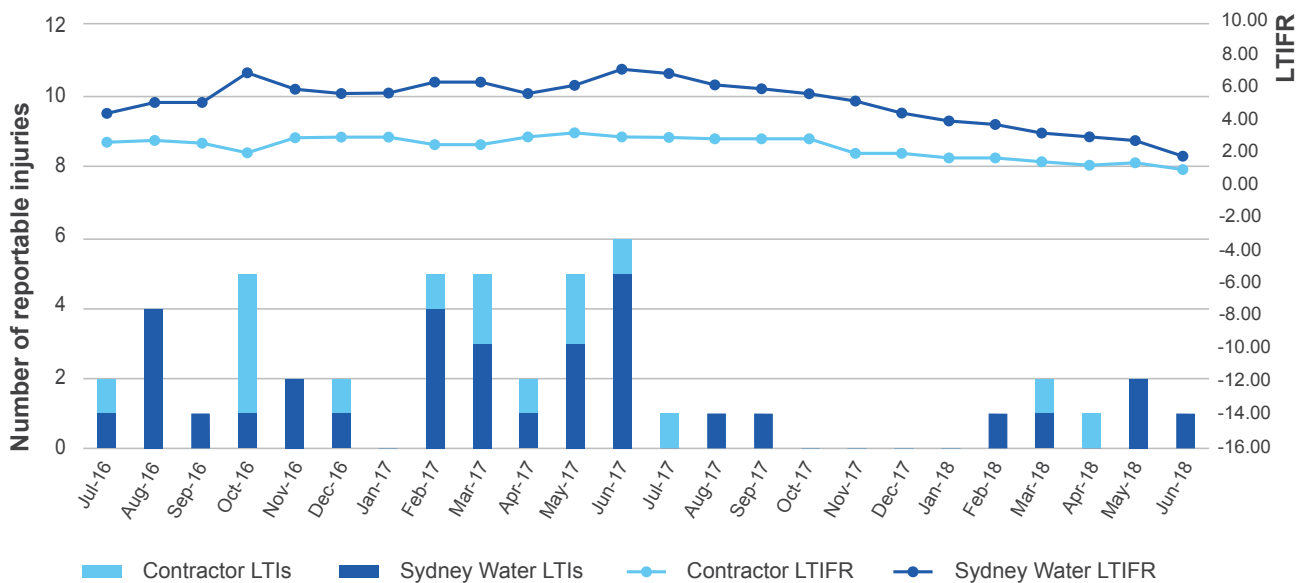
The employee Total Recordable Injury Frequency Rate (TRIFR) decreased, from 23.01 in 2016–17 to 11.5 in 2017–18. Employee injuries are down by 48% and contractor injuries decreased 54% in 2017–18.

**Figure 3: TRIFR for staff and contractors, from 1 July 2016 to 30 June 2018**



The employee Lost Time Injury Frequency Rate (LTIFR) decreased from 4.10 in 2016–17 to 1.67 in 2017–18. Injury severity also dropped by 59% (from 17 LTIs in 2016–17 to seven LTIs in 2017–18).

**Figure 4: LTIFR for staff and contractors, from 1 July 2016 to 30 June 2018**





## Notes

- The TRIFR is the number of reportable injuries per million hours worked. Reportable injuries consist of lost time injuries (LTIs) and medical treatment injuries (MTIs).
- The LTIFR is the number of LTIs per million hours worked. An injury is an LTI if the person was away from work for one or more days or shifts.
- Results reflect the most recent data at the time of reporting. Historical data has been updated to include any LTIs or MTIs notified since the previous reporting periods.
- Results are based on the number of contractor hours reported to Sydney Water.

We introduced a revised Safe and Wellbeing strategy in February 2017. The strategy provided a more contemporary approach to safety management, that captures high-consequence industry safety practices.

Since introducing the new strategy, we have focused on fostering greater organisational change by embedding the safety operating model, and positioning safety and wellbeing within our culture. This change in approach has been driven under the Safety Differently campaign. This campaign was introduced to challenge and change the traditional ways of managing safety, to improve performance and build resilience across Sydney Water. This deliberate and disruptive approach has encouraged a positive shift in performance by engaging, encouraging and empowering the frontline workforce.

Sydney Water staff and contractors have embraced the revised approach as an opportunity to work collaboratively to improve safety performance. Through this greater workforce engagement, we have seen an alignment of purpose across the business, including bottom-up development of business area safety improvement initiatives.

In the next financial year, we will focus on sustaining and improving our safety performance. Sydney Water will continue to build on the foundational components we have introduced, to embed, operationalise and mature our safety initiatives and enable the business to produce greater value. We will do this by:

- engaging the workforce in designing solutions, to ensure injury prevention initiatives are fit for purpose and effective
- providing the workforce and leaders with the knowledge, resources and data they need to manage safety risks and shape the culture
- establishing effective processes to manage injuries, ensuring the workforce has access to the most appropriate treatment for effective and timely recovery
- implementing initiatives to ensure the workforce remains safe when completing tasks that involve inherent risks
- implementing initiatives that ensure the health and wellbeing of the workforce, and better conditions for Sydney Water staff and contractors.

## Workforce diversity

### Statistical information on workforce diversity target groups

Table 10: Trends in the representation of workforce diversity groups<sup>10</sup>

Workforce diversity group	Target/ benchmark (%)	2013–14		2014–15		2015–16		2016–17		2017–18	
		No.	%	No.	%	No.	%	No.	%	No.	%
Women	50	750	29.5	776	29.9	808	30.9	836	32.6	847	33.2
Aboriginal and Torres Strait Islander peoples	2.6 <sup>11</sup>	29	1.1	27	1.0	25	1.1	26	1.0	22	0.9
People whose first language is not English	19	453	17.8	445	17.2	425	16.3	398	15.5	379	14.8
People with a disability	N/A <sup>12</sup>	62	2.4	59	2.3	49	1.9	40	1.6	35	1.4
People with a disability requiring a work-related adjustment	1.5	14	0.6	14	0.5	13	0.5	12	0.5	8	0.3
<b>Total staff</b>		<b>2,543</b>		<b>2,593</b>		<b>2,611</b>		<b>2,564</b>		<b>2,550</b>	

Table 11: Trends in the distribution of workforce diversity groups<sup>13</sup> – distribution index<sup>14</sup>

Workforce diversity group	Benchmark/ target	2014	2015	2016	2017	2018
Women	100	99	98	100	99	99
Aboriginal and Torres Strait Islander peoples	100	70	76	77	85	86
People whose first language is not English	100	104	106	106	105	109
People with a disability	100	91	91	91	93	98
People with a disability requiring a work-related adjustment	100	N/A	N/A	N/A	N/A	N/A

<sup>10</sup> Staff numbers as at 30 June 2018.

<sup>11</sup> Minimum target by 2020.

<sup>12</sup> Percentage employment levels are reported but a benchmark level has not been set.

<sup>13</sup> Information provided by the NSW Public Service Commission.

<sup>14</sup> A distribution index of 100 indicates that the distribution of members of the workforce diversity group across salary bands is equivalent to that of the rest of the workforce. A score of less than 100 means that members of the workforce diversity group tend to be more concentrated at lower salary levels than is the case for other staff members. The more pronounced this tendency is, the lower the score will be. In some cases, the index may be more than 100, indicating that members of the workforce diversity group tend to be less concentrated at lower salary bands than other staff members. The distribution index is not calculated where a diversity group or non-diversity group has less than 20 members. Calculations exclude casual staff members.

## Initiatives to remove discrimination in employment and promote workforce diversity

### Diversity and Inclusion Plan 2015–20

We are committed to having a safe, inclusive and healthy environment where everyone can bring their true selves to work and serve our customers. Our long-term *Diversity and Inclusion Plan 2015–20* guides us in building a diverse and inclusive workforce.

Our strategic focus areas over the past two years have been flexibility and gender diversity. From 2018 we will extend that focus to initiatives that create more opportunities for Aboriginal and Torres Strait Islander employees.

### Women in leadership

We continue to conduct succession planning across Sydney Water, taking an inclusive and non-biased approach to ensure we have a gender-balanced succession plan and external talent pipeline. Our goal is to have a 50:50 ratio of women and men identified as future candidates for leadership and key technical positions.

### Women in science, technology, engineering and mathematics (STEM)

We are currently designing a program to attract more women into STEM disciplines at Sydney Water. The program will also provide a structured development plan for women to progress into senior STEM or leadership roles.

### Gender pay gap

We are pleased to have a gender pay gap that is significantly lower than the national average<sup>15</sup>. Our current gender pay gap is 2.5%, however, we can do better and we are aiming to have a 0% pay gap between men and women for the same role and tenure. We have analysed the gender pay gap across all groups in Sydney Water to inform our strategy. We have also changed our remuneration criteria to ensure that staff who take long-term parental leave are not disadvantaged.

<sup>15</sup> Source: <https://www.wgea.gov.au/sites/default/files/gender-pay-gap-statistics.pdf>

## Targets and measures

To achieve our strategic objectives, we have set clear diversity targets for the organisation. We continue to measure and report on these targets monthly. We have also included gender targets as part of the Executive team's Key Performance Indicators.

We regularly report on the gender diversity of newly recruited staff and throughout each stage of our recruitment process to help us identify any barriers to attracting and recruiting women into our workforce.

### Flexible work arrangements

We have developed a team-based flexibility program, which is currently being trialled and will be available for all teams to participate in from late 2018. We have also created toolkits and resources to help our staff and managers manage requests for flexibility with a positive, problem-solving approach.

### Diversity and Inclusion Taskforce

Our Diversity and Inclusion Taskforce is made up of members from across the organisation. They are ambassadors for diversity, and influence and champion our Diversity and Inclusion Program. The taskforce meets every two months to identify and advise on diversity and inclusion opportunities in our business.

### Aboriginal and Torres Strait Islander opportunities

In July 2018, we launched our first Reconciliation Action Plan with Reconciliation Australia. Our Innovate Reconciliation Action Plan is a two-year plan that outlines our commitment to practical actions that build respectful relationships, foster inclusion and create opportunities for our Aboriginal and Torres Strait Islander team members.

**Table 12: Workforce numbers**

Human resources*	2013–14	2014–15	2015–16	2016–17	2017–18
FTE – permanent	2,288	2,376	2,228	2,203	2,172
FTE – temporary	115	72	145	164	200
FTE – part-time	106	110	140	94	94
<b>Total</b>	<b>2,509</b>	<b>2,558</b>	<b>2,513</b>	<b>2,461</b>	<b>2,466</b>
<b>Other</b>					
Agency staff	123	167	191	357	280
Redundancies	77	46	35	96	46
Appointments	205	230	214	263	288
Average turnover (%)	4.9	4.0	4.8	6.6	8.2
Unplanned absences (%)	8.1	8.6	7.9	7.5	7.7

**\*Calculations**

- Staff numbers: Calculated by apportioning the full-time equivalent (FTE) hours worked to the actual head count.
- Average turnover: Staff-initiated terminations per rolling 12 months divided by the average staff head count for the same period.
- Unplanned absences: Total unplanned absence days per rolling 12 months divided by the total number of staff.

**Staff and industrial relations**

This year saw an increase in activity as we continued to realign the organisation to support our Lifestream Strategy and new Operating Model. Major change initiatives are underway across a range of businesses, including Treatment, Business Centre, CxP, Finance and the Customer Hub. The workforce and unions worked with Sydney Water to ensure we delivered organisational objectives in a collaborative and supportive way. While the pace of change will continue into the new year, we are confident the positive attitude and cooperative approach will continue to serve staff, Sydney Water and our customers well.

## Executive officers

Table 13: Executive remuneration, from 1 July 2017 to 30 June 2018

SES band equivalent <sup>16</sup>	2018		2017		Average remuneration (\$)	
	Female	Male	Female	Male	2018	2017
Above Band 4 equivalent	0	1	0	1	786,582	756,589
Band 4 equivalent	0	0	0	0	0	0
Band 3 equivalent	2	4	3	6	405,251	390,187
Band 2 equivalent	8	18	13	25	285,595	279,702
Band 1 equivalent	47	116	46	114	211,493	202,457
<b>Totals</b>	<b>57</b>	<b>139</b>	<b>62</b>	<b>146</b>		
<b>Grand total</b>	<b>196</b>		<b>208</b>			

Sydney Water does not use Senior Executive Service (SES) remuneration package ranges. For 2017–18, Sydney Water reported in line with the regulatory definition to include People Manager remuneration equivalent to the total remuneration package of the SES bands. At 30 June 2018, about 13% of Sydney Water's staff-related expenditure was for staff remuneration at an equivalent level to the SES bands.

## Consultant engagements

Table 14: Payments to consultants for engagements over \$50,000, from 1 July 2017 to 30 June 2018

Vendor name	Contract description	Category	Amount (\$)
<b>Frontier Economics Pty Ltd</b>	Stage 1: Advice on approach to economic assessment for Sydney Science Park	Finance and accounting/tax	79,948.00
<b>Frontier Economics Pty Ltd</b>	Economic evaluation of Greater Parramatta and Olympic Peninsula servicing options	Finance and accounting/tax	109,473.82
<b>EY</b>	Treatment Operating Model Implementation	Management services	197,094.93
<b>Boston Consulting Group</b>	Supply services in delivering the long-term strategy	Management services	995,000.00
<b>Department of Finance, Services and Innovation NSW</b>	Department of Finance, Services and Innovation NSW: Health Check Gate 4-5	Information Technology	50,484.37
<b>RM Consulting Group</b>	Bulk Recycled Water Irrigation Planning Study	Environmental	85,019.76
<b>Total payments to consultants (engagements valued at over \$50,000 each)</b>			<b>1,517,020.88</b>

In 2017–18, we engaged six consultants for \$50,000 or less, totalling \$86,367.67.

## Overseas travel

**Table 15: Overseas travel from 1 July 2017 to 30 June 2018**

Date of travel	Name	Destination	Purpose
16–20 July 2017	B. Sheridan	Singapore	To represent Sydney Water at Singapore International Water Week and present on Sydney Water’s water quality and asset management. Travel funded by Sydney Water.
7–10 August 2017	M. Werner	Samoa	To represent Sydney Water at the Pacific Water and Wastewater Association Conference and Young Water Professional workshop and present on how Sydney Water works with customers to reduce the frequency of estimated bills. Travel funded by the Australian Water Partnership.
5–8 September 2017	J. Pass	Singapore	To represent Sydney Water at the TECHX Asia Conference and present on Sydney Water’s digital transformation. Travel funded by the conference organiser, except flights which were funded by Ms Pass.
9–22 September 2017	C.Rajanayagam N. Fogarty	Europe	To gain expertise in technologies and equipment Sydney Water could use to upgrade its water recycling plants. Travel funded by Sydney Water.
11–21 January 2018	K. Young	USA	To represent Sydney Water at the Water Research Foundation Board meeting and workshop, and to visit the City of San Diego Public Utilities Department and the Los Angeles Department of Water and Power. Travel funded by Sydney Water.
11–20 May 2018	S. Pydipati	USA	To attend Winnovate 2018 in San Francisco, and review innovative solutions under development by Wipro. Conference attendance and part accommodation funded by the conference organiser, remainder of accommodation and flights funded by Mr Pydipati.

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## 2.3 Running a successful business

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### Risk management

Sydney Water has an Enterprise Risk Management Framework in place that helps us meet our strategic objectives and corporate governance accountabilities.

We have a single risk management approach across the organisation to minimise the potential adverse impacts of uncertainty, while maximising opportunities to enhance value for our shareholders and customers, and achieve our corporate goals.

Our framework is consistent with the risk management standard *AS/NZS ISO 31000 2009 Risk management – Principles and guidelines*, and we voluntarily conform to *TPP 15-03 Internal Audit and Risk Management Policy for the NSW Public Sector*.

Our Risk and Opportunity Management Policy includes Sydney Water Board's Risk Appetite Statements which help us:

- identify risks and develop strategies to manage these risks consistently
- act appropriately within the limits of our risk appetite
- achieve Sydney Water's objectives.

Our Board is supported by subcommittees that oversee risks related to their respective core functions – such as public health, environment, safety and financial matters. The Board's Audit and Risk Committee (ARC) monitors the effectiveness of the Enterprise Risk Management Framework and advises the Board on risk exposures and the effectiveness of our risk management activities. Our Executive team monitors risks relating to our day-to-day operations and the delivery of corporate objectives.

**Table 16: Enterprise risks for 1 July 2017 to 30 June 2018**

Corporate Strategy objective	Risk theme	Uncertainties related to:
Customer at the heart	Strategic customer	customer advocacy and expectations
	Public health	serious harm to public health from products and services
	Environment	irreversible or serious impact on the natural environment
	Safety	serious harm to people in the workplace
	Continuity of service	reasonably foreseeable business interruptions
	Legal and regulatory compliance	significant compliance breaches
	Reputation	loss of trust by external stakeholders, long-term brand damage
High performance culture	People	organisational capability and culture
	Organisational change	benefits of major organisational transformation
	Legal and regulatory change	shifting obligations and stakeholder expectations
World class performance	Asset	critical infrastructure assets
	Third party	sole or critical supplier
	Technological	managing and protecting information assets
	Financial	achieving a financially efficient frontier

## Insurance

Sydney Water's insurance program focuses on transferring and mitigating risks, and is a key element of the Enterprise Risk Management Framework.

We regularly review our insurance program to prepare for current and emerging risks. If appropriate, we transfer insurable risks to the commercial insurance market, or to Insurance and Care NSW (icare).

We review the insurance program every year to ensure it:

- is appropriate for our risk appetite
- is relevant
- is effective
- has good breadth of coverage across transferable and insurable risks.

## Legal events

### **Coastal Management Act 2016 and Coastal Management State Environmental Planning Policy 2018 (Coastal SEPP)**

The *Coastal Management Act 2016* and the Coastal SEPP commenced in April 2018. These instruments may require Sydney Water to obtain development consent to carry out developments on land identified as 'coastal wetlands' or 'littoral rainforest'. The development consent must be obtained from the relevant consent authority (such as the local council) under the *Environmental Planning and Assessment Act 1979*, unless a specific exception applies.



## Environmental Planning and Assessment Act 1979

The *Environmental Planning and Assessment Amendment Act 2017* commenced on 1 March 2018. It amended the *Environmental Planning and Assessment Act 1979* to allow land to be designated as an 'infrastructure corridor' so that the land is set aside for linear infrastructure use in the future. Where Sydney Water wants to carry out development within an infrastructure corridor, Sydney Water may need to obtain the concurrence of any specified public authorities to do so. At the same time, Sydney Water's concurrence may be required where Sydney Water is a specified public authority for an infrastructure corridor. A specified public authority can refuse concurrence if it is satisfied that the proposed development will unreasonably interfere with the use of the corridor.

### Sydney Water Regulation 2017

The Sydney Water Regulation 2017 commenced on 1 September 2017 and replaced the previous Regulation. The Regulation includes new offences to protect our controlled areas. New penalties and penalty notice offences have also been included with applicable penalty amounts increased, to be consistent with offences under similar legislation. Plumbing and drainage provisions were streamlined and updated to reflect Sydney Water's requirements for fittings. The circumstances under which the Minister may issue a notice restricting use of water (such as, in the case of drought) was amended to include emergency conditions.

## Notifiable Data Breaches Scheme under Part IIIC of the Privacy Act 1988 (Cth)

The *Notifiable Data Breaches Scheme* (NDB) came into effect on 22 February 2018. The NDB applies to Sydney Water to the extent that Tax File Number (TFN) information is involved in a data breach. This means that should Sydney Water have reasonable grounds to believe it has experienced an eligible data breach involving TFN information, it must promptly notify the affected individuals and the Commissioner about the breach unless an exception applies. Sydney Water is also required to develop a procedure to quickly assess a suspected data breach.

## Research and development

We invest in research and development (R&D) to improve the efficiency, effectiveness and quality of decision making across our business. The key drivers of the R&D program are:

- delivering safe and reliable drinking water
- enhancing assets and operations
- protecting and enriching natural waterways
- improving treatment and resource recovery
- enabling resilient and liveable cities.

During 2017–18, Sydney Water won the Australian Water Association Research Innovation Awards for various projects, was the Australian Museum's 2018 Eureka Prize Winner, and received the University of Wollongong Vice-Chancellor Award for outstanding achievement in research partnership and impact.

We report continuing and completed R&D activities, together with the resources allocated to those activities that meet the eligibility criteria under section 355-B of the *Income Tax Assessment Act 1997* (Cth).

In 2017–18, Sydney Water invested \$7.6 million in 25 R&D projects in collaboration with local and international universities and research service providers.

**Table 17: Research and development investments made during 2017–18**

<b>Project name</b>	<b>Collaborator/s</b>	<b>Investment<sup>16</sup> (\$)</b>
Trial of a new nitrification management approach for chloraminated systems	Western Sydney University	236,378
Water quality forecasting	University of New South Wales	311,644
Design and development of new and improved water treatment techniques	University of New South Wales University of Technology Sydney	674,866
Management of concrete corrosion and odour emissions from sewers	University of Sydney Macquarie University	36,911
Prediction of critical pipeline failure	University of Technology Sydney University of Newcastle Monash University CSIRO	160,646
Research on biosolids reuse and management	University of Technology Sydney	119,181
Research on co-digestion	University of Wollongong	93,659
Woronora distribution system optimisation	CSIRO	225,841
Sewer chokes prediction	CSIRO	50,177
Weather and climate forecasting	University of New South Wales	38,804
Scenario planning for demand forecasting	University of New South Wales CSIRO	21,159
Predictive analytics for sewer corrosion	University of Newcastle University of Technology Sydney CSIRO	304,759
Development of a wet weather overflow abatement strategy	University of New South Wales University of Melbourne La Trobe University	780,794
Ozone development work	N/A	3,794
Drones to monitor nearshore outfalls	University of New South Wales	23,086
Contaminated land risk ranking solution	CH2M Hill ENSure JV	117,009
New material innovation	University of Sydney Monash University University of Waterloo WSAA	25,379
Sodium ion batteries	University of Wollongong	106,575
Developer CX	N/A	1,165,999
Customer Operations Hub	N/A	811,170
Sustaining IOT POV	N/A	543,171
Pathogen Risk Assessment	N/A	72,203
Bayes network modelling of pathogen inactivation	University of New South Wales	97,972
Water technical viability study	University of New South Wales	23,729
CX Innovation Lab	N/A	329,749
R&D project support	N/A	1,224,914
<b>Total</b>		<b>7,599,567</b>

<sup>16</sup> The information included is based on cost estimates at 30 June 2018 and may be subject to change.

**Table 18: Significant amendments to projects reported for the previous financial year**

Project name	Collaborator/s	Previously reported investment for 2016–17 (\$)	Revised investment for 2016–17 (\$)
Prioritising Active Leak Detection	CSIRO	N/A	337,815
Developer CX	N/A	N/A	1,615,371
Customer Operations Hub	N/A	N/A	1,006,609

## Heritage delegation actions

Sydney Water has the regulatory power to approve and endorse certain work on Sydney Water assets listed on the State Heritage Register. We can also grant excavation permits and/or exempt work that could impact archaeological sites in our area of operations. We can also endorse conservation management plans and strategies for assets listed on the register.

**Table 19: Decisions made under the Heritage Council of NSW delegation, 1 July 2017 to 30 June 2018**

Site	Work completed
<b>Decision approved under s.60</b>	
Centennial Park Reservoir No.1	IICATS cabling
Penshurst Reservoir	Works compound
Centennial Park Reservoir No. 1	Works compound
Middle Harbour Syphons	Crane platform
Botany Wetlands	Soil sampling and remediation
Pressure Tunnel Shaft 11	Soil sampling and remediation
<b>Decision approved under s.57(2) standard exemptions</b>	
Upper Canal	Equipment at Broughton's Pass (7)
Drummoyne Reservoir	Temporary scaffold and safety works (16b)
Ryde Pumping Station	Temporary scaffold (7)
Pressure Tunnel Shaft 17	Minor works (8)
Potts Hill Reservoirs	Power pole replacement (7)
Chatswood Reservoirs	Cabling (7)
<b>Decision approved under s.140 Excavation Permit</b>	
North West Growth Centre (Box Hill)	Excavation permit

## Capital expenditure

Our capital works program aims to:

- renew and upgrade existing assets
- improve business efficiencies
- deliver government programs
- support urban growth.

In 2017–18, Sydney Water spent about \$797 million on capital works, which was 2% over the \$785 million budget.

**Table 20: Major capital works projects completed, 1 July 2017 to 30 June 2018**

Project	Project benefits
Wastewater main renewals (outputs achieved in 2017–18)	We renewed 5.2 km of key wastewater mains that were near the end of their service life to reduce the impact of failures on the community and the environment. We rehabilitated 17.3 km of reticulation wastewater mains to reduce dry weather and repeat overflows affecting customers.
Water main renewals (outputs achieved in 2017–18)	We renewed 26.6 km of water reticulation mains and an additional 6.1 km of critical water mains to maintain water supply and reduce interruptions.
North Head Wastewater Treatment Plant Odour Scrubber	We replaced an odour scrubber to reduce corrosion and odour emissions. The project was completed within budget but 18 months later than planned, due to process proving issues and new infrastructure needed as a contingency for network contamination.
Menangle Park Wastewater (Stage 1)	We constructed a new wastewater pumping station and wastewater mains to service growth within the Menangle Park Release Area. The project was completed under budget but 20 months later than planned due to protracted negotiations over property access and power authority delays.
Powells Creek Stormwater Renewal	We naturalised a section of the channel to protect public safety and reduce the risk of flooding, creek erosion and subsidence. The project was completed on time and within budget.
Second release precincts – Leppington North wastewater	We provided seven wastewater lead-in mains to facilitate growth in nine precincts across the South West Growth Centre (SWGC) area. The project was completed on time and within budget.
Emerald Hills and Central Hills Growth Servicing	We provided wastewater infrastructure to support continuing growth in Emerald Hills, Central Hills and East Leppington. The project was completed on time and within budget.
Canterbury Town Centre water and wastewater	We provided new water and wastewater services to the town centre and upgraded the existing wastewater pump station. The project was completed on time and within budget.
Picton Sewerage Scheme Amplification (Stage 1)	We amplified and upgraded the Picton wastewater recycling plant to provide for growth. The project was completed within budget. Most of the work was completed in November 2016 but final commissioning was delayed due to operational constraints.

**Table 21: Major capital works in progress as at 30 June 2018**

Project	Forecast completion date	Budget (\$m)	Cost to date (\$m)
Quakers Hill/St Marys Water Recycling Plant Process and Reliability Renewal (PARR): Working to maintain reliability and increase the plant's capacity to service growth.	September 2021	322	24
Riverstone Wastewater Treatment Plant Upgrade (Stage 1): Increase capacity at the plant to meet licence requirements and provide for growth in the catchment.	December 2018	125	93
Malabar Wastewater Treatment Plant Improvement Program: Upgrade to improve reliability, capability and performance of the plant.	March 2019	116	99
Wastewater treatment plant renewals: Continuing to replace equipment near the end of its service life.	Ongoing	57/year <sup>17</sup>	Ongoing
Water treatment plant renewals: Continuing to replace equipment near the end of its service life.	Ongoing	7.5/year <sup>17</sup>	Ongoing
Information technology projects: Continuing minor projects to reduce operating expenditure, renew IT systems and equipment, and deliver new systems and capabilities. Major projects include a new billing system.	Ongoing	82/year <sup>17</sup>	Ongoing
Wastewater reticulation and wastewater trunk main renewals: Continuing to replace and rehabilitate wastewater mains near the end of their service lives, to reduce the impact of failures on the community and the environment.	Ongoing	79/year <sup>17</sup>	Ongoing
Water reticulation main and critical water trunk main renewals: Continuing to replace water mains near the end of their service lives, to reduce interruptions to supply.	Ongoing	70/year <sup>17</sup>	Ongoing
Green Square Trunk Stormwater Drainage: Increasing stormwater drainage capacity in the Green Square town centre to reduce the risk of flooding and facilitate development.	July 2019	74	62

<sup>17</sup> Denotes the five-year average in nominal dollars.

Picton Sewerage Scheme Amplification Stage 2: Conducting amplification and upgrade works to the Picton Water Recycling Plant and new wastewater pumping station to provide for growth. The project is forecast to be completed \$5.9 million over budget due to additional scope identified during the detailed design phase.	January 2019	41	35
Oran Park Wastewater Servicing Stage 2, Package 1: Providing wastewater infrastructure to support continuing growth in Oran Park and South Catherine Fields.	August 2018	27	17
Marsden Park Residential Servicing Stage 1: Providing water and wastewater infrastructure to support residential growth.	July 2019	60	44
Woolloomooloo Wastewater Stormwater Separation Project: Eliminating the combined wastewater system and improving the environmental health of Woolloomooloo Bay.	May 2019	46	30
SWGC Second Release Precincts (Water): Renewing a water pumping station and providing new water booster stations and pipelines to service Austral and various precincts in Leppington.	May 2019	18	15
Leppington and Leppington North Wastewater Stage 2: Providing wastewater infrastructure to support growth.	January 2019	33	6
SWGC South Western Front Water Trunk Main Package 1A: Providing new drinking water infrastructure in the area.	September 2019	64	7
Marsden Park Industrial Wastewater Servicing Stage 1 (SPS1173): Providing wastewater infrastructure to service residential and industrial growth in the area.	May 2019	33	12
SWGC First Release Precincts, Turner Road: Providing water-related infrastructure to service growth in the SWGC.	August 2018	21	16
Reservoir Renewal and Reliability Program: Continuing to ensure reservoirs and associated equipment operate at the lowest costs while complying with regulatory requirements.	Ongoing	28/year <sup>18</sup>	Ongoing

<sup>18</sup> Denotes five-year average in nominal dollars

Strangers Creek trunk drainage construction: Providing stormwater services for growth and to help manage flooding, safety and negative impacts on the environment.	November 2018	17	9
Wastewater pumping station renewals: Continuing to replace equipment near the end of its service life.	Ongoing	20/year <sup>19</sup>	Ongoing
Servicing growth at Calderwood: Providing water and wastewater services for residential and employment growth.	August 2018	15	13
Water pumping stations: Continuing to improve reliability and safety, and minimise lifecycle costs of water pumping stations.	Ongoing	19/year <sup>19</sup>	Ongoing
SCADA and IICATS upgrades, and related electrical upgrades for plants and the network.	Ongoing	16/year <sup>19</sup>	Ongoing
Meter replacement program: Improving measurement and monitoring of water volume and service reliability.	Ongoing	13/year <sup>19</sup>	Ongoing

## Drivers of planned capital expenditure for the next financial year

Our capital works budget for 2018–19 is \$822 million. This figure is nominal and does not include capital borrowing costs. Drivers of planned capital expenditure are:

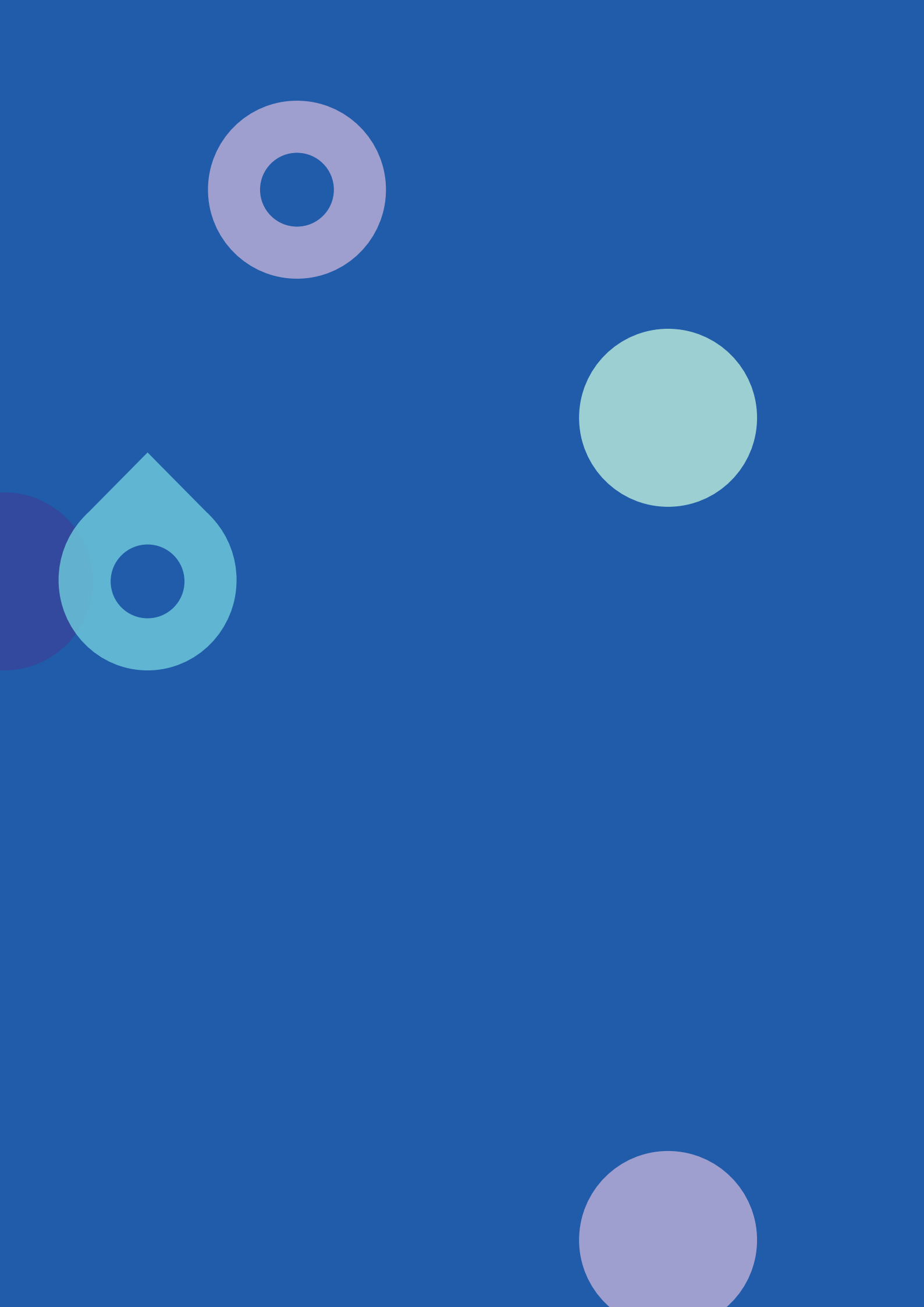
- \$474 million for renewing and rehabilitating assets to meet system performance regulations and customer service levels
- \$267 million for developing new water, wastewater, recycled water and stormwater infrastructure to meet the needs of urban growth in both infill (existing) and greenfield (new) areas, including North West and South West growth sectors

- \$81 million for business efficiency measures such as information technology or energy-saving projects that reduce operating expenditure, and new regulatory standards such as wastewater system performance under environmental protection licences.

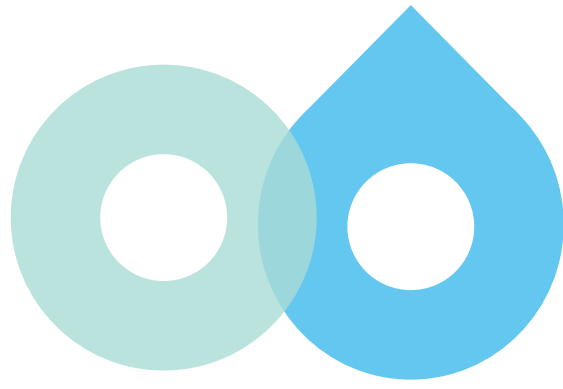
Between 2018–19 and 2022–23, we will deliver a capital works program of about \$4.15 billion in nominal (escalated) dollars.

**For more information on our environmental, financial and social performance throughout the year, please visit [sydneywater.com.au/reports](https://sydneywater.com.au/reports).**

<sup>19</sup> Denotes the five-year average in nominal dollars.





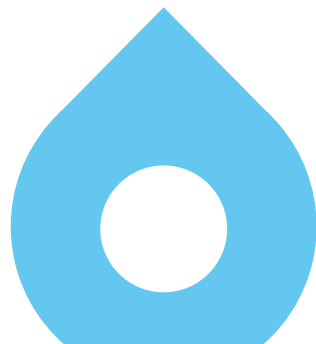


## Chapter 3

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# Financial statements

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# Financial performance

## Performance summary

As a State Owned Corporation, we must operate as efficiently as any comparable business, and maximise the net worth of the NSW Government's investment.

Each year, Sydney Water's Board agrees on a Statement of Corporate Intent (SCI) with the shareholders. The SCI includes key business objectives, commercial performance and income targets, operational expenditure and capital investment. It also forms the basis of our yearly budget.

During 2017–18, our net profit after tax (NPAT) was \$572 million, about \$148 million above the SCI target of \$424 million. We recognised a dividend of \$546 million, which was in line with the SCI target. The increase in profit was due to a higher income from water usage, wastewater services and developer charges, along with lower borrowing costs.

Earnings before interest, tax, depreciation and amortisation (EBITDA) for the year were \$1,563 million, \$170 million above the SCI target of \$1,393 million.

**Table 22: Profit and loss statement, from 2014–15 to 2017–18**

Financial performance target	2014–15 result	2015–16 result	2016–17 result	2017–18 result	2017–18 SCI budget	2017–18 variance to SCI budget
Total income (\$m)	2,728	2,844	2,659	2,898	2,733	166
Operating expenses (\$m)	1,324	1,357	1,310	1,336	1,339	3
Earnings before interest, tax, depreciation and amortisation (EBITDA) (\$m)	1,404	1,487	1,349	1,563	1,393	170
Depreciation, amortisation, impairments and loss on asset sales (\$m)	252	276	284	303	289	(14)
Borrowing expenses (\$m)	422	428	430	446	499	52
Total expenses (\$m)	1,999	2,061	2,024	2,085	2,127	42
Net profit before tax (\$m)	730	783	635	814	605	208
Income tax expense (\$m)	216	235	188	242	182	(60)
Net profit after tax (NPAT) (\$m)	513	548	447	572	424	148
Dividend (\$m)	664	389	291	546	546	0

Return on assets (%)	7.4	7.2	6.0	6.8	5.9	0.9
Funds flow from operations	708	687	648	880	750	130
Funds flow interest cover (times)	2.4	2.3	2.5	3.2	2.8	0.4
Capital investment program (\$m)	627	681	602	790	785	(5)
Gearing ratio (%)	49	49	50	50	51	1

## Income

- Total income for the year was \$2,898 million, \$166 million above the SCI target of \$2,733 million.
- Regulated income was \$2,631 million, \$115 million above the SCI target of \$2,516 million. This was due to higher water usage and wastewater service charges income from higher water demand.
- Non-regulated income was \$257 million, \$51 million above the SCI target of \$217 million. This was due to higher contributions from developers.

## Property sales

During 2017–18, we sold 28 properties surplus to our needs at a total gross sale price of \$31 million, net of GST. We placed proceeds from the sales in general revenue. We completed all sales in line with accepted NSW Government disposal standards and guidelines. Members of the public can request access to documents regarding property disposal in accordance with the *Government Information (Public Access) Act 2009*.

## Expenditure

- Our operating expenses for the year were \$1,335 million, \$4 million below the SCI target of \$1,339 million. This was mostly due to lower labour costs, mostly offset by additional weather-related reactive repairs and maintenance.
- Total borrowing expenses (interest expense and government guarantee fees) for the year were \$446 million, \$52 million below budget, due to continuing low interest rates and low indexation.

- Our income tax expense for the year was \$242 million, which was \$60 million above the SCI target of \$182 million. This was due to a higher profit result.
- Total asset charges (depreciation, amortisation and impairments) for the year were \$303 million, \$14 million above the SCI target of \$289 million. This was mostly due to write-offs of work-in-progress.

## Time for payment of accounts

Sydney Water did not make any penalty interest payments during 2017–18 for late payments to creditors.

## Funds flow from operations

Cash (funds flow) from our operations in 2017–18 was \$880 million. This is \$130 million higher than our target and is due to higher water sales.

## Funds flow from operations interest cover

The funds flow from operations interest cover ratio was 3.2. This was above the target of 2.8 due to a combination of higher sales income and lower interest charges.

## Investment management

We benchmark our investment portfolio's performance against the NSW Treasury Corporation's cash investment facility. This meets NSW Treasury guidelines and increases our investment returns while maintaining risk controls. In 2017–18, we had no financial investments, as we used surplus cash to minimise debt.

## Debt management

At 30 June 2018, we had \$4.0 million cash in the bank and our total debt was \$7.8 billion. Our debt portfolio was sourced almost entirely through the NSW Treasury Corporation and we actively manage it to limit the cost of funds. Additionally, 64% of our total debt was fixed-rate debt maturing out to 2041, with the remaining 36% inflation-indexed debt maturing out to 2035.

**Table 23: Debt management, from 1 July 2017 to 30 June 2018**

	Sydney Water	Benchmark
Market valuation at 30 June 2018 <sup>20</sup> (\$m)	8,229	8,287
Generalised cost of funds 2017–18 (%)	2.82	2.33
Weighted average cost 2017–18 (%)	5.93	6.10

## Cash flow

- Cash receipts from our operations in 2017–18 were \$2,626 million, \$142 million higher than in 2016–17. This was mostly due to higher water sales, plus IPART-determined price rises.
- Total cash inflows were \$3.2 billion, which is \$247 million more than in 2016–17, including higher new borrowings.
- We used \$1,449 million in cash for operational purposes in 2017–18, which is just \$16 million (1%) higher than in 2016–17, in line with cost containment.

**Table 25: List of annual reporting exemptions**

Statutory requirements	Statutory references	Comments
Format of financial statements	Section 41B(c) <i>Public Finance and Audit Act 1983</i>	Treasury exemption from preparing manufacturing, trading and profit and loss statements. Required to prepare an Operating Statement.
Paying accounts performance in paying accounts, including action to improve payment performance	Schedule 1 <i>Annual Reports (Statutory Bodies) Regulation 2015</i> (ARSBR)	Treasury exemption - not subject to the payment of accounts provisions in Section 13 of the Public Finance and Audit Regulation 2015.
Time for paying reasons for late payment interest paid due to late payments	Schedule 1 ARSBR	As above.

<sup>20</sup> Market value of debt represents the value if all debt had to be retired. This is different to the capital value, which is the value in the financial statements.

<sup>21</sup> Figures are rounded.

- Total interest paid was \$319 million, \$1 million higher than in 2016–17. Total interest paid includes interest and the Government Guarantee fee paid on Sydney Water's borrowings.

## Return on assets and equity

Our return on assets for 2017–18 was 6.8%, 0.9% higher than the target of 5.9%. The return on equity was 7.6%, 2.0% higher than the target of 5.6%. This was mostly due to a combination of higher water usage income and lower borrowing costs.

## Budget

**Table 24: 2018–19 budget**

Measure	Budget 2018–19 <sup>21</sup> (\$m)
<b>Total income</b>	<b>2,809</b>
Total operating expenses	1,348
Depreciation, amortisation, impairments and loss on asset sales	298
Borrowing costs	455
<b>Total expenses</b>	<b>2,101</b>
<b>Profit before tax</b>	<b>707</b>
Income tax expense	211
<b>Profit after tax</b>	<b>497</b>

# Pricing

## Pricing

### How we set our prices

Our services are declared monopoly services under section 4 of the *Independent Pricing and Regulatory Tribunal Act 1992* (the IPART Act). IPART sets and regulates our prices to ensure they are fair for our customers, while allowing us to cover costs and generate an adequate return on our assets.

We must set prices according to the IPART-determined maximum price, or IPART-determined methodology for calculating the maximum price. We cannot charge less than the maximum price set by IPART without the NSW Treasurer's approval.

In June 2016, IPART published its 2016 price determination for Sydney Water (*Determination No. 5, 2016*), which sets the prices we can charge for water, wastewater, stormwater drainage and other services from 1 July 2016 to 30 June 2020. IPART's 2006 recycled water developer charges determination (*Determination No. 8, 2006*) sets out the methodology we must use to calculate recycled water developer charges.

In 2017–18, we set our prices in line with IPART's pricing determinations and recommendations, apart from trade waste substance charges for commercial customers before 1 November 2017.

### Substance charges for commercial customers

Since 1 July 2012, we have undercharged commercial customers for trade waste substance charges. IPART set these charges to three decimal places, however because of limitations in our billing system, we only applied these prices to two decimal places. The billing system has now been updated, and all trade waste charges were issued with the correct number of decimal places from 1 November 2017.

### Recycled water developer charges

Sydney Water has complied with IPART's *Determination No.8, 2006*, which sets a methodology for fixing the maximum prices that a water agency may charge for recycled water developer charges.

**Table 26: Compliance with IPART's Determination No. 8, 2006**

Recycled Water Scheme	Status of DSP	Developer charge to be levied (2017–18), \$ per ET <sup>22</sup>	Compliance status against the determination
Rouse Hill	Registered	4,248	Compliant
Hoxton Park	Registered	7,539	Compliant
Oran Park/Turner Road	Registered	7,313	Compliant
Colebee	Registered	7,847	Compliant
Ropes Crossing	Under preparation <sup>23</sup>	To be determined	Compliant

<sup>22</sup> Equivalent tenement.

<sup>23</sup> To date, no recycled water developer charges have been levied for the Ropes Crossing scheme.

## Other Sydney Water prices

Table 27: IPART pricing table, 1 July 2017 to 30 June 2018

2017–18	IPART determined price (\$)	Adjustments for SDP and Shoalhaven Transfer by IPART determined method (\$)	Inflated IPART maximum prices (\$, at the rate of 2.1%)	Sydney Water quarterly prices <sup>a</sup> (\$)	
	(2016–17)	(2017–18)	(2017–18)	(2017–18)	
				Jul–Sep quarter	Oct–Jun quarters
<b>Service charges</b>					
<b>Residential premises</b>					
<b>Water</b>					
Metered <sup>b</sup>	89.95	0.17	92.01	23.01	23.00
Unmetered	449.95	0.17	459.57	114.90	114.89
<b>Wastewater<sup>c</sup></b>	583.60		595.85	148.97	148.96
<b>Stormwater (drainage)</b>					
Standalone premises	74.77		76.34	19.10	19.08
Multi premises	23.34		23.83	5.98	5.95
<b>Non-residential properties – water</b>					
Meter size (mm) <sup>d</sup>					
20	89.95	0.17	92.01	23.01	23.00
25	140.55	0.26	143.76	35.94	35.94
32	230.28	0.43	235.55	58.91	58.88
40	359.82	0.68	368.06	92.03	92.01
50	562.22	1.06	575.09	143.78	143.77
80	1,439.27	2.70	1,472.19	368.07	368.04
100	2,248.86	4.22	2,300.31	575.10	575.07
150	5,059.94	9.50	5,175.70	1,293.94	1,293.92
200	8,995.44	16.88	9,201.22	2,300.32	2,300.30
250	14,054.69	26.38	14,376.38	3,594.11	3,594.09
300	20,238.75	37.98	20,701.98	5,175.51	5,175.49
500	56,218.75	105.50	57,505.50	14,376.39	14,376.37
600	80,955.00	151.92	82,807.92	20,701.98	20,701.98
Unmetered	449.95	0.17	459.57	114.90	114.89
<b>Non-residential properties – wastewater<sup>c</sup></b>					
Meter connection charge by meter size (mm) <sup>e,f</sup>					
20	555.26		566.92	141.73	141.73
25	867.59		885.81	221.46	221.45
32	1,421.45		1,451.30	362.84	362.82
40	2,221.02		2,267.66	566.93	566.91
50	3,470.35		3,543.23	885.83	885.80
80	8,884.09		9,070.66	2,267.68	2,267.66
100	13,881.39		14,172.90	3,543.24	3,543.22
150	31,233.13		31,889.03	7,972.28	7,972.25

2017–18	IPART determined price (\$)	Adjustments for SDP and Shoalhaven Transfer by IPART determined method (\$)	Inflated IPART maximum prices (\$, at the rate of 2.1%)	Sydney Water quarterly prices <sup>a</sup> (\$)	
				(2017–18)	
	(2016–17)	(2017–18)	(2017–18)	Jul–Sep quarter	Oct–Jun quarters
<b>Service charges</b>					
200	55,525.57		56,691.61	14,172.91	14,172.90
250	86,759.38		88,581.25	22,145.32	22,145.31
300	124,933.50		127,557.00	31,889.25	31,889.25
500	347,037.50		354,325.00	88,581.25	88,581.25
600	499,734.00		510,228.00	127,557.00	127,557.00
Deemed sewerage usage charge	167.15		170.66	42.68	42.66
Unmetered	583.60		595.85	148.97	148.96
<b>Stormwater (drainage)</b>					
Standalone premises					
Small (200 m <sup>2</sup> or less)	23.34		23.83	5.98	5.95
Medium (201 – 1,000 m <sup>2</sup> ) or low impact	74.77		76.34	19.10	19.08
Large (1,001 –10,000 m <sup>2</sup> )	435.71		444.86	111.23	111.21
Very large (10,000 –45,000 m <sup>2</sup> )	1,936.52		1,977.19	494.32	494.29
Largest (45,001 m <sup>2</sup> or greater)	4,841.32		4,942.99	1,235.77	1,235.74
Multi premises	23.34		23.83	5.98	5.95
<b>Usage charges (\$/kL)</b>					
<b>Residential premises</b>					
Filtered water	2.00		2.04	2.04	2.04
<b>Non-residential properties</b>					
Filtered water	2.00		2.04	2.04	2.04
Wastewater (> 0.548 kL/day wastewater discharge) <sup>g</sup>	1.11		1.13	1.13	1.13
<b>Rouse Hill Recycled Water supply services (\$/kL)</b>					
Recycled water usage charge	1.79		1.83	1.83	1.83

a. Sydney Water's charges applied from 1 July 2017.

b. 'Metered residential premises' means a residential property that is serviced by one or more meters and includes a residential property within a multi-premises building that is serviced by one or more common meters.

c. Wastewater service charge includes a deemed sewerage usage charge.

d. IPART's maximum determined water service charge for meter sizes not specified in its Determination is calculated using the following formula: (meter size)<sup>2</sup> x 20mm charge/400.

e. The prices assume the application of a Discharge Factor (df%) of 100%. The relevant df% may vary from case to case, as determined by Sydney Water. A pro rata adjustment will be made where the df% is less than 100%.

f. IPART's maximum determined wastewater meter connection charge for meter sizes not specified in its Determination is calculated using the following formula: (meter size)<sup>2</sup> x 20mm charge/400 x df%.

g. For non-residential properties, the sewerage usage charge will apply when a property's discharge into the sewerage system exceeds 0.548 kL/day.

**Notes:**

- Other charging arrangements – including Rouse Hill and Kellyville Village stormwater drainage, boarding houses, metered standpipes, trade waste and ancillary charges – were set in accordance with IPART’s determined maximum price. Please visit [sydneywater.com.au/ourprices](http://sydneywater.com.au/ourprices) to view this information.
- Sydney Water charges one non-residential property a low-impact stormwater drainage charge instead of the Rouse Hill stormwater drainage charge, as approved by the Treasurer in 2014. This is the only non-residential property in the Rouse Hill area that does not receive the benefit of a land size cap or non-residential low-impact charge.
- In the 2016 determination, IPART only determined maximum recycled water usage charges for Rouse Hill. It did not determine prices for our other mandated recycled water schemes of Hoxton Park, Colebee, Oran Park and Turner Road, and Ropes Crossing. Rather, it required that Sydney Water set the prices of these schemes in accordance with its Pricing Arrangements for Recycled Water and Sewer Mining – SWC, HWC, GSC, WSC 2006. In line with these guidelines and the price we charge at Rouse Hill, Sydney Water adopted a recycled water charge for the mandated schemes at 90% of the drinking water usage charge.



# Auditor-General's statutory audit report

At the completion of the audit of Sydney Water's financial statements for the year ended 30 June 2018, the Auditor-General provided Sydney Water with a Statutory Audit Report as required under the *Public Finance and Audit Act 1983*.

No comments were made on any significant matters requiring a response from Sydney Water.

## Directors' Declaration

In the opinion of the Directors of Sydney Water Corporation:

- (a) the accompanying Financial Statements and notes thereto:
  - (i) exhibit a true and fair view of the financial position of the Corporation as at 30 June 2018 and of its financial performance, as represented by its transactions for the year ended on that date;
  - (ii) comply with applicable Australian Accounting Standards (including Australian Accounting Interpretations) and other mandatory and statutory reporting requirements, including Part 3 of the *Public Finance and Audit Act 1983* and the associated requirements of the *Public Finance and Audit Regulation 2015*.
- (b) there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable
- (c) we are not aware of any circumstances at the date of this declaration that would render any particulars included in the accompanying Financial Statements and notes thereto to be misleading or inaccurate.

Signed in accordance with section 41C(1C) of the *Public Finance and Audit Act 1983* and in accordance with a resolution of the Directors:

  
 Director

  
 Director

Date: 17 August 2018



## INDEPENDENT AUDITOR'S REPORT

### Sydney Water Corporation

To Members of the New South Wales Parliament

#### Opinion

I have audited the accompanying financial statements of Sydney Water Corporation (the Corporation), which comprise the Statement of Profit or Loss and other Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

#### Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Corporation in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## Other Information

Other information comprises the information included in the Corporation's annual report for the year ended 30 June 2018, other than the financial statements and my Independent Auditor's Report thereon. The Directors of the Corporation are responsible for the other information.

At the date of this Independent Auditor's Report, the other information I have received comprises the Directors' Declaration.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

## Directors' Responsibilities for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, the PF&A Act and the *State Owned Corporations Act 1989*, and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Directors either intend to liquidate the Corporation or to cease operations, or have no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- the Corporation carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

  
James Sugumar  
Director, Financial Audit Services

17 August 2018  
SYDNEY

# **Sydney Water Corporation**

## **Financial Statements for the year ended 30 June 2018**

## Contents

<b>Statement of profit or loss and other comprehensive income</b> .....	<b>62</b>
<b>Statement of financial position</b> .....	<b>63</b>
<b>Statement of changes in equity</b> .....	<b>64</b>
<b>Statement of cash flows</b> .....	<b>65</b>
<b>About these Financial Statements</b> .....	<b>66</b>
<b>Notes to the Financial Statements</b> .....	<b>67</b>
<b>Performance for the reporting period</b> .....	<b>67</b>
Note 1. Income.....	67
Note 2. Expenses.....	68
Note 3. Taxation.....	71
<b>Assets and fair values</b> .....	<b>74</b>
Note 4. Property, plant and equipment .....	74
Note 5. Intangible assets.....	83
<b>Working capital management</b> .....	<b>88</b>
Note 6. Cash and cash equivalents .....	88
Note 7. Trade and other receivables.....	90
Note 8. Other current assets .....	92
Note 9. Trade and other payables .....	93
<b>Debt Management</b> .....	<b>94</b>
Note 10. Borrowings and finance lease liabilities .....	94
<b>Other liabilities</b> .....	<b>97</b>
Note 11. Provisions .....	97
Note 12. Deferred Government grant .....	107
Note 13. Dividends payable .....	107
<b>Equity</b> .....	<b>108</b>
Note 14. Share capital.....	108
<b>Unrecognised Items</b> .....	<b>109</b>
Note 15. Commitments .....	109
Note 16. Contingencies.....	111
<b>Other Notes</b> .....	<b>112</b>
Note 17. Financial risk management .....	112
Note 18. Related party disclosures .....	118
Note 19. Consultants.....	118
Note 20. Auditors' remuneration .....	118
Note 21. Accounting Standards and Interpretations issued but not yet effective .....	119

## Statement of profit or loss and other comprehensive income

### for the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Revenue	1(a)	2,887,928	2,654,104
Other income	1(b)	10,569	5,427
Finance costs	2(a)	(446,427)	(429,641)
Other expenses	2(b)	(1,638,460)	(1,594,391)
<b>Profit before income tax</b>		<b>813,610</b>	<b>635,499</b>
Income tax expense	3(a)	(241,508)	(188,177)
<b>Profit for the year</b>		<b>572,102</b>	<b>447,322</b>
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Gain (loss) on revaluation of property, plant and equipment	4	261,815	(83,174)
Income tax effect	3(b)	(78,544)	24,953
		183,271	(58,221)
Remeasurement of defined benefit superannuation net liability		427,728	310,235
Income tax effect	3(b)	(128,319)	(93,071)
		299,409	217,164
<b>Other comprehensive income for the year net of income tax</b>		<b>482,680</b>	<b>158,943</b>
<b>Total comprehensive income for the year</b>		<b>1,054,782</b>	<b>606,265</b>

This statement should be read in conjunction with the accompanying notes.

# Statement of financial position

as at 30 June 2018

	Note	2018 \$'000	2017 \$'000
<b>Current assets</b>			
Cash and cash equivalents	6	3,983	3,401
Trade and other receivables	7	349,708	307,217
Other current assets	8	19,443	6,857
Current tax asset		-	16,508
		<u>373,134</u>	<u>333,983</u>
Non-current assets classified as held for sale		10,638	24,315
<b>Total current assets</b>		<b><u>383,772</u></b>	<b><u>358,298</u></b>
<b>Non-current assets</b>			
Property, plant and equipment	4	18,473,580	17,548,104
Intangible assets	5	235,632	171,452
<b>Total non-current assets</b>		<b><u>18,709,212</u></b>	<b><u>17,719,556</u></b>
<b>Total assets</b>		<b><u>19,092,984</u></b>	<b><u>18,077,854</u></b>
<b>Current liabilities</b>			
Trade and other payables	9	638,862	540,235
Borrowings and finance lease liabilities	10	15,966	14,384
Current tax liability		32,385	-
Dividends payable	13	296,490	291,225
Provisions	11	185,173	193,518
Deferred Government grant	12	350	-
<b>Total current liabilities</b>		<b><u>1,169,226</u></b>	<b><u>1,039,362</u></b>
<b>Non-current liabilities</b>			
Borrowings and finance lease liabilities	10	8,173,064	7,644,272
Deferred tax liabilities	3(c)	1,246,499	996,967
Provisions	11	672,597	1,073,947
Deferred Government grant	12	10,000	10,000
<b>Total non-current liabilities</b>		<b><u>10,102,160</u></b>	<b><u>9,725,186</u></b>
<b>Total liabilities</b>		<b><u>11,271,386</u></b>	<b><u>10,764,548</u></b>
<b>Net assets</b>		<b><u>7,821,598</u></b>	<b><u>7,313,306</u></b>
<b>Equity</b>			
Share capital	14	3,161,854	3,161,854
Asset revaluation reserve		2,277,625	2,099,237
Retained earnings		2,382,119	2,052,215
<b>Total equity</b>		<b><u>7,821,598</u></b>	<b><u>7,313,306</u></b>

This statement should be read in conjunction with the accompanying notes.

## Statement of changes in equity

### for the year ended 30 June 2018

	Note	Share capital \$'000	Asset revaluation reserve \$'000	Retained earnings \$'000	Total Equity \$'000
<b>Balances at 1 July 2017</b>		3,161,854	2,099,237	2,052,215	7,313,306
<b>Comprehensive income for this year:</b>					
Profit for the year		-	-	572,102	572,102
Other comprehensive income		-	183,271	299,409	482,680
<b>Total comprehensive income for the year</b>		-	183,271	871,511	1,054,782
Transfers between equity items on disposal of assets		-	(4,883)	4,883	-
<b>Total transfers between equity items</b>		-	(4,883)	4,883	-
<b>Transactions with owners in their capacity as owners:</b>					
Dividends recognised	13	-	-	(546,490)	(546,490)
<b>Total transactions with owners in their capacity as owners</b>		-	-	(546,490)	(546,490)
<b>Balances at 30 June 2018</b>		<b>3,161,854</b>	<b>2,277,625</b>	<b>2,382,119</b>	<b>7,821,598</b>
<b>Balances at 1 July 2016</b>		3,161,854	2,176,009	1,660,403	6,998,266
<b>Comprehensive income for this year:</b>					
Profit for the year		-	-	447,322	447,322
Other comprehensive income		-	(58,221)	217,164	158,943
<b>Total comprehensive income for the year</b>		-	(58,221)	664,486	606,265
Transfers between equity items on disposal of assets		-	(18,551)	18,551	-
<b>Total transfers between equity items</b>		-	(18,551)	18,551	-
<b>Transactions with owners in their capacity as owners:</b>					
Dividends recognised	13	-	-	(291,225)	(291,225)
<b>Total transactions with owners in their capacity as owners</b>		-	-	(291,225)	(291,225)
<b>Balances at 30 June 2017</b>		<b>3,161,854</b>	<b>2,099,237</b>	<b>2,052,215</b>	<b>7,313,306</b>

This statement should be read in conjunction with the accompanying notes.



# Statement of cash flows

for the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Cash receipts		2,626,049	2,483,579
Cash payments		(1,449,045)	(1,433,032)
Cash generated from operations		1,177,004	1,050,547
Grants received from Commonwealth Government		30	166
Grants received from NSW Government other than for social programs		350	164
Cash receipts for social programs received from NSW Government		144,050	144,176
Contributions paid to Climate Change Fund		(3,140)	-
Interest received		190	1,879
Income tax refunds received		15,360	397
Interest paid		(182,363)	(201,160)
Government guarantee fee paid		(136,376)	(117,095)
Income tax paid		(165,306)	(209,030)
<b>Net cash flows from operating activities</b>	6(b)	<b>849,799</b>	<b>670,044</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		29,669	25,167
Other capital contributions received		12,552	8,555
Security and other deposits received		20,903	21,321
Payments for property, plant and equipment		(671,776)	(589,995)
Payments for intangible assets		(101,891)	(70,146)
Security and other deposits released		(16,862)	(15,222)
<b>Net cash flows from investing activities</b>		<b>(727,405)</b>	<b>(620,320)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		433,797	350,695
Repayment of borrowings		(25)	(184)
Other finance payments		(14,359)	(12,921)
Dividends paid	13	(541,225)	(389,232)
<b>Net cash flows from financing activities</b>		<b>(121,812)</b>	<b>(51,642)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>582</b>	<b>(1,918)</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>3,401</b>	<b>5,319</b>
<b>Cash and cash equivalents at end of the year</b>	6(a)	<b>3,983</b>	<b>3,401</b>

This statement should be read in conjunction with the accompanying notes.

## About these Financial Statements

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### Corporate information

Sydney Water Corporation ('the Corporation') is a NSW statutory state owned corporation established on 1 January 1999 following the enactment of the *Water Legislation Amendment (Drinking Water and Corporate Structure) Act 1998* and legislative amendments to the *Sydney Water Act 1994*. The address of the Corporation's head office is 1 Smith Street, Parramatta, NSW 2150.

The Corporation provides water and water-related services under its Operating Licence to customers in its area of operations in NSW. It operates under the commercial disciplines of the NSW Government's Commercial Policy Framework and accordingly the directors have determined that it is a for-profit entity for financial reporting purposes. The Corporation's ultimate parent is the NSW Government. Accordingly, the Corporation's financial statements form part of the consolidated NSW Total State Sector Accounts.

The Corporation's financial statements for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the board of directors on 17 August 2018.

### Basis of preparation

These general purpose financial statements have been prepared in accordance with applicable Australian Accounting Standards (including Australian Interpretations), mandates issued by NSW Treasury and NSW Treasury Circulars adopted in the Corporation's Statement of Corporate Intent, Part 3 of the *Public Finance and Audit Act 1983* and the associated requirements of the *Public Finance and Audit Regulation 2015*.

The financial statements have been prepared on the historical cost basis, except for the following material items:

- certain classes of property, plant and equipment and intangible assets are stated at fair value;
- non-current assets classified as held for sale are stated at the lower of carrying amount and fair value less costs to sell;
- borrowings are measured at amortised cost;
- defined benefit superannuation liabilities are stated at the present value of accrued defined benefit obligations less the fair value of fund assets; and
- other non-current provisions are stated at the present value of the future estimated obligations for the relevant liabilities concerned.

### Performance for the reporting period

The financial statements cover the financial performance and cash flows of the Corporation for the reporting period 1 July 2017 to 30 June 2018, and its financial position as at 30 June 2018.

### Presentation currency

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000).

### Comparative information

Except when Australian Accounting Standards permit or require otherwise, comparative information is presented in respect of all amounts reported in the financial statements.

### Key judgements and estimates

The Corporation makes estimates and assumptions concerning the future that are regularly evaluated based on historical experience and other factors. This includes expectations of future events that may have a financial effect on the Corporation and that are believed to be reasonable under the circumstances. Actual results may therefore differ from these estimates. Estimates and judgments that are material to the financial statements are disclosed in the following notes:

- Note 4 Property, plant and equipment;
- Note 5 Intangible assets;
- Note 7 Trade and other receivables;
- Note 11 Provisions; and
- Note 15 Commitments.

### Accounting policies

The accounting policies described in these financial statements are based on the requirements applicable to for-profit entities and have been consistently applied to all reporting periods presented. Significant accounting policies that summarise the basis of recognition and measurement of material items presented in these financial statements are provided in each applicable note about those items.

# Notes to the Financial Statements

## Performance for the reporting period

### Note 1. Income

#### (a) Revenue

	Regulated		Non- Regulated		Total	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Service availability charges (Customer redress rebates)	1,255,960	1,197,465	(4,962)	(5,433)	1,250,998	1,192,032
Usage charges	1,204,483	1,102,804	14,682	12,987	1,219,165	1,115,791
Ancillary services	16,942	15,895	4,748	3,249	21,690	19,144
Sundry revenue	2,331	1,301	15,670	10,300	18,001	11,601
Interest revenue	-	-	1,199	1,620	1,199	1,620
NSW Government grants for social programs	143,865	144,119	-	-	143,865	144,119
Grants from Commonwealth Government	-	-	30	166	30	166
Grants from NSW Government	-	-	-	164	-	164
Rent revenue from operating leases	6,871	6,292	7,029	6,380	13,900	12,672
Developer contributions	878	48	218,202	156,747	219,080	156,795
<b>Total revenue</b>	<b>2,631,330</b>	<b>2,467,924</b>	<b>256,598</b>	<b>186,180</b>	<b>2,887,928</b>	<b>2,654,104</b>

#### Recognition and measurement

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. Regulated revenues are revenues subject to Independent Pricing and Regulatory Tribunal New South Wales (IPART) Pricing Determination. Non-regulated revenues are revenues not subject to IPART Pricing Determination.

#### Rendering of services

Revenue from the rendering of water, wastewater and stormwater services is made up of:

- Service availability charges, which are a fixed charge to customers covering the cost of making the Corporation's water, wastewater and stormwater services available. Customer redress rebates are provided to customers who experience interruption to their service. The rebate is a part of the Corporation's contract with our customers but is not subject to IPART Pricing Determination;
- Usage charges, which reflect revenue derived from the consumption and use made of the Corporation's water, wastewater and trade waste services; and
- Ancillary services, which are provided to customers for water, wastewater and stormwater related services including building approvals and the provision of information such as plans and diagrams.

Revenue from these services is recognised on an accrual basis as the services are provided.

In regard to usage charges covering water usage, sewer usage, trade waste and recycled water charges, the Corporation recognises an estimate for the accrued revenue earned from the unbilled consumption of these services where meters have not been read as at the reporting date. (Refer to note 7).

#### NSW Government grants for social programs

The Corporation delivers a number of non-commercial social programs of the NSW Government. These include pensioner rebates, properties exempt from service and usage charges and expenditures for priority sewerage areas. The Corporation is reimbursed for the full cost of all social programs. Such reimbursements are recognised as revenue on an accrual basis at the same time as the related social program items are recognised in profit or loss.

Where such reimbursements are received in advance, they are recognised initially as deferred income in the statement of financial position and subsequently as revenue when the costs incurred or revenues foregone for which they are intended to compensate are recognised in profit or loss.

### Developer contributions

Developer contributions in the form of cash are for recycling works and are recognised on receipt.

Developer contributions in the form of non-monetary resources are water and/or sewer assets acquired at no cost. These are recognised upon certification by the Corporation when the assets are in accordance with the Corporation's standards and when control of the assets is transferred to the Corporation. Their fair value at initial recognition is estimated using a cost approach representing current replacement cost as at the date of receipt.

### (b) Other income

	Note	2018 \$'000	2017 \$'000
Net gain on disposal of property, plant and equipment	6(b)	2,855	740
Income from sale of greenhouse trading certificates		7,714	4,687
<b>Total other income recognised in profit or loss</b>		<b>10,569</b>	<b>5,427</b>

## Note 2. Expenses

### (a) Finance costs

Interest and finance charges paid/payable for financial liabilities not at fair value through profit or loss using effective interest method:

Interest expense		232,185	244,939
Amortisation of deferred discounts (premiums) on loans	6(b)	71,782	74,797
Total interest expense using effective interest method		303,967	319,736
Government guarantee fee expense – NSW Treasury		149,212	136,379
Indexation of CPI bonds	6(b)	39,179	31,436
Other		362	9
		492,720	487,560
Less amount capitalised	6(b)	(46,293)	(57,919)
<b>Total finance costs recognised in profit or loss</b>		<b>446,427</b>	<b>429,641</b>

### Recognition and measurement

Interest and other borrowing costs are expensed as incurred within finance costs in profit or loss unless they relate to qualifying capital assets, in which case they are capitalised as part of the cost of those assets. Qualifying capital assets are assets that take a substantial period of time (12 months or more) to get ready for their intended use or sale.

Borrowing costs are capitalised where there is a direct relationship between the borrowings and the projects giving rise to qualifying capital assets. Typically, these are projects whose total budgeted expenditure is approximately \$3 million or greater.

Where funds are borrowed specifically for the acquisition, construction or production of a qualifying capital asset, the amount of borrowing costs capitalised is net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average.

The government guarantee fee represents the fee paid by the Corporation to NSW Treasury for the guarantee that the NSW Government provides in relation to the Corporation's borrowings.

	Note	2018 \$'000	2017 \$'000
<b>(b) Other expenses</b>			
Employee-related expenses:			
Total employee-related expenses	2(c)	438,361	412,313
Less amount capitalised		(77,475)	(75,716)
		<u>360,886</u>	<u>336,597</u>
Non employee-related expenses:			
Availability charges and purchases of bulk water from Water NSW		207,693	197,707
Availability charges from Sydney Desalination Plant Pty Limited		173,415	194,289
Tariff expenses from water filtration plant service agreements		87,270	86,501
Maintenance services	2(c)	187,134	182,484
Operational services		116,238	108,986
Materials, plant and equipment		33,481	41,959
Operating leases		54,284	55,336
Electricity and other energy		57,877	41,660
Contributions paid to Climate Change Fund		3,140	-
Transport		2,413	2,115
Property		22,616	24,175
Data management		23,916	21,371
Other expenses from ordinary activities		39,568	41,690
		<u>1,009,045</u>	<u>998,273</u>
Less amount capitalised		(34,413)	(24,717)
Total non-employee related expenses		<u>974,632</u>	<u>973,556</u>
Total core operations expenses		<u>1,335,518</u>	<u>1,310,153</u>
Depreciation and amortisation expenses:			
Depreciation and amortisation of property, plant and equipment	4, 6(b)	239,339	224,748
Amortisation of intangible assets	5, 6(b)	34,979	44,537
		<u>274,318</u>	<u>269,285</u>
Net losses from disposal of:			
Property, plant and equipment	6(b)	14,195	19,023
Intangible assets	6(b)	-	231
		<u>14,195</u>	<u>19,254</u>
Impairment losses expensed (reversed) through profit or loss:			
Receivables	7(c)	711	177
Property, plant and equipment	4, 6(b)	2,720	(4,484)
Intangible assets	5, 6(b)	9,684	6
Non-current assets classified as held for sale	6(b)	1,314	-
		<u>14,429</u>	<u>(4,301)</u>
<b>Total other expenses recognised in profit or loss</b>		<b><u>1,638,460</u></b>	<b><u>1,594,391</u></b>

	Note	2018 \$'000	2017 \$'000
<b>(c) Additional dissections of expenses</b>			
<b>Superannuation expense (gain) recognised in profit or loss:</b>			
<b>Defined benefit schemes</b>			
Total expense advised by the Administrator of the Superannuation Trustee	11(b)	38,890	41,934
Other movements		(2,062)	(2,242)
		36,828	39,692
Less amount capitalised		(4,409)	(4,300)
		32,419	35,392
<b>Defined contribution schemes</b>			
Total expense		12,859	12,541
Less amount capitalised		(1,253)	(1,233)
		11,606	11,308
<b>Total superannuation expense (gain) recognised in profit or loss</b>		<b>44,025</b>	<b>46,700</b>
<b>Maintenance expenses</b>			
Maintenance related expense included in employee related expenses	2(b)	63,421	61,983
Maintenance services expenses included in non-employee related expenses	2(b)	187,134	182,484
<b>Total maintenance expenses</b>		<b>250,555</b>	<b>244,467</b>

### Recognition and measurement

Expenses are recognised in profit or loss when incurred. Expenses include items that are incurred in the course of ordinary activities as well as various losses that arise from either the disposal of recognised assets or the re-measurement of some items at the reporting date.

## Note 3. Taxation

	Note	2018 \$'000	2017 \$'000
<b>(a) Income tax expense recognised in profit or loss</b>			
<b>Current tax expense</b>			
Current year		200,129	153,786
Adjustments for prior years		(1,290)	(186)
		198,839	153,600
<b>Deferred tax expense</b>			
Origination and reversal of temporary differences		41,991	35,050
Adjustments for prior years		678	(473)
		42,669	34,577
<b>Total income tax expense in profit or loss</b>		<b>241,508</b>	<b>188,177</b>
<b>Reconciliation between accounting profit before income tax and income tax expense</b>			
Profit before income tax		813,610	635,499
Tax at the Australian tax rate of 30% (2017: 30%)		244,083	190,650
Decrease in tax expense due to:			
Research and development concession		(669)	(424)
Non-assessable items		(1,294)	(1,390)
		242,120	188,836
Under (over)-provided in prior year – current tax		(1,290)	(186)
Under (over)-provided in prior year – deferred tax		678	(473)
<b>Income tax expense</b>		<b>241,508</b>	<b>188,177</b>
<b>(b) Income tax on other comprehensive income</b>			
<b>Deferred tax relating to:</b>			
Revaluation of property, plant and equipment		78,544	(24,953)
Remeasurement of defined benefit superannuation liability		128,319	93,071
<b>Total income tax on other comprehensive income</b>		<b>206,863</b>	<b>68,118</b>

**(c) Deferred tax assets and liabilities**

**Recognised in Statement of financial position:**

	Assets		Liabilities		Net	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Property, plant and equipment and intangibles	-	-	1,518,031	1,395,454	1,518,031	1,395,454
Other assets	-	-	4,970	722	4,970	722
Employee benefits	(232,174)	(352,179)	-	-	(232,174)	(352,179)
Provisions not currently deductible	(19,800)	(22,048)	-	-	(19,800)	(22,048)
Anticipated receipts and accrued expenses	(1,634)	(1,599)	-	-	(1,634)	(1,599)
Capital grants from NSW Government	(3,000)	(3,000)	-	-	(3,000)	(3,000)
Other financial instruments	(19,032)	(19,032)	-	-	(19,032)	(19,032)
Greenhouse trading certificates	(862)	(1,351)	-	-	(862)	(1,351)
<b>Tax (assets) liabilities</b>	<b>(276,502)</b>	<b>(399,209)</b>	<b>1,523,001</b>	<b>1,396,176</b>	<b>1,246,499</b>	<b>996,967</b>
Set-off of tax	276,502	399,209	(276,502)	(399,209)	-	-
<b>Net tax (assets) / liabilities</b>	<b>-</b>	<b>-</b>	<b>1,246,499</b>	<b>996,967</b>	<b>1,246,499</b>	<b>996,967</b>

There were no unrecognised deferred tax assets and liabilities for the Corporation at the reporting date.

**Movements in temporary differences:**

	Balance 1 July 2017		Recognised in other comprehensive income		Recognised in profit or loss		Balance 1 July 2018		Recognised in other comprehensive income		Balance 30 June 2017	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Property, plant and equipment and intangibles	1,395,454	722	44,033	78,544	37,709	(24,953)	1,382,698	37,709	(24,953)	1,395,454	722	1,395,454
Other assets	(352,179)	(22,048)	4,248	-	(406)	-	1,128	(406)	-	(352,179)	(22,048)	(352,179)
Employee benefits	(22,048)	(1,599)	(8,314)	128,319	(2,400)	93,071	(442,850)	(2,400)	93,071	(352,179)	(22,048)	(352,179)
Provisions not currently deductible	(1,599)	(3,000)	2,248	-	(116)	-	(21,932)	(116)	-	(22,048)	(3,000)	(22,048)
Anticipated receipts and accrued expenses	(3,000)	(19,032)	(35)	-	41	-	(1,640)	41	-	(1,599)	(3,000)	(3,000)
Capital grants from NSW Government	(19,032)	(1,351)	-	-	-	-	(3,000)	-	-	(19,032)	(1,351)	(19,032)
Other financial instruments	(1,351)	(862)	489	-	(251)	-	(19,032)	(251)	-	(19,032)	(1,351)	(19,032)
Greenhouse trading certificates	<b>996,967</b>	<b>42,669</b>	<b>42,669</b>	<b>206,863</b>	<b>34,577</b>	<b>68,118</b>	<b>894,272</b>	<b>34,577</b>	<b>68,118</b>	<b>996,967</b>	<b>42,669</b>	<b>996,967</b>
<b>Net tax (assets) / liabilities</b>												



## Recognition and Measurement

### Income tax

The Corporation is subject to notional taxation in accordance with the *State Owned Corporations Act 1989*. Notional income tax is payable to the NSW Government through the Office of State Revenue. Taxation liability is assessed according to the National Tax Equivalent Regime (NTER). The NTER closely mirrors the Commonwealth *Income Tax Assessment Acts* of 1936 and 1997 (as amended) and is administered by the Australian Taxation Office (ATO).

Income tax expense comprises both current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in equity, in which case the income tax is itself recognised in equity as part of other comprehensive income.

### Current tax asset and liability

Current tax is the expected tax payable or receivable on the taxable income for the reporting period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

### Deferred taxes

The Corporation applies the 'balance sheet method' of tax-effect accounting to determine income tax expense and current and deferred tax assets and liabilities.

Current and deferred tax assets are offset with current and deferred tax liabilities respectively where they relate to income taxes levied by the same taxation authority and the Corporation intends to settle current tax assets and liabilities with that taxation authority on a net basis.

### GST

Revenue, expenses and assets are recognised excluding any amount of GST, except where the amount of GST incurred by the Corporation as a purchaser is not recoverable from the ATO. In such cases, the GST incurred is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from the ATO is included as a current asset or liability in the statement of financial position. Cash flows of GST are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities that are recoverable from, or payable to, the ATO are classified as cash flows from operating activities.

Commitments are disclosed inclusive of GST where applicable. (Refer to note 15).

## Assets and fair values

### Note 4. Property, plant and equipment

#### Movements and carrying amounts

Year ended 30 June 2018	Market land and buildings	Leasehold property	System assets - Infrastructure including system land (owned)	System assets - Infrastructure (under finance lease)	Plant and equipment	Computer equipment	Work in progress	Total (Fair value hierarchy - Level 3)
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2017 – net carrying amount	140,978	24,217	16,181,013	284,098	50,740	11,950	855,108	17,548,104
Additions to work in progress	-	-	-	-	-	-	724,537	724,537
Additions transferred from work in progress	10,075	198	541,907	(2)	17,406	12,026	(581,610)	-
Additions – other and adjustments	-	-	207,660	-	-	-	-	207,660
Disposals	-	-	(14,186)	-	(29)	(1)	-	(14,216)
Reclassified as assets held for sale	(14,430)	-	-	-	-	-	-	(14,430)
Other reclassifications	(28,198)	3,417	28,198	-	(3,417)	-	2,169	2,169
Revaluation increases (+) or decreases (-) recognised in the asset revaluation reserve	8,494	(1,672)	254,403	590	-	-	-	261,815
Impairment losses (-) recognised in the asset revaluation reserve	-	-	-	-	-	-	-	-
Impairment losses reversed (+) and recognised in the asset revaluation reserve	-	-	-	-	-	-	-	-
Impairment losses or revaluation decrements (-) recognised in profit or loss in the line item 'Other expenses'	-	-	-	-	-	-	(4,103)	(4,103)
Impairment losses reversed or revaluation increments (+) recognised in profit or loss in the line item 'Other expenses'	1,383	-	-	-	-	-	-	1,383
Depreciation charge	(274)	(1,790)	(206,128)	(8,625)	(14,048)	(8,474)	-	(239,339)
<b>At 30 June 2018 – net carrying amount</b>	<b>118,028</b>	<b>24,370</b>	<b>16,992,867</b>	<b>276,061</b>	<b>50,652</b>	<b>15,501</b>	<b>996,101</b>	<b>18,473,580</b>

	Market land and buildings	Leasehold property	System assets - Infrastructure including system land (owned)	System assets - Infrastructure (under finance lease)	Plant and equipment	Computer equipment	Work in progress	Total (Fair value hierarchy - Level 3)
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 1 July 2017</b>								
Fair value – Level 3 (and valuation technique):								
Cost	-	-	-	-	162,146	51,911	855,108	1,069,165
Market valuation - 2017	145,445	24,560	-	-	-	-	-	170,005
Fair value – income approach	-	-	16,181,013	284,098	-	-	-	16,465,111
	145,445	24,560	16,181,013	284,098	162,146	51,911	855,108	17,704,281
Accumulated depreciation or amortisation	(67)	(163)	-	-	(111,406)	(39,961)	-	(151,597)
Accumulated impairment	(4,400)	(180)	-	-	-	-	-	(4,580)
	(4,467)	(343)	-	-	(111,406)	(39,961)	-	(156,177)
<b>At 1 July 2017 – net carrying amount</b>	<b>140,978</b>	<b>24,217</b>	<b>16,181,013</b>	<b>284,098</b>	<b>50,740</b>	<b>11,950</b>	<b>855,108</b>	<b>17,548,104</b>
<b>At 30 June 2018</b>								
Fair value – Level 3 (and valuation technique):								
Cost	-	-	-	-	172,883	63,924	996,101	1,232,908
Market valuation - 2018	121,455	25,387	-	-	-	-	-	146,842
Fair value – income approach	-	-	16,992,867	276,061	-	-	-	17,268,928
	121,455	25,387	16,992,867	276,061	172,883	63,924	996,101	18,648,678
Accumulated depreciation or amortisation	(78)	(826)	-	-	(122,231)	(48,423)	-	(171,558)
Accumulated impairment	(3,349)	(191)	-	-	-	-	-	(3,540)
	(3,427)	(1,017)	-	-	(122,231)	(48,423)	-	(175,098)
<b>At 30 June 2018 – net carrying amount</b>	<b>118,028</b>	<b>24,370</b>	<b>16,992,867</b>	<b>276,061</b>	<b>50,652</b>	<b>15,501</b>	<b>996,101</b>	<b>18,473,580</b>
<b>Revalued assets based on cost model:</b>								
Cost	39,105	26,641	19,228,784	599,439				
Accumulated depreciation or amortisation	(3,679)	(9,876)	(4,659,375)	(283,793)				
Accumulated impairment	(9,140)	-	-	-				
	(12,819)	(9,876)	(4,659,375)	(283,793)				
<b>At 30 June 2018 – net carrying amount</b>	<b>26,286</b>	<b>16,765</b>	<b>14,569,409</b>	<b>315,646</b>				

Year ended 30 June 2017	Market land and buildings	Leasehold property	System assets - Infrastructure including system land (owned)	System assets - Infrastructure (under finance lease)	Plant and equipment	Computer equipment	Work in progress	Total (Fair value hierarchy - Level 3)
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2016 – net carrying amount	170,858	12,794	15,759,680	292,246	58,435	10,850	828,618	17,133,481
Additions to work in progress	-	-	-	-	-	-	602,500	602,500
Additions transferred from work in progress	1,487	453	558,188	21	4,905	10,339	(575,393)	-
Additions – other and adjustments	-	-	148,238	-	-	-	-	148,238
Disposals	-	-	(18,885)	-	(436)	(7)	-	(19,328)
Reclassified as assets held for sale	(13,349)	-	-	-	-	-	-	(13,349)
Other reclassifications	(3,202)	137	3,040	-	25	-	-	-
Revaluation increases (+) or decreases (-) recognised in the asset revaluation reserve	(15,534)	6,893	(74,727)	-	-	-	-	(83,368)
Impairment losses (-) recognised in the asset revaluation reserve	-	-	-	-	-	-	-	-
Impairment losses reversed (+) and recognised in the asset revaluation reserve	-	-	-	194	-	-	-	194
Impairment losses or revaluation decrements (-) recognised in profit or loss in the line item 'Other expenses'	-	-	-	-	-	-	(617)	(617)
Impairment losses reversed or revaluation increments (+) recognised in profit or loss in the line item 'Other expenses'	868	4,233	-	-	-	-	-	5,101
Depreciation charge	(150)	(293)	(194,521)	(8,363)	(12,189)	(9,232)	-	(224,748)
<b>At 30 June 2017 – net carrying amount</b>	<b>140,978</b>	<b>24,217</b>	<b>16,181,013</b>	<b>284,098</b>	<b>50,740</b>	<b>11,950</b>	<b>855,108</b>	<b>17,548,104</b>

	Market land and buildings	Leasehold property	System assets - Infrastructure including system land (owned)	System assets - Infrastructure (under finance lease)	Plant and equipment	Computer equipment	Work in progress	Total (Fair value hierarchy - Level 3)
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 1 July 2016</b>								
Fair value – Level 3 (and valuation technique):								
Cost	-	-	-	-	159,344	51,550	828,618	1,039,512
Market valuation - 2016	176,845	12,970	-	-	-	-	-	189,815
Fair value – income approach	-	-	15,759,680	292,246	-	-	-	16,051,926
	176,845	12,970	15,759,680	292,246	159,344	51,550	828,618	17,281,253
Accumulated depreciation or amortisation	(36)	(43)	-	-	(100,909)	(40,700)	-	(141,688)
Accumulated impairment	(5,951)	(133)	-	-	-	-	-	(6,084)
	(5,987)	(176)	-	-	(100,909)	(40,700)	-	(147,772)
<b>At 1 July 2016 – net carrying amount</b>	<b>170,858</b>	<b>12,794</b>	<b>15,759,680</b>	<b>292,246</b>	<b>58,435</b>	<b>10,850</b>	<b>828,618</b>	<b>17,133,481</b>
<b>At 30 June 2017</b>								
Fair value – Level 3 (and valuation technique):								
Cost	-	-	-	-	162,146	51,911	855,108	1,069,165
Market valuation - 2017	145,445	24,560	-	-	-	-	-	170,005
Fair value – income approach	-	-	16,181,013	284,098	-	-	-	16,465,111
	145,445	24,560	16,181,013	284,098	162,146	51,911	855,108	17,704,281
Accumulated depreciation or amortisation	(67)	(163)	-	-	(111,406)	(39,961)	-	(151,597)
Accumulated impairment	(4,400)	(180)	-	-	-	-	-	(4,580)
	(4,467)	(343)	-	-	(111,406)	(39,961)	-	(156,177)
<b>At 30 June 2017 – net carrying amount</b>	<b>140,978</b>	<b>24,217</b>	<b>16,181,013</b>	<b>284,098</b>	<b>50,740</b>	<b>11,950</b>	<b>855,108</b>	<b>17,548,104</b>
<b>Revalued assets based on cost model:</b>								
Cost	53,338	19,980	18,494,286	596,081				
Accumulated depreciation or amortisation	(7,398)	(4,762)	(4,437,833)	(273,734)				
Accumulated impairment	(11,180)	-	-	-				
	(18,578)	(4,762)	(4,437,833)	(273,734)				
<b>At 30 June 2017 – net carrying amount</b>	<b>34,760</b>	<b>15,218</b>	<b>14,056,453</b>	<b>322,347</b>				

## Recognition, measurement and valuation

### (a) Asset classes

The Corporation has the following asset classes comprising property, plant and equipment:

#### **System assets**

These are infrastructure assets that deliver water, wastewater and stormwater services to customers through an integrated network of various asset categories. This class also includes system land and water meters. System land is land upon which the various system asset categories are located and which has no other alternative use. System assets that are subject to a finance lease arrangement are shown separately to those that are owned by the Corporation.

#### **Market land and buildings**

These are properties held and owned by the Corporation and that have potential for alternative use.

#### **Leasehold property**

This is a property held by the Corporation under a 99 year lease.

#### **Plant and equipment**

These are assets that comprise vehicles, office equipment and operating plant and machinery.

#### **Computer equipment**

These are assets that comprise computer hardware, such as servers, desktop computers, laptops and other associated computer peripherals.

### (b) Acquisitions and capitalisation

Property, plant and equipment assets are recognised initially at the cost of acquisition, which includes costs directly attributable to bringing the relevant asset to the location and condition necessary for it to operate as intended.

Items costing \$5,000 or more individually and having a minimum expected working life of three years are capitalised. In the case of system (pipeline) asset categories that work together to form an entire network, all expenditures are capitalised regardless of cost.

For system assets constructed by the Corporation for its own use, the initial cost capitalised includes the cost of construction including direct labour, materials, contractors' services costs, inspection costs, capital support costs and borrowing costs. These costs are capitalised initially as work in progress and then reclassified as completed assets when the asset becomes operational.

Inspection costs are capitalised when incurred and are depreciated over the period until the next inspection. Restoration costs are also capitalised when a decision to decommission the asset has been made. This also gives rise to the recognition of a corresponding liability as a provision. (Refer to note 11(c)).

Where system assets are handed over by developers free of charge, they are initially recognised at fair value using the cost approach (see below under (d) Fair value approaches and hierarchy levels) based on an estimate of the sub-contractor's cost, which in effect represents their replacement cost as at the date of acceptance.

### (c) Asset revaluations

After initial recognition, each class of property, plant and equipment is stated at fair value less any accumulated depreciation and accumulated impairment losses. Adoption of the revaluation model, rather than the cost model, is required under NSW Treasury mandates for NSW public sector entities.

For system assets, market land and buildings and leasehold properties, re-measurement to fair value is undertaken by way of an asset revaluation. For these asset classes, revaluation increments are recognised in other comprehensive income and credited to an asset revaluation reserve within equity in the statement of financial position. Plant and equipment, computer equipment and work in progress are not subject to revaluations as their carrying amounts closely approximate their fair value.

Where a revaluation decrement or an impairment loss reverses a previous revaluation increment within the asset revaluation reserve, the revaluation decrement or impairment loss is debited to that reserve until the original credit is extinguished. Any excess debit above the original credit is recognised as an expense in profit or loss.

Revaluation increments and decrements are offset against one another on an 'individual asset' basis.

For system assets, the 'individual asset' is considered to be the entire system asset network at the whole of entity level. This is because all of the system asset categories work together as an integrated network to provide services to customers and to generate cash flows, rather than individually.

For market land and buildings and the leasehold property, the 'individual asset' is considered to be each individual land parcel together with any building improvements on the land parcel.

When revaluing system assets, market buildings and leasehold property to fair value, any accumulated depreciation or amortisation is netted against the gross carrying amount and the resulting balance is then increased or decreased by the revaluation adjustment.

Upon disposal of assets that have been revalued, any asset revaluation reserve balance relating to the disposed assets is transferred to retained earnings.

#### (d) Fair value approaches and hierarchy levels

Fair value is defined as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.' There are three approaches to calculating fair value:

- the market approach, where fair value is determined using prices and other relevant information generated by market transactions involving identical or comparable assets or groups of assets;
- the income approach, where fair value is determined by converting future cash flows to a single current (ie discounted) amount; and
- the cost approach, where fair value is determined by calculating the current replacement cost of an asset, which represents the amount that would be required currently to replace the service capacity of an asset.

Fair value measurement is classified into three levels of a hierarchy based on the inputs used:

- Quoted prices in active markets (level 1);
- Other observable inputs (level 2); and
- Unobservable inputs (level 3).

Due to the unique nature of the Corporation's assets, the inputs used to determine fair value are unobservable, and so are considered to be level 3 valuations. This also applies to intangible assets. (Refer to note 5).

#### (e) Fair value measurement of asset classes

The relevant valuation technique used for each class of property, plant and equipment is as follows:

System assets – income approach  
 Market land and buildings – market approach  
 Leasehold property – market approach  
 Plant and equipment – cost approach  
 Computer equipment – cost approach

##### **System assets**

The income approach is used to value system assets, as there is generally no active market for assets of such a specialised nature.

The income approach calculates fair value using the stream of future net cash flows (discounted to their present value) from the whole, integrated network of system assets held by the Corporation. Determining fair value under this approach is highly dependent on the inputs and assumptions used to estimate the future net cash flows. (Refer (f) below).

The Corporation aligns its approach to determining the future cash flows with the pricing methodology applied by its regulator, the Independent Pricing and Regulatory Tribunal (IPART). In addition to the cash flows for regulated assets under this approach, the Corporation's fair value calculations also include estimated cash flows from non-regulated assets, which are not included in IPART's methodology.

System assets are assessed as an integrated network because of the interdependent nature of their operations, and they are grouped at a whole of entity level because the IPART pricing methodology assesses future cash flows at that level. This is considered to be more relevant to a market participant than the estimated depreciated current replacement cost of these assets.

The fair value of systems assets is determined by initially calculating the total value of all Sydney Water assets that contribute to the generation of future cash flows. The fair value of system assets is then derived by deducting asset classes that are shown separately and have been valued (at fair value) using a market or cost approach.

##### **Market land and buildings, and leasehold property**

The market approach is used to value these assets. Fair value is measured based on valuations of the open market value of the property by independent valuers, after (where applicable) taking into account community expectations concerning the future use of the property being valued.

Inputs to the valuations are sale prices of similar properties in the same or comparable localities, rental income and applicable lease terms. Where land is environmentally contaminated and Sydney Water has an obligation to remediate the land, a separate liability provision is raised where reliable estimates of remediation costs have been determined. Estimates of the costs to sell are regarded as an impairment to the realisation of fair value and are deducted from the independent market valuations when determining their recoverable amount (as an impairment to fair value).

Independent comprehensive market valuations are obtained every three years, unless market conditions necessitate an earlier valuation. During the interim years between comprehensive valuations, an index based valuation adjustment (determined by independent valuers) is applied to each property. Market land and buildings acquired between valuations are stated at directors' valuation for the reporting period and revalued at the next valuation date, unless there is a specific need to obtain an independent valuation earlier. At each reporting date, a review of the property market is undertaken to see if there has been a material change in the fair values of market land and buildings since the revaluation date. Where there has been a material change, the carrying amounts in the statement of financial position are adjusted accordingly.

##### **Plant and equipment, computer equipment and work in progress**

Fair value of plant and equipment, computer equipment and work in progress is based on the cost approach. Depreciated historical cost is considered to be an acceptable surrogate for a market-based fair value for plant and equipment and computer equipment. Cost is considered to be the most accurate fair value measurement of assets under construction and within work in progress.

## (f) Fair value model

A discounted cash flow model is used to determine the total fair value of all of the Corporation's asset classes, including market land and buildings, leasehold property, system assets, plant and equipment and computer equipment, and also intangible assets. (Refer to note 5). Fair value is calculated based on discounting the future cash flows derived from the IPART methodology for regulated assets and including estimated cash flows from non-regulated assets.

For the current reporting period, future revenues were estimated as follows:

- For future years where IPART has set prices in their last Pricing Determination (from 1 July 2016 to 30 June 2020 – the current 'Price Path'), the revenue requirement determined by IPART was used. This is for the 2 years following the 30 June 2018 balance date (2017: 3 years). Adjustments were made (where required) for changes in water demand/usage and customer growth.
- For future years (after 30 June 2020), the methodology applied by IPART was used. This involves determining a regulatory asset base (RAB) for the purpose of calculating an 'annual revenue requirement', and therefore the future cash flows, that will be generated by the Corporation's assets. The 'annual revenue requirement' is the revenue needed to pay for the Corporation's investment in its assets ('return of' capital), obtain an investment return ('return on' capital) and pay for operating expenses. It also covers an allowance for a theoretical income tax amount and working capital.

Estimates of future cash flows were calculated for a total period of 10 years together with an estimate of 'terminal value' using the Gordon Growth model. Benefits accruing from franking credits that could accompany future dividends paid by the Corporation to a hypothetical investor (in the private sector) were excluded from future cash flows and in determining the discount rate.

The major assumptions and inputs used in the Corporation's fair value model are below:

Input	Impact on fair value measurement	For 30 June 2018 and 30 June 2017
<b>Discount rate</b>	The asset value would increase with a reduction in the discount rate.	Post-tax WACC of 5.8% pa 'nominal' (2017: 6.1%). The rate was determined after a market assessment of rate parameters.
<b>CPI rate</b>	The asset value would increase/decrease with CPI.	RAB was escalated from the previous reporting date by the CPI rate of 2.0% (2017: 2.5%), prior to determining the annual revenue requirement. A CPI rate of 2.5% (2017: 2.5%) was then applied using a 'nominal' modelling framework.
<b>Period of discounting</b>	Asset values would be slightly lower if the period of discounting was reduced, as future earnings would be based on a reduced and more recent time period and would not include future earnings that may be derived from additional capital investment in the outer years.	10 years (with an estimate of 'terminal value').
<b>Cash inflows:</b>		
<b>Service and usage revenue</b>	The asset value would be higher if future revenues were considered to be higher.	Estimates of future revenue earnings were drawn from the Corporation's Statement of Corporate Intent and were based on: <ul style="list-style-type: none"> <li>- IPART's June 2016 Pricing Determination,</li> <li>- the RAB determined by IPART from the June 2016 Pricing Determination and rolled forward thereafter, and</li> <li>- capital spending over the future forecast / discount period.</li> </ul>
<b>Other non-regulated revenue</b>	The asset value would be higher if non-regulated revenue (including developer charges on unregulated recycled water assets) was higher.	Cash flows from non-regulated recycled water assets are added to future regulated income streams. Investment/interest income is excluded.
<b>Cash outflows:</b>		
<b>Operating expenditure</b>	Asset value would be higher if operating expenditure was lower than that incorporated into prices over the current Price Path and no effect thereafter as it is assumed that operating expenditure would be fully funded ('passed through') in future IPART Pricing Determinations.	Operating expenditure from budgets in the Corporation's Statement of Corporate Intent, excluding non-cash items such as depreciation and impairment expenses.
<b>Capital expenditure</b>	Asset value would be higher if capital expenditure was higher.	Capital expenditure over the 10 year forecast / discount period.



## Sensitivity analysis

	Rate Applied %	If higher +0.2%	If lower -0.2%
<b>(i) Discount rate</b>			
Nominal post-tax rate	5.8%	6.0%	5.6%
Calculated fair value of property, plant and equipment (\$'000)	18,473,580	17,467,580	19,609,580
Resulting change (\$'000)		(1,006,000)	1,136,000
	Rate Applied %	If higher +1.0%	If lower -1.0%
<b>(ii) Estimated future service and usage revenue</b>			
Statement of Corporate Intent 2018-19	100%	101%	99%
Calculated fair value of property, plant and equipment (\$'000)	18,473,580	18,474,142	18,473,018
Resulting change (\$'000)		562	(562)

## (g) Depreciation and amortisation

Items of property, plant and equipment (excluding freehold land) that are either owned or under a finance lease are depreciated or amortised on a straight-line basis over their estimated useful lives, making allowance where appropriate for residual values. The lives are reviewed annually, taking into account assessments of asset condition, commercial and technical obsolescence and expected normal wear and tear. Work in progress is not depreciated until the assets are brought into service and are available for use.

The normal life expectancies of major asset classes and categories of property, plant and equipment when initially installed are as follows:

Depreciable asset classes and categories of property, plant and equipment	Number of Years
<b>System asset network categories:</b>	
Dams (non-catchment)	200
Stormwater wetlands infrastructure	200
Canals and tunnels	100
Major pipelines (above ground)	140
Weirs	100
Water mains	55 to 150
Wastewater mains / aqueducts	55 to 150
Stormwater drains and basins	80 to 150
System buildings	20 to 50
Water, sewage and stormwater pumping stations	15 to 100
Water and sewage treatment plants and water filtration plants under a finance lease	15 to 100
Reservoirs	15 to 150
Integrated control systems	3 to 15
Water meters	8 to 20
<b>Other classes:</b>	
Market buildings	20 to 40
Leasehold property	99
Plant and equipment	5 to 12
Computer equipment	3 to 12

For wastewater gravity mains greater than 100mm in diameter, the hole/cavity component is considered to be non-depreciable as these mains are capable of being repeatedly relined in the future (rather than being entirely replaced through excavation) and hence only the pipe conduit component for these mains shown above under the category of wastewater mains is considered to be depreciable.

## (h) Classification as Assets held for sale

Assets classified as held for sale are assets that are expected to be recovered primarily through sale rather than use. These are shown under current assets in the statement of financial position. Immediately before classification as held for sale, the measurement of the asset is updated consistent with the revaluation policies for property, plant and equipment. On initial classification as held for sale, the asset is measured at the lower of its carrying amount and its fair value less costs to sell. Any subsequent impairment losses of assets held for sale are recognised as an expense in profit or loss. Any reversals of impairment are also recognised in profit or loss, but not exceeding the amount of impairment losses previously recognised as an expense before the asset was classified as held for sale. Once a depreciable asset is classified as held for sale, depreciation ceases for that asset.

## **(i) Leased assets**

### ***Finance Leases***

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases.

Finance leases are capitalised at the inception of the lease at the fair value of the leased asset or at the present value of the minimum lease payments, whichever is lower. Any initial direct costs incurred or amounts received as a condition precedent are included in fair value. A finance lease liability is also established at inception, at the present value of the future minimum lease payments. Each lease payment thereafter is allocated between the liability in the statement of financial position and finance costs in profit or loss.

Capitalised finance lease assets that are reasonably certain to be acquired at the end of the lease term are depreciated on a straight-line basis over the expected useful life of the asset. If there is no reasonable certainty of acquisition, it is depreciated over the shorter of the lease term and the useful life.

### ***Operating Leases***

Leases of property, plant and equipment where the Corporation as a lessor does not retain substantially all the risks and rewards of ownership are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on a straight-line basis.

## **(j) Impairment testing**

At each reporting date, the carrying amount of property, plant and equipment assets is reviewed to determine whether there is an indication of impairment. If any indication of impairment exists, an estimate of the recoverable amount of the assets affected is made. Recoverable amount is determined as the higher of fair value less costs to sell, and the value in use of the assets. Value in use is also determined by discounting future cash flows generated by the Corporation's assets using the IPART regulatory pricing methodology.

Impairment losses occur when the carrying amount of an asset within a cash-generating unit, or of the cash-generating unit taken as a whole, exceeds the recoverable amount for that asset or cash-generating unit respectively. Impairment losses are recognised as an expense in profit or loss, unless the impairment loss can be applied to a revaluation increment that exists for the asset in the asset revaluation reserve.

Impairment losses for a cash-generating unit taken as a whole are allocated to reduce the carrying amount of each asset in the cash-generating unit on a pro rata basis, except for those assets that have a separately determinable recoverable amount. The Corporation has a single cash-generating unit at the whole of entity level.

Impairment losses are reversed if there has been a change in the estimates used to determine recoverable amount or if an event or significant changes have occurred during the reporting period that have led, or will lead, to a benefit to the Corporation because of the manner in which the asset is expected to be used. Impairment losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## Note 5. Intangible assets

### Movements and carrying amounts

Year ended 30 June 2018	Computer software – internally developed \$'000	Computer software – acquired from external parties \$'000	Total computer software \$'000	Easements and other rights of access \$'000	Work in progress \$'000	Total (Fair value hierarchy – Level 3) \$'000
At 1 July 2017 – net carrying amount	31,808	30,246	62,054	10,586	98,812	171,452
Additions to acquisitions in progress	-	-	-	-	110,207	110,207
Additions transferred from acquisitions in progress	7,761	30,691	38,452	1,984	(40,436)	-
Additions - other	-	-	-	805	-	805
Disposals	-	-	-	-	-	-
Reclassifications	-	-	-	-	(2,169)	(2,169)
Impairment losses or revaluation decrements (-) recognised in profit or loss in the line item 'Other expenses'	-	-	-	-	(9,884)	(9,884)
Impairment losses reversed or revaluation increments (+) recognised in profit or loss in the line item 'Other expenses'	-	-	-	200	-	200
Amortisation charge	(14,201)	(20,778)	(34,979)	-	-	(34,979)
<b>At 30 June 2018 – net carrying amount</b>	<b>25,368</b>	<b>40,159</b>	<b>65,527</b>	<b>13,575</b>	<b>156,530</b>	<b>235,632</b>

	Computer software – internally developed	Computer software – acquired from external parties	Total computer software	Easements and other rights of access	Work in progress	Total (Fair value hierarchy – Level 3)
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 1 July 2017</b>						
Fair value – Level 3 (and valuation technique):						
Cost	134,293	343,240	477,533	-	98,812	576,345
Fair value – income approach	-	-	-	10,586	-	10,586
	134,293	343,240	477,533	10,586	98,812	586,931
Accumulated amortisation	(102,485)	(312,994)	(415,479)	-	-	(415,479)
Accumulated impairment	-	-	-	-	-	-
	(102,485)	(312,994)	(415,479)	-	-	(415,479)
<b>At 1 July 2017 – net carrying amount</b>	<b>31,808</b>	<b>30,246</b>	<b>62,054</b>	<b>10,586</b>	<b>98,812</b>	<b>171,452</b>
<b>At 30 June 2018</b>						
Fair value – Level 3 (and valuation technique):						
Cost	142,054	373,931	515,985	-	156,530	672,515
Fair value – income approach	-	-	-	13,575	-	13,575
	142,054	373,931	515,985	13,575	156,530	686,090
Accumulated amortisation	(116,686)	(333,772)	(450,458)	-	-	(450,458)
Accumulated impairment	-	-	-	-	-	-
	(116,686)	(333,772)	(450,458)	-	-	(450,458)
<b>At 30 June 2018 – net carrying amount</b>	<b>25,368</b>	<b>40,159</b>	<b>65,527</b>	<b>13,575</b>	<b>156,530</b>	<b>235,632</b>
<b>Revalued assets based on cost model:</b>						
Cost					30,117	
Accumulated amortisation					-	
Accumulated impairment					(16,542)	
<b>At 30 June 2018 – net carrying amount</b>					<b>13,575</b>	

Year ended 30 June 2017	Computer software – internally developed \$'000	Computer software – acquired from external parties \$'000	Total computer software \$'000	Easements and other rights of access \$'000	Work in progress \$'000	Total (Fair value hierarchy – Level 3) \$'000
At 1 July 2016 – net carrying amount	33,187	56,568	89,755	9,790	59,602	159,147
Additions to acquisitions in progress	-	-	-	-	57,079	57,079
Additions transferred from acquisitions in progress	14,338	2,729	17,067	802	(17,869)	-
Additions - other	-	-	-	-	-	-
Disposals	-	(231)	(231)	-	-	(231)
Reclassifications	-	-	-	-	-	-
Impairment losses or revaluation decrements (-) recognised in profit or loss in the line item 'Other expenses'	-	-	-	(6)	-	(6)
Impairment losses reversed or revaluation increments (+) recognised in profit or loss in the line item 'Other expenses'	-	-	-	-	-	-
Amortisation charge	(15,717)	(28,820)	(44,537)	-	-	(44,537)
<b>At 30 June 2017 – net carrying amount</b>	<b>31,808</b>	<b>30,246</b>	<b>62,054</b>	<b>10,586</b>	<b>98,812</b>	<b>171,452</b>

	Computer software – internally developed	Computer software – acquired from external parties	Total computer software	Easements and other rights of access	Work in progress	Total (Fair value hierarchy – Level 3)
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 1 July 2016</b>						
Fair value – Level 3 (and valuation technique):						
Cost	123,594	341,990	465,584	-	59,602	525,186
Fair value – income approach	-	-	-	9,790	-	9,790
	123,594	341,990	465,584	9,790	59,602	534,976
Accumulated amortisation	(90,407)	(285,422)	(375,829)	-	-	(375,829)
Accumulated impairment	-	-	-	-	-	-
	(90,407)	(285,422)	(375,829)	-	-	(375,829)
<b>At 1 July 2016 – net carrying amount</b>	<b>33,187</b>	<b>56,568</b>	<b>89,755</b>	<b>9,790</b>	<b>59,602</b>	<b>159,147</b>
<b>At 30 June 2017</b>						
Fair value – Level 3 (and valuation technique):						
Cost	134,293	343,240	477,533	-	98,812	576,345
Fair value – income approach	-	-	-	10,586	-	10,586
	134,293	343,240	477,533	10,586	98,812	586,931
Accumulated amortisation	(102,485)	(312,994)	(415,479)	-	-	(415,479)
Accumulated impairment	-	-	-	-	-	-
	(102,485)	(312,994)	(415,479)	-	-	(415,479)
<b>At 30 June 2017 – net carrying amount</b>	<b>31,808</b>	<b>30,246</b>	<b>62,054</b>	<b>10,586</b>	<b>98,812</b>	<b>171,452</b>
<b>Revalued assets based on cost model:</b>						
Cost					27,781	
Accumulated amortisation					-	
Accumulated impairment					(17,195)	
					(17,195)	
<b>At 30 June 2017 – net carrying amount</b>					<b>10,586</b>	

## Recognition, measurement and valuation

### (a) Asset classes

Intangible assets are identifiable non-monetary assets without physical substance. The Corporation has the following asset classes forming intangible assets:

#### **Computer application software**

Computer application software that is not an integral part of any related hardware is classified as an intangible asset. Software that is an integral part of related hardware is incorporated within the relevant class of physical assets, such as computer equipment or system assets, under property, plant and equipment.

Computer application software is dissected between software that has been internally developed and software that has been acquired from external sources.

#### **Easements and other rights of access**

Easements or licences are entered into to allow the Corporation to access system assets situated on or under land owned by other parties.

### (b) Acquisition and capitalisation

Intangible assets are capitalised initially at cost. Costs incurred on incomplete intangible assets that are being progressively acquired are recognised as acquisitions in progress at the reporting date. These assets are reclassified as completed intangible assets when the assets are fully acquired and are operational or available for use.

### (c) Fair value measurement of asset classes

The relevant valuation technique used for each class of intangible assets is as follows:

Computer software – cost approach  
Easements and other rights of access – income approach

Fair values determined under these approaches are assessed to be level 3. (Refer to note 4(d)).

#### **Computer application software**

Fair value of computer software is based on the cost approach as it is considered that there is no active market that can be referenced to obtain a market-based fair value. In this case, amortised historical cost is considered to be an acceptable surrogate for depreciated replacement cost under the cost approach.

#### **Easements and other rights of access**

Fair value of easements and other rights of access is determined using the income approach as part of the fair value model used for system assets, as the easements are directly related to those assets. (Refer to notes 4(e) and 4(f)). Easements and other rights of access are included in the calculation of fair value of system assets. Any valuation adjustment that is applied to system assets is also applied to easements and other rights of access.

### (d) Amortisation

Computer application software has a finite life and accordingly it is amortised on a straight-line basis over its expected useful life.

Easements have indefinite lives, as there is no finite period over which their use is fully consumed, and so they are not amortised. Other rights of access that have a defined licensing period are amortised over that period on a straight-line basis.

Easements are only derecognised when a management decision has been made to relocate the relevant system asset component and the need for the easement no longer exists.

Acquisitions in progress of intangible assets with finite lives are not amortised until the assets are brought into service and are available for use.

The normal life expectancies of intangible asset classes are as follows:

Intangible assets subject to amortisation	Number of Years
Computer application software	3 to 9

## Working capital management

### Note 6. Cash and cash equivalents

#### (a) Balances at the reporting date

Cash at the end of the reporting period is recorded as \$3.983 million (2017: \$3.401 million) in the statement of financial position and statement of cash flows. The Corporation does not currently hold any cash equivalents (2017: \$Nil).

#### Recognition and measurement

Cash and cash equivalents in the statement of financial position comprise positive cash balances and short-term deposits with a maturity period of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### (b) Notes to the statement of cash flows

##### Reconciliation of profit to net cash flows from operating activities

	Note	2018 \$'000	2017 \$'000
<b>Profit for the period</b>		<b>572,102</b>	<b>447,322</b>
Adjustments for:			
<b>Profit or loss items classified as either investing or financing:</b>			
Gain on disposal of property, plant and equipment	1(b)	(2,855)	(740)
Loss on disposal of property, plant and equipment	2(b)	14,195	19,023
Loss on disposal of intangible assets	2(b)	-	231
Developer contributions	1(a)	(219,080)	(156,795)
Depreciation and amortisation	2(b)	274,318	269,285
Interest expense on developer agreements		-	158
Amortisation of deferred discounts (premiums) on loans	2(a)	71,782	74,797
Indexation of CPI bonds	2(a)	39,179	31,436
Impairment loss recognised (reversed) for property, plant and equipment	2(b), 4	2,720	(4,484)
Impairment loss recognised for intangible assets	2(b), 5	9,684	6
Impairment loss recognised for non-current assets classified as held for sale	2(b)	1,314	-
<b>Net movement in statement of financial position items applicable to operating activities:</b>			
Other current assets		(7,131)	(1,164)
Trade and other receivables		(44,033)	2,614
Trade and other payables		17,889	(4,342)
Provisions		27,804	13,154
Income tax assets and liabilities		91,561	(20,457)
Deferred Government grants		350	-
<b>Net cash flows from operating activities</b>		<b>849,799</b>	<b>670,044</b>



### Non-cash financing and investing activities

Assets that are acquired by the Corporation under finance leases or other similar financing arrangements, and assets handed over at no cost by developers, are not included in the statement of cash flows as these are regarded as non-cash.

The amount capitalised during the current reporting period in respect of assets handed over at no cost by developers to the Corporation was \$206.528 million (2017: \$148.238 million).

There were no new finance leases during the current or previous reporting periods.

### Reconciliation of changes in liabilities arising from financing activities (from cash flows and non-cash flows)

	Balance 1 July 2017	Cash Flows	Non-Cash Amortisation of Deferred Premiums	Non-Cash Indexation of CPI Indexed bonds	Other	Balance 30 June 2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Other advances	37	(25)	-	-	-	12
Long-term borrowings - NSW Treasury Corporation	7,235,812	433,797	71,782	39,179	-	7,780,570
Finance lease liabilities						
Long-term obligation under Blue Mountains Sewage Transfer Scheme	51,543	(2,450)	-	-	-	49,093
Long-term obligation under water filtration plant agreements	371,264	(11,909)	-	-	-	359,355
Dividends payable	291,225	(541,225)	-	-	546,490	296,490
<b>Total liabilities from financing activities</b>	<b>7,949,881</b>	<b>(121,812)</b>	<b>71,782</b>	<b>39,179</b>	<b>546,490</b>	<b>8,485,520</b>

### Standby credit arrangements

Details of financial accommodation facilities for the Corporation are disclosed in note 10(b).

### Cash balance not recognised

Under the terms of an agreement between Parramatta City Council and the Corporation, the Corporation is contributing to the overall development of the Civic Place public domain at Parramatta. At the reporting date, an amount of \$3.793 million (2017: \$3.746 million) is currently placed in an interest-bearing bank account administered by the Corporation in accordance with the agreement.

The balance of cash in this bank account has not been recognised by the Corporation as an asset because officers of Parramatta City Council are also signatories to the account and restrict its use so that the cash is not able to be used for any other purpose by the Corporation. Funds can only be released from the bank account when Parramatta City Council provides to the Corporation certification of public domain works procured by the Council in relation to the Civic Place development. At that time, the Corporation must hand over to the Council 14.3 per cent of the certified value of the public domain work completed. Any funds remaining unexpended in the bank account as at 31 December 2018 will return to the Corporation's normal cash management activities and restrictions over the use of this cash will cease.

## Note 7. Trade and other receivables

### (a) Balances at the reporting date

	2018 \$'000	2017 \$'000
<b>Trade receivables</b>		
Outstanding service availability and usage charges	101,377	88,544
Allowance for impairment	(646)	-
	100,731	88,544
Accrued unbilled usage charges on unread meters:		
Water	169,618	149,510
Sewer	11,466	5,732
Other	6,049	5,775
	187,133	161,017
Other trade debtors	9,799	5,622
Allowance for impairment	(98)	(185)
	9,701	5,437
<b>Total trade receivables</b>	<b>297,565</b>	<b>254,998</b>
<b>Other receivables</b>		
Other debtors and accrued revenue	42,565	37,744
Prepayments	9,578	14,475
<b>Total other receivables</b>	<b>52,143</b>	<b>52,219</b>
<b>Total current trade and other receivables</b>	<b>349,708</b>	<b>307,217</b>

### Recognition and measurement

Trade and other receivables are amounts receivable for services to customers prior to the end of the reporting period and that are yet to be collected. They are recognised at original invoice amount less any impairment losses for amounts considered to be either doubtful or uncollectible. The recoverability of trade receivables is regularly reviewed. Known bad debts are written off against the allowance when identified.

Accrued unbilled usage charges on unread meters comprises estimates for accrued revenue for water usage, sewer usage, trade waste and recycled water charges where meters have not been read as at the reporting date. These charges are billed to customers with actual consumption once meters are read. The Corporation estimates the accrual based on consumption data and other inputs.

Outstanding debts for service availability and usage charges are required to be settled within 21 days. Other debts are generally required to be settled within 14 days. Accrued investment income is receivable within a maximum of six months. All other current receivables are expected to be realised within 12 months of the reporting date.

(b) Ageing analysis of trade receivables billed to customers

	Gross Amount	Allowance for Impairment	Net amount	Gross Amount	Allowance for Impairment	Net amount
	2018	2018	2018	2017	2017	2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Outstanding service and usage charges</b>						
Not past due	5,136	(8)	5,128	3,229	-	3,229
Past due 22 - 30 days	12,008	(30)	11,978	11,755	-	11,755
Past due 31 - 60 days	18,803	(76)	18,727	15,508	-	15,508
Past due 61 - 90 days	9,884	(68)	9,816	8,331	-	8,331
Past due 91 - 180 days	36,943	(206)	36,737	33,750	-	33,750
Past due 181 - 365 days	10,124	(258)	9,866	8,469	-	8,469
Past due > 365 days	8,479	-	8,479	7,502	-	7,502
	<b>101,377</b>	<b>(646)</b>	<b>100,731</b>	<b>88,544</b>	<b>-</b>	<b>88,544</b>
<b>Other trade debtors</b>						
Not past due	5,161	-	5,161	4,862	-	4,862
Past due 15 - 30 days	219	-	219	66	-	66
Past due 31 - 60 days	397	-	397	157	-	157
Past due 61 - 90 days	140	-	140	51	-	51
Past due 91 - 180 days	285	-	285	117	(1)	116
Past due 181 - 365 days	3,189	-	3,189	176	(149)	27
Past due > 365 days	408	(98)	310	193	(35)	158
	<b>9,799</b>	<b>(98)</b>	<b>9,701</b>	<b>5,622</b>	<b>(185)</b>	<b>5,437</b>

All other balances within trade and other receivables are not past due and are expected to be realised at the amounts carried in the statement of financial position when due.

(c) Movement in allowance for impairment

	Outstanding Service and Usage charges		Other trade debtors		Total	
	2018	2017	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at beginning of period	-	-	(185)	(32)	(185)	(32)
Charge for impairment reversal (expense)	(702)	-	(9)	(177)	(711)	(177)
Amounts written off	56	-	96	24	152	24
<b>Carrying amount at end of period</b>	<b>(646)</b>	<b>-</b>	<b>(98)</b>	<b>(185)</b>	<b>(744)</b>	<b>(185)</b>

## Note 8. Other current assets

	2018 \$'000	2017 \$'000
Stock, stores and materials - at cost	16,568	2,355
Greenhouse trading certificates - at market value	2,875	4,502
<b>Total other current assets</b>	<b>19,443</b>	<b>6,857</b>

### Recognition and measurement

#### Stock, stores and materials at cost

Inventories include a variety of items on hand including stock, stores and materials of a critical nature for operational and maintenance purposes.

These items have been measured by actual count or weight and are valued at the lower of cost and net realisable value using the 'first-in first-out' basis of valuation for the purposes of determining cost. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

Water that resides in the Corporation's infrastructure assets at the reporting date is not recognised as inventory. This water is under the control of the Water Administration Ministerial Holding Corporation and its value is not considered to be material.

#### Greenhouse trading certificates

Greenhouse trading certificates are traded in energy markets and are required by energy retailers to meet greenhouse gas emissions or renewable energy targets. Greenhouse trading certificates can either be held for trading purposes or surrendered to the regulators that administer them in order to demonstrate the achievement of carbon neutral initiatives.

The Corporation can purchase these certificates or generate them through energy saving initiatives, such as installing water saving devices in customers' properties or constructing co-generation facilities to produce renewable energy at a number of its treatment plants.

Greenhouse trading certificates that are generated by the Corporation for a nominal registration fee and which are held for potential trading purposes are initially recognised at fair value based on the market price at the time. Their carrying amount is subsequently restated at each reporting date to the fair value based on the prevailing market price at that time, with any gains or losses recognised in profit or loss as part of other income.

## Note 9. Trade and other payables

	2018 \$'000	2017 \$'000
<b>Current</b>		
Trade payables	78,592	45,224
Non-trade payables	101,524	60,322
Income in advance	5,564	5,205
Accrued expenses	453,182	429,484
<b>Total trade and other payables</b>	<b>638,862</b>	<b>540,235</b>

### Recognition and measurement

Trade accounts payable and accrued expenses (other than for interest on loans) are normally settled within 30 days. Accrued interest on loans and advances is generally payable within a maximum period of six months.

Other non-trade payables are payable at various times throughout the reporting period.

Trade and other payables are not secured against the assets of the Corporation.

## Debt Management

### Note 10. Borrowings and finance lease liabilities

	2018 \$'000	2017 \$'000
<b>Current</b>		
Current portion of long-term borrowings - Other advances	12	25
Finance lease liabilities:		
Current portion of obligation under Blue Mountains Sewage Transfer scheme	2,607	2,450
Current portion of water filtration agreement finance leases	13,347	11,909
<b>Total current borrowings and finance lease liabilities</b>	<b>15,966</b>	<b>14,384</b>
<b>Non-current</b>		
Long-term borrowings - Other advances	-	12
Long-term borrowings - NSW Treasury Corporation	7,780,570	7,235,812
Finance lease liabilities:		
Long-term obligation under Blue Mountains Sewage Transfer Scheme	46,486	49,093
Long-term obligation under water filtration agreement finance leases	346,008	359,355
<b>Total non-current borrowings and finance lease liabilities</b>	<b>8,173,064</b>	<b>7,644,272</b>

#### (a) Recognition and measurement

##### Borrowings

Interest-bearing borrowings obtained by the Corporation from NSW Treasury Corporation are recognised initially at the fair value of the consideration received, which incorporates any transaction costs associated with the borrowing. Subsequent to initial recognition, they are stated at amortised cost using the effective interest method. This includes capital indexed bonds whose carrying amount is restated at each reporting date by way of an indexation adjustment based on the Consumer Price Index (CPI) in Australia.

Amortised cost is calculated by taking into account any differences between the initial fair value and the final redemption value of the borrowings, such as discounts or premiums. These differences are amortised to profit or loss as part of finance costs over the period of the borrowings on an effective interest basis. Indexation adjustments on CPI indexed bonds are also recognised as part of finance costs in profit or loss.

Gains or losses are recognised in profit or loss when liabilities are derecognised, such as through a debt restructuring or early repayment of debt, as well as through the amortisation process.

Interest-bearing borrowings are classified as current liabilities only if the borrowing is due to be settled within 12 months after the reporting date and there is no discretion on the part of the Corporation to extend or refinance the obligation on a long-term basis with the respective lender. All other interest-bearing borrowings are classified as non-current liabilities, including those in which the Corporation has the discretion to refinance or roll over the borrowings for at least 12 months after the reporting date even if they are due to mature within a shorter period.

##### Finance lease liabilities

Finance lease liabilities comprise liabilities for the Corporation's obligations under the Blue Mountains Sewage Transfer Scheme agreement and under the renegotiated water filtration agreements. These are described below under (c).

## (b) Financial accommodation

The Corporation obtains financial accommodation from the following facilities:

- a bank overdraft facility with its corporate banker;
- a purchase credit card facility with its corporate banker;
- a guarantee facility with either its corporate banker or NSW Treasury Corporation;
- a 'Come and Go' short-term borrowing facility with NSW Treasury Corporation; and
- long-term borrowing facilities with NSW Treasury Corporation.

These financing facilities are approved by the NSW Treasurer under the *Public Authorities (Financial Arrangements) Act 1987*. The NSW Treasurer's approval of the facilities relating to the Corporation is in place until amended or revoked.

Details in relation to each of these facilities at the reporting date are provided below.

Financial accommodation	Utilised	Not	Total	Utilised	Not	Total
	2018	Utilised	Facility	2017	Utilised	Facility
	\$'000	2018	2018	\$'000	2017	2017
		\$'000	\$'000		\$'000	\$'000
Bank overdraft facility	-	15,000	15,000	-	15,000	15,000
Purchase credit card facility	187	2,313	2,500	87	2,413	2,500
Guarantee facility	19,750	10,250	30,000	22,320	7,680	30,000
Come and Go facility	-	100,000	100,000	-	100,000	100,000
Long-term borrowings facility	7,780,582	2,634,418	10,415,000	7,235,849	266,151	7,502,000
	<b>7,800,519</b>	<b>2,761,981</b>	<b>10,562,500</b>	<b>7,258,256</b>	<b>391,244</b>	<b>7,649,500</b>

### Bank overdraft facility

The Corporation has a bank overdraft facility with its corporate banker. The bank overdraft facility is used as and when required as part of the Corporation's daily cash management functions. Overdraft interest is charged on the basis of the corporate banker's debit rate that is calculated daily and applied to any overdrawn balances.

### Purchase credit card facility

The purchase credit card facility in place with the Corporation's banker is \$2.5 million (2017: \$2.5 million). The purchase credit card facility is used by the Corporation only as an efficient means for staff to purchase low value non-monetary items for the Corporation.

### Guarantee facility

The Corporation has the NSW Treasurer's approval for obtaining a total guarantee facility of up to \$30.0 million (2017: \$30.0 million) from either the Corporation's corporate banker, NSW Treasury Corporation or a combination of both. This facility is predominantly used by the Corporation to provide a guarantee to Insurance and Care NSW in respect of the Corporation's remaining self-insurance workers' compensation liability. The facility can also be used from time to time whenever a guarantee is required, in lieu of security deposits, under contractual arrangements with external parties.

### 'Come and Go' short-term borrowing facility

The Corporation has a 'Come and Go' short term borrowing facility in place with NSW Treasury Corporation. The 'Come and Go' facility is used extensively as part of the Corporation's daily cash management function during the reporting period.

### Long-term borrowing facilities

The Corporation has the NSW Treasurer's approval to obtain long-term borrowing facilities from the central borrowing authority, NSW Treasury Corporation. The Corporation cannot borrow in its own name from the market without the NSW Treasurer's approval. Accordingly, both new loans and the refinancing of maturing loans are arranged via NSW Treasury Corporation.

Long-term borrowings consist mostly of NSW Treasury Corporation loans. They also consist of a small number of remaining loans that the Corporation obtained from other entities prior to the existence of NSW Treasury Corporation and which are still yet to mature. They are referred to as Other advances.

NSW Treasury Corporation loans are negotiated with either a floating interest rate, in which case the rate is reset periodically, or at a fixed rate where interest is paid half-yearly in arrears or on maturity. Additionally, NSW Treasury Corporation provides CPI indexed bonds and resettable loans to the Corporation.

CPI indexed bonds are either restated by an indexation adjustment based on the Australian CPI on a quarterly basis, or they require payment of the CPI indexation semi-annually along with the interest payment. Resettable loans are loans where the interest rate resets in line with the regulatory Pricing Determination period. These loans are usually refinanced at maturity.

Short-term debt facilities have a term to maturity of between one and six months, while fixed rate loans currently have maturities up to 23 years (2017: 24 years) for the Corporation. CPI indexed bonds have a maximum term to maturity of 17 years to 2035 (2017: 18 years to 2035).

None of these facilities are secured against the assets of the Corporation.

## (c) Finance lease liabilities

### Blue Mountains Sewage Transfer Scheme agreement

The Corporation has a service agreement with the legal owner of a sewage tunnel in the Blue Mountains for the transfer of sewage to a sewage treatment plant owned by the Corporation. The term of the agreement is for 35 years, with the Corporation having an option to extend to 50 years. A tariff is payable to the legal owner on a quarterly basis, separated into principal and interest, and the legal title of the tunnel will transfer to the Corporation for a nominal consideration of \$1 at the end of the agreement.

The Corporation considers that, in substance, it presently controls the tunnel and that the future payments to be made to the legal owner are, in substance, for the acquisition of the tunnel over the term of the agreement.

Accordingly, the Corporation has capitalised the cost of the tunnel asset as an item of property, plant and equipment and has recognised a liability in the statement of financial position for the obligation to make future tariff payments to the legal owner. The liability is now stated at amortised cost, using the effective interest method.

### Water filtration plant agreements

The Corporation has contractual arrangements with the owner/operators of water filtration plants at Prospect, Macarthur, Illawarra and Woronora for the filtration of bulk water. These are summarised below:

Agreement	Conditions precedent satisfied	Takes effect from	Extended to	Tariff component includes		Legal title transfers at end*
				Service element	Capital cost	
Macarthur	March 2011	1 March 2011	8 September 2030	Yes	Yes	Yes
Illawarra	September 2015	1 October 2015	30 November 2036	Yes	Yes	Yes
Woronora	September 2015	1 October 2015	30 November 2036	Yes	Yes	Yes
Prospect	June 2016	1 July 2016	30 November 2035	Yes	Yes	Yes

\* For a nominal value of \$1.

The capital components of the tariffs that are specifically related to the acquisition of the plants over the terms of the new agreements meet the criteria of a finance lease and accordingly finance lease assets (refer to note 4) and finance lease liabilities have been recognised in the statement of financial position. The service element components of the tariff are recognised as an expense within profit or loss.

The finance lease liabilities represent the net present value of the future payment stream of these lease payments at the reporting date. The interest rate used for discounting the payment stream of lease payments under these agreements is a 'real' pre-tax discount rate of 7.5% per annum, which is equivalent to a nominal rate of 10.19% per annum. This is the rate implicit in these agreements. Lease payments are allocated between repayment of principal and interest, the latter of which is recognised within finance costs in profit or loss.



## Other liabilities

### Note 11. Provisions

#### (a) Carrying amounts

	2018 \$'000	2017 \$'000
<b>Current</b>		
Short-term provisions:		
Annual leave	29,724	30,494
Termination benefits	12,039	13,747
Employee benefits on-costs	1,746	1,695
Road restoration	8,576	7,900
	52,085	53,836
Current portion of long-term provisions:		
Long service leave	99,693	97,109
Employee benefits on-costs	5,433	5,292
Superannuation	269	239
Workers' compensation self-insurance	1,489	1,705
General insurance	1,135	786
Restoration of leased premises	-	1,123
Restoration costs from decommissioning system asset network components	25,069	33,428
	133,088	139,682
<b>Total current provisions</b>	<b>185,173</b>	<b>193,518</b>
<b>Non-current</b>		
Long-term provisions:		
Employee benefits for long service leave	6,455	8,102
Employee benefits on-costs	352	442
Post-employment benefits from superannuation	618,200	1,016,812
Workers' compensation self-insurance	17,114	18,522
General insurance	2,046	2,071
Restoration of leased premises	10,256	8,908
Restoration costs from decommissioning system asset network components	18,174	19,090
<b>Total non-current provisions</b>	<b>672,597</b>	<b>1,073,947</b>
<b>Employee benefits and related on-costs</b>		
Employee benefits – current	129,417	127,603
Employee benefits on-costs – current	7,179	6,987
Employee benefits – non-current	6,455	8,102
Employee benefits on-costs – non-current	352	442
<b>Aggregate employee benefits and related on-costs</b>	<b>143,403</b>	<b>143,134</b>

Under current liabilities, the Corporation expects to make payments totalling \$27.161 million (2017: \$20.383 million) for annual leave, and payments totalling \$11.300 million (2017: \$17.769 million) for long-service leave in the next reporting period. All other provisions under current liabilities are expected to be paid in the next reporting period for the amount recognised.

## Recognition and measurement

### General

Provisions are liabilities of uncertain timing or amount. A provision is recognised when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the obligation is to be settled greater than 12 months after the reporting date and the effect is material, a provision is determined by discounting the expected future cash flows required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. This is usually the risk free rate on Government bonds that most closely matches the timing of the expected future payments, except where noted below. If the obligation is due to be settled less than 12 months after the reporting date, the provision is stated at the best estimate available and is not discounted.

When some or all of a provision is expected to be reimbursed from a third party, the reimbursement receivable is recognised as an asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

A provision is classified as a current liability if the Corporation does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Accordingly, employee benefits provisions which are due to be settled wholly within 12 months, such as annual leave entitlements and the unconditional component of long service leave entitlements, must be classified as current liabilities regardless of when they are expected to be settled.

### Employee benefits provisions

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service. They include wages, salaries and annual leave. All short-term employee benefits that are payable at the reporting date are measured on an undiscounted basis at the nominal amount expected to be paid.

Expenses for wages and salaries are recognised on an accrual basis as services are rendered by employees. (Refer to note 2(b)). Expenses for sick leave, which is non-vesting, are recognised when the absences occur.

Liabilities for wages and salaries are included within trade and other payables (refer to note 9).

#### Termination benefits

Termination benefits for the Corporation refers specifically to redundancy benefits payable to employees as a result of organisational restructures. Any provisions for restructuring are recognised only when an entity has a detailed formal plan and the entity has raised a valid expectation in those affected by the restructuring that it will carry out the restructuring by starting to implement the plan or announcing its main details to those affected.

The liability for termination benefits for specific employees that have accepted an offer of termination benefits is measured at the calculated entitlement that will be paid to those employees. This liability is usually settled in the following reporting period and thus is not discounted. When specific employees are not known, an estimate for a provision is calculated on the basis of the number of employees expected to accept an offer of termination benefits in accordance with the termination plan.

#### Long service leave liabilities

Long service leave liabilities are classified as long-term as it is not expected to be settled wholly within 12 months of the reporting date.

Long service leave liabilities represent the present value of the future benefits that employees have earned in return for their service in the current and prior reporting periods. Long service leave liabilities are actuarially calculated.

Actuarial calculations consider assumptions related to expected wages and salary levels, experience of employee departures and periods of service. The discount rate used is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating to the terms of these obligations.

The liabilities and expenses for long service leave are recognised when employees render service that increases their entitlement to future benefits. The expense in each case is recognised as one net amount that encompasses a number of components, such as current service cost and the interest cost from discounting. Unconditional entitlements to long service leave benefits are classified as current liabilities in the statement of financial position, while conditional and pre-conditional entitlements are classified as non-current liabilities.

As at 30 June 2018, the discount rate applied to other long-term employee benefits was changed from the yield on Commonwealth government bonds to the yield on high quality corporate bonds under mandatory direction from NSW Treasury. The impact of the change was a reduction in the long service leave provision of \$0.370 million, which was recorded through profit or loss. The change in discount rate is a change in an accounting estimate.

#### Employee benefit on-costs

Costs that are a consequence of employment but which are not employee benefits themselves, such as payroll tax, are recognised as liabilities and expenses when the employment to which they relate has occurred. Payroll tax payable at the reporting date in relation to wages and salaries paid during the previous month is recognised as part of trade and other payables in the statement of financial position, consistent with the classification of any recognised liability for wages and salaries. Payroll tax payable in respect of annual leave, long service leave or termination benefits to be made in the future is recognised as part of provisions, consistent with the classification of the liabilities for these employee benefits.

## Post-employment benefits

Post-employment benefits are benefits provided to employees and former employees through superannuation schemes. The Corporation contributes to two types of superannuation schemes: Defined contribution schemes and Defined benefit schemes.

- **Defined contribution superannuation schemes**

Contributions to these schemes are recognised as an expense in profit or loss as incurred. The liability recognised at the reporting date represents the contributions to be paid to these schemes in the following month. The Corporation contributes to the First State Superannuation Scheme and other private schemes nominated by employees to a lesser extent.

- **Defined benefit superannuation schemes**

The Corporation's net obligation in respect of defined benefit schemes is actuarially calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior reporting periods. That benefit is discounted to determine its present value, and the fair value of any scheme assets is deducted.

The discount rate is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating to the terms of the Corporation's obligations. Calculations are performed by the Pooled Fund's actuary using the projected unit credit method and they are advised to individual agencies for recognition and disclosure purposes in their financial statements.

Where the present value of the defined benefit obligation in respect of a scheme exceeds the fair value of the scheme's assets, a liability for the difference is recognised in the statement of financial position. Where the fair value of a scheme's assets exceeds the present value of the scheme's defined benefit obligation, an asset is recognised in the statement of financial position.

Any superannuation asset recognised is limited to the total of any unrecognised past service cost and the present value of any economic benefits that may be available in the form of refunds from the schemes or reductions in future contributions to the schemes, as advised by the Pooled Fund's actuary.

The Corporation discloses defined benefit superannuation liabilities or assets as non-current as this best reflects when the Corporation expects to settle (realise) the liabilities (assets).

Remeasurements of the net defined benefit liability or asset are recognised in other comprehensive income (directly through retained earnings) in the reporting period in which they occur. Such remeasurements include actuarial gains or losses, the return on plan assets (excluding amounts included in net interest on the defined benefit liability or asset) and any change in effect of the asset ceiling (excluding amounts included in net interest on the defined benefit liability or asset).

As at 30 June 2018, the discount rate applied to the defined benefit schemes changed from the yield on Commonwealth government bonds to the yield on high quality corporate bonds under mandatory direction from NSW Treasury. The impact of the change was a reduction in the defined benefit superannuation liabilities of \$354.994 million, which was recorded through other comprehensive income. The change in discount rate is a change in an accounting estimate

## (b) Defined benefit superannuation schemes

The Corporation contributes to three defined benefit superannuation schemes in the NSW public sector Pooled Fund. The schemes are:

- State Superannuation Scheme (SSS);
- State Authorities Superannuation Scheme (SASS); and
- State Authorities Non-contributory Superannuation Scheme (SANCS).

The Pooled Fund holds in trust the investments of these schemes.

The following disclosures in relation to these schemes have been provided by SAS Trustee Corporation.

### Nature of benefits provided by the Fund

As these schemes are defined benefit schemes, at least a component of the final benefit is derived from a multiple of member salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal. These schemes are closed to new members.

### The regulatory framework

The above schemes in the Pooled Fund are established and governed by the following NSW legislation: *Superannuation Act 1916*, *State Authorities Superannuation Act 1987*, *State Authorities Non-Contributory Superannuation Scheme Act 1987*, and their associated regulations.

The schemes in the Pooled Fund are exempt public sector superannuation schemes under the *Commonwealth Superannuation Industry (Supervision) Act 1993* (SIS). The SIS Legislation treats exempt public sector superannuation funds as complying funds for concessional taxation and superannuation guarantee purposes.

Under a Heads of Government agreement, the NSW Government undertakes to ensure that the Pooled Fund will conform with the principles of the Commonwealth's retirement incomes policy relating to preservation, vesting and reporting to members and that members' benefits are adequately protected.

The NSW Government prudentially monitors and audits the Pooled Fund and the Trustee Board activities in a manner consistent with the prudential controls of the SIS legislation. These provisions are in addition to other legislative obligations on the Trustee Board and internal processes that monitor the Trustee Board's adherence to the principles of the Commonwealth's retirement incomes policy.

An actuarial investigation of the Pooled Fund is performed every three years. The last actuarial investigation was performed as at 30 June 2015. The actuary has commenced work on the 30 June 2018 investigation. Once completed, the report will be available on the Fund's website.

### Other entities' responsibilities for the governance of the Pooled Fund

The Pooled Fund's Trustee is responsible for the governance of the Fund. The Trustee has a legal obligation to act solely in the best interests of fund beneficiaries. The Trustee has the following roles:

- Administration of the Fund and payment to the beneficiaries from Fund assets when required in accordance with the Fund rules;
- Management and investment of the Fund assets; and
- Compliance with other applicable regulations.

### Risks

There are a number of risks to which the Pooled Fund exposes the Corporation. The more significant risks relating to the defined benefits are:

- **Investment risk** – The risk that investment returns will be lower than assumed and the Corporation will need to increase contributions to offset this shortfall;
- **Longevity risk** – The risk that pensioners live longer than assumed, increasing future pensions;
- **Pension indexation risk** – The risk that pensions will increase at a rate greater than assumed, increasing future pensions;
- **Salary growth risk** – The risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions; and
- **Legislative risk** – The risk that legislative changes could be made which increase the cost of providing the defined benefits.

The Pooled Fund assets are invested with independent fund managers and have a diversified asset mix. The Fund has no significant concentration of investment risk or liquidity risk.

### Significant events

There were no scheme amendments, curtailments or settlements during the reporting period.

	SASS		SANCS		SSS		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Reconciliation of the net defined benefit liability (asset)</b>								
Net defined benefit liability (asset) at beginning of period	123,016	144,920	37,747	40,646	856,049	1,110,880	1,016,812	1,296,446
Current service cost	5,611	6,515	1,656	1,990	5,111	7,743	12,378	16,248
Net interest on the net defined benefit liability (asset)	3,155	2,828	971	794	22,386	22,064	26,512	25,686
Past service cost	-	-	-	-	-	-	-	-
(Gains)/losses arising from settlements	-	-	-	-	-	-	-	-
Actual return on Fund assets less interest income	(10,275)	(12,741)	(350)	(972)	(52,833)	(63,235)	(63,458)	(76,948)
Actuarial (gains) losses arising from changes in demographic assumptions	1,774	(70)	(620)	(46)	6,266	(273)	7,420	(389)
Actuarial (gains) losses arising from changes in financial assumptions	(30,973)	(16,434)	(3,658)	(2,076)	(328,227)	(182,549)	(362,858)	(201,059)
Actuarial (gains) losses arising from liability experience	3,909	3,610	1,242	(1,092)	(13,984)	(34,358)	(8,833)	(31,840)
Adjustment for effect of asset ceiling	-	-	-	-	-	-	-	-
Employer contributions	(5,221)	(5,612)	(1,314)	(1,497)	(3,238)	(4,223)	(9,733)	(11,332)
<b>Net defined benefit liability (asset) at end of period</b>	<b>90,996</b>	<b>123,016</b>	<b>35,674</b>	<b>37,747</b>	<b>491,530</b>	<b>856,049</b>	<b>618,200</b>	<b>1,016,812</b>
<b>Reconciliation of the fair value of fund assets</b>								
Fair value of fund assets at beginning of period	182,864	186,609	11,704	16,510	912,965	884,439	1,107,533	1,087,558
Interest income	4,476	3,467	223	255	23,075	16,995	27,774	20,717
Actual return on Fund assets less interest income	10,275	12,741	350	972	52,833	63,235	63,458	76,948
Employer contributions	5,221	5,612	1,314	1,497	3,238	4,223	9,773	11,332
Contributions by participants	2,687	2,965	-	-	2,184	3,086	4,871	6,051
Benefits paid	(25,766)	(28,402)	(6,406)	(7,625)	(67,676)	(66,903)	(99,848)	(102,930)
Taxes, premiums and expenses paid	114	(128)	(1,017)	95	7,332	7,890	6,429	7,857
Transfers in	-	-	-	-	-	-	-	-
Contributions to accumulation section	-	-	-	-	-	-	-	-
Settlements	-	-	-	-	-	-	-	-
<b>Fair value of fund assets at end of period</b>	<b>179,871</b>	<b>182,864</b>	<b>6,168</b>	<b>11,704</b>	<b>933,951</b>	<b>912,965</b>	<b>1,119,990</b>	<b>1,107,533</b>
<b>Reconciliation of the defined benefit obligation</b>								
Present value of defined benefit obligations at beginning of period	305,880	331,529	49,451	57,156	1,769,014	1,995,319	2,124,345	2,384,004
Current service cost	5,611	6,515	1,656	1,990	5,111	7,743	12,378	16,248
Interest cost	7,631	6,295	1,194	1,049	45,461	39,059	54,286	46,403
Contributions by fund participants	2,687	2,965	-	-	2,184	3,086	4,871	6,051
Actuarial (gains) losses arising from changes in demographic assumptions	1,774	(70)	(620)	(46)	6,266	(273)	7,420	(389)
Actuarial (gains) losses arising from changes in financial assumptions	(30,973)	(16,434)	(3,658)	(2,076)	(328,227)	(182,549)	(362,858)	(201,059)
Actuarial (gains) losses arising from liability experience	3,909	3,610	1,242	(1,092)	(13,984)	(34,358)	(8,833)	(31,840)
Benefits paid	(25,767)	(28,402)	(6,406)	(7,625)	(67,676)	(66,903)	(99,849)	(102,930)
Taxes, premiums and expenses paid	115	(128)	(1,017)	95	7,332	7,890	6,430	7,857
Transfers in	-	-	-	-	-	-	-	-
Contributions to accumulation section	-	-	-	-	-	-	-	-
Past service cost	-	-	-	-	-	-	-	-
Settlements	-	-	-	-	-	-	-	-
<b>Present value of defined benefit obligations at end of period</b>	<b>270,867</b>	<b>305,880</b>	<b>41,842</b>	<b>49,451</b>	<b>1,425,481</b>	<b>1,769,014</b>	<b>1,738,190</b>	<b>2,124,345</b>

	SASS		SANCS		SSS		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Reconciliation of the effect of the asset ceiling</b>								
Adjustment for effect of asset ceiling at beginning of period	-	-	-	-	-	-	-	-
Change in the effect of the asset ceiling	-	-	-	-	-	-	-	-
<b>Adjustment for effect of asset ceiling at end of period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The adjustment for the effect of any asset ceiling is determined based on the maximum economic benefit available to the Corporation in the form of reductions in future employer contributions.

#### Fair value of Pooled Fund assets

All Pooled Fund assets are invested by SAS Trustee Corporation (STC) at arm's length through independent fund managers. Assets are not separately invested for each entity and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities. As such, the disclosures below relate to total assets of the Pooled Fund:

Asset category	Total \$'000	Quoted prices in active markets for identical assets	Significant observable inputs	Unobservable inputs
		Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<b>As at 30 June 2018:</b>				
Short term securities	4,401,164	2,185,469	2,215,695	-
Australian fixed interest	2,234,922	41,854	2,193,068	-
International fixed interest	1,396,107	8,116	1,387,991	-
Australian equities	9,271,405	8,719,442	548,908	3,055
International equities	10,891,349	8,499,476	2,391,501	372
Property	3,711,287	788,018	608,934	2,314,335
Alternatives	9,894,829	420,898	5,332,818	4,141,113
<b>Total</b>	<b>41,801,063</b>	<b>20,663,273</b>	<b>14,678,915</b>	<b>6,458,875</b>
<b>As at 30 June 2017:</b>				
Short term securities	3,087,307	3,077,362	9,945	-
Australian fixed interest	2,500,725	997	2,499,728	-
International fixed interest	480,991	-	480,991	-
Australian equities	9,446,079	8,947,483	498,572	24
International equities	12,053,503	9,033,497	1,869,112	1,150,894
Property	3,453,107	926,104	533,191	1,993,812
Alternatives	9,066,055	390,898	5,068,137	3,607,020
<b>Total</b>	<b>40,087,767</b>	<b>22,376,341</b>	<b>10,959,676</b>	<b>6,751,750</b>

The percentage invested in each asset class at the reporting date is as follows:

	2018 %	2017 %
Short-term securities	10.5	7.7
Australian fixed interest	5.3	6.2
International fixed interest	3.3	1.2
Australian equities	22.2	23.6
International equities	26.1	30.1
Property	8.9	8.6
Alternatives	23.7	22.6
	<b>100.0</b>	<b>100.0</b>

Level 1 – quoted prices in active markets for identical assets or liabilities. The assets in this level are listed shares and listed unit trusts.

Level 2 – inputs other than quoted prices observable for the asset or liability either directly or indirectly. The assets in this level are cash; notes; government, semi-government and corporate bonds; unlisted trusts where quoted prices are available in active markets for identical assets or liabilities.

Level 3 – inputs for the asset or liability that are not based on observable market data. The assets in this level are unlisted property, unlisted shares, unlisted infrastructure, distressed debt and hedge funds.

Derivatives, including futures and options, can be used by investment managers. However, each manager's investment mandate clearly states that derivatives may only be used to facilitate efficient cash flow management or to hedge the portfolio against market movements and cannot be used for speculative purposes or gearing of the investment portfolio. As such, managers make limited use of derivatives.

#### Fair value of the Pooled Fund's financial instruments

The fair value of the Pooled Fund's total assets as at the reporting date include \$97.7 million (2017: \$354.0 million) in NSW Government bonds.

Of the direct properties owned by the Pooled Fund:

- SAS Trustee Corporation occupies part of a property 100% owned by the Pooled Fund with a fair value of \$280.0 million (2017: \$250.0 million); and
- Health Administration Corporation occupies part of a property 50% owned by the Pooled Fund with a fair value of \$287.0 million (2017: \$261.0 million).

#### Significant actuarial assumptions at the reporting date

	2018	2017
Discount rate	4.11% pa	2.62% pa
Salary increase rate (excluding promotional increases):		
2017-18 to 2018-19	2.70% pa	2.50% pa
2019-20 to 2020-21	3.20% pa	3.50% pa
2021-22 to 2024-25	3.20% pa	3.00% pa
2025-26	3.20% pa	3.00% pa
Thereafter	3.20% pa	3.50% pa
Rate of CPI increase		
2018-19	2.25% pa	2.25% pa
2019-20	2.25% pa	2.50% pa
Thereafter	2.50% pa	2.50% pa

Pensioner mortality: The pensioner mortality assumptions are those to be used for the 2018 Actuarial investigation of the Pooled Fund. These assumptions will be disclosed in the actuarial investigation report which will be available on the Trustee's website when the investigation is complete. The report shows the pension mortality rates for each age.

## Sensitivity analysis

The Corporation's total defined benefit obligation as at the current reporting date under several scenarios is presented below. The total defined benefit obligation disclosed is inclusive of the contribution tax provision which is calculated based on the asset level at the current reporting date.

Scenarios A to F relate to sensitivity of the total defined benefit obligation of the Pooled Fund to economic assumptions, and scenarios G and H relate to sensitivity to demographic assumptions.

	<b>Base case</b>	<b>Scenario A -1.0% discount rate</b>	<b>Scenario B +1.0% discount rate</b>
Discount rate	4.11%	3.11%	5.11%
Rate of CPI increase	As above	As above	As above
Salary inflation rate	As above	As above	As above
Defined benefit obligation (\$'000)	1,738,190	1,969,979	1,546,801

	<b>Base case</b>	<b>Scenario C +0.5% rate of CPI increase</b>	<b>Scenario D -0.5% rate of CPI increase</b>
Discount rate	As above	As above	As above
Rate of CPI increase	As above	Above rates plus 0.5% pa	Above rates less 0.5% pa
Salary inflation rate	As above	As above	As above
Defined benefit obligation (\$'000)	1,738,190	1,842,876	1,642,233

	<b>Base case</b>	<b>Scenario E +0.5% salary increase rate</b>	<b>Scenario F -0.5% salary increase rate</b>
Discount rate	As above	As above	As above
Rate of CPI increase	As above	As above	As above
Salary inflation rate	As above	Above rates plus 0.5% pa	Above rates less 0.5% pa
Defined benefit obligation (\$'000)	1,738,190	1,746,027	1,730,650

	<b>Base case</b>	<b>Scenario G Lower mortality*</b>	<b>Scenario H Higher mortality**</b>
Defined benefit obligation (\$'000)	1,738,190	1,758,797	1,722,411

\* Assumes the short term pensioner mortality improvement factors for years 2018-2023 also apply for years after 2023.

\*\* Assumes the long term pensioner mortality improvement factors for years post 2023 also apply for years 2018 to 2023.

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

## Asset – Liability matching strategies

The Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cash flows to manage liquidity requirements. No explicit asset-liability matching strategy is used by the Trustee.



## Funding arrangements

Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at 30 June 2015. Contribution rates are set after discussions between the employer, STC and NSW Treasury. The next triennial review is due as at 30 June 2018 and the report is expected to be released by the end of 2018.

Funding positions are reviewed annually and funding arrangements may be adjusted as required after each annual review.

### (i) Surplus/deficit

The following is a summary of the 30 June 2018 and 30 June 2017 financial position of the Schemes calculated in accordance with AASB 1056 'Superannuation Entities'.

	SASS		SANCS		SSS		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Accrued benefits *	224,381	223,598	33,538	35,421	916,380	934,988	1,174,299	1,194,007
Net market value of fund assets	(179,871)	(182,864)	(6,168)	(11,704)	(933,951)	(912,965)	(1,119,990)	(1,107,533)
<b>Net (surplus) deficit</b>	<b>44,510</b>	<b>40,734</b>	<b>27,370</b>	<b>23,717</b>	<b>(17,571)</b>	<b>22,023</b>	<b>54,309</b>	<b>86,474</b>

\* There is no allowance for a contribution tax provision in the accrued benefits figure. Allowance for contribution tax is made when setting the contribution rates

### (ii) Contribution recommendations

Recommended contribution rates for the Corporation are:

	SASS		SANCS		SSS	
	2018	2017	2018	2017	2018	2017
Multiple of member contributions	1.9	1.9	-	-	1.6	1.6
Percentage of member salary	-	-	2.5	2.5	-	-

The actual rate of contributions currently falls below the actuary's recommended contributions rates. The Corporation is committed to meeting its funding obligations to ensure the defined benefit superannuation schemes are fully funded by 30 June 2030.

The Corporation is currently exploring a number of options over the medium to long-term to fund the increased contributions and this exploration is at an early stage.

### (iii) Economic assumptions

The economic assumptions adopted for the AASB 1056 'Superannuation Entities' as at 30 June 2018:

#### Weighted Average Assumptions:

Expected rate of return on Fund assets backing current pension liabilities	7.4% pa
Expected rate of return on Fund assets backing other liabilities	6.4% pa
Expected salary increase rate (excluding promotional salary increases)	2.7% pa to 30 June 2019 then 3.2% pa thereafter
Expected rate of CPI increase	2.2% pa

#### Expected contributions

	SASS		SANCS		SSS		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Expected employer contributions to be paid in the next reporting period	4,625	5,632	1,169	1,562	2,777	4,938	8,571	12,132

#### Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 12.4 years (2017: 13.5 years).

## (c) Other provisions

### Reconciliations of movements in carrying amounts for the current reporting period

	Road restoration	Workers' compensation self-insurance	General insurance	Restoration of leased premises	Restoration costs from decommissioning system asset network components
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Carrying amounts at beginning of period</b>					
Current	7,900	1,705	786	1,123	33,428
Non-current	-	18,522	2,071	8,908	19,090
	<b>7,900</b>	<b>20,227</b>	<b>2,857</b>	<b>10,031</b>	<b>52,518</b>
<b>Movement during the period</b>					
Provisions made (reversed)	14,762	(676)	10,026	129	7,784
Provisions used	(14,086)	(1,265)	(9,742)	(134)	(17,346)
Unwinding of discount	-	317	40	230	287
	<b>676</b>	<b>(1,624)</b>	<b>324</b>	<b>225</b>	<b>(9,275)</b>
<b>Carrying amounts at end of period</b>					
Current	8,576	1,489	1,135	-	25,069
Non-current	-	17,114	2,046	10,256	18,174
	<b>8,576</b>	<b>18,603</b>	<b>3,181</b>	<b>10,256</b>	<b>43,243</b>

#### Road restoration

This provision recognises obligations for payment of road restoration costs to local government councils. Such obligations arise where roads need to be restored to their original condition at the completion of construction or maintenance activity. There is uncertainty in relation to the amount and timing of payment and the Corporation's estimates are based on past experience of works undertaken. Road restoration costs are capitalised as part of the cost of an asset that is constructed. Where no asset is created and road restoration costs are incurred, the costs are expensed in profit or loss.

#### Workers' compensation self-insurance and general insurance

These provisions recognise the Corporation's remaining self-insurance liability for workers' compensation injury claims prior to 1 March 2007, and its proportion of insured and uninsured claims where the Corporation is liable to pay for damage, costs, loss or injury (other than for workers' compensation) respectively. These provisions are actuarially calculated on a discounted cash flow basis, using information including estimates of the probable cost of each claim, the type of injuries and claims, potential recoveries and industry wide experience. The workers' compensation liability also includes an estimate for incurred but not reported claims based on past experience and is based on a likelihood of adequacy of 50%. There is uncertainty about a number of factors such as probable costs, discount rates, settlement period, the likelihood of adequacy and estimations of future claims, and claims incurred and not yet reported. In relation to workers' compensation self-insurance, the actuary has estimated expected recoveries totalling \$0.529 million (2017: \$0.482 million). These recoveries have not been recognised as an asset as they are not considered to be virtually certain.

In relation to general insurance, the amount recognised for covered claims is not greater than the deductible stated on the relevant policy.

#### Restoration of leased premises

This provision recognises the Corporation's obligation to pay restoration costs for leased premises where the Corporation must restore the premises back to their original state at the end of the lease term. Estimates of restoration costs are discounted using the yield on government bonds. The main uncertainty is in relation to the actual restoration costs that will ultimately be incurred. Restoration costs are separately capitalised against assets that have been acquired as part of leasing the premises, such as fitouts. Where the Corporation has not incurred expenditure to acquire assets as part of leasing the premises, the restoration costs are expensed in profit or loss.

#### Restoration costs from decommissioning system asset network components

This provision recognises the Corporation's obligation for restoration costs from decommissioning system asset network components, including costs of dismantling, decommissioning, removing a system asset network component and restoring the site on which it was located. It also includes constructive obligations for rectification works where safety issues have been identified, such as electrical cabling repairs and asbestos removal. Obligations arise when it is known that an asset is being constructed for a temporary period or when a management decision is made to decommission a system asset, or when investigations reveal that safety issues require rectification. Estimates are also made in relation to the period over which the system asset network component will be decommissioned, or the constructive obligation is expected to be settled. The liability is calculated on a discounted cash flow basis.

## Note 12. Deferred Government grant

	2018 \$'000	2017 \$'000
<b>Current</b>		
NSW Government grant for environmental restoration planning	350	-
<b>Total current deferred Government grants</b>	<b>350</b>	<b>-</b>
<b>Non-Current</b>		
NSW Government capital grant for Housing Acceleration Fund	10,000	10,000
<b>Total non-current deferred Government grants</b>	<b>10,000</b>	<b>10,000</b>

### Recognition and measurement

Conditional Government grants are recognised in the statement of financial position initially as deferred income when there is reasonable assurance that they will be received and that the Corporation will comply with the conditions attaching to them. They are then transferred to profit or loss as revenue as the conditions are fulfilled, unless they are of a material amount that compensates the Corporation for the cost of a specific identifiable asset or assets, in which case they are recognised in profit or loss as revenue on a systematic basis over the useful life of the asset or assets.

During the 2014-15 reporting period, the Corporation received a capital grant from the NSW Government towards capital works on stormwater assets in the Green Square development under the Housing Acceleration Fund scheme (Stage 2). This grant has been recognised initially as deferred income and will be subsequently transferred progressively to profit or loss on a systematic and rational basis over the useful lives of the related assets when they are ultimately constructed and begin to depreciate. In 2017-18, grants were received from the NSW Government's Department of Planning and Environment for environmental restoration planning for lands situated near creeks.

## Note 13. Dividends payable

<b>Dividends payable at the beginning of the period</b>	<b>291,225</b>	<b>389,232</b>
<b>Movement during the period</b>		
Dividend recognised on ordinary shares at 17.28 cents per share (2017: 9.21 cents per share)	546,490	291,225
Dividends paid on ordinary shares at 17.12 cents per share (2017: 12.31 cents per share)	(541,225)	(389,232)
	<b>5,265</b>	<b>(98,007)</b>
<b>Dividends payable at the end of the period</b>	<b>296,490</b>	<b>291,225</b>

Under the NTER, the Corporation is not required to maintain a dividend franking account.

### Recognition and measurement

A liability for dividends payable is recognised in the reporting period in which the dividend is declared. Dividends are regarded as declared when they are appropriately authorised as no longer at the discretion of the Corporation. This occurs through a formal process whereby the Board recommends the dividend to its voting shareholder Ministers and the final agreed dividend is accepted and approved by the shareholder Ministers prior to the end of the reporting period.

## Equity

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### Note 14. Share capital

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	2018 \$'000	2017 \$'000
<b>Issued and fully paid up share capital</b>		
<b>(a) Carrying amounts</b>		
Issued capital	3,161,854	3,161,854
Total share capital	<u>3,161,854</u>	<u>3,161,854</u>
<b>(b) Movements during the reporting period</b>		
<b>Balance at beginning and at the end of the period:</b>		
3,161,854,000 (2017: 3,161,854,000) ordinary shares	<u>3,161,854</u>	<u>3,161,854</u>

#### Significant terms and conditions

The Corporation's two shareholders are:

- the Treasurer and Minister for Industrial Relations; and
- the Minister for Finance, Services and Property.

Each shareholder holds 1,580,927,000 (2017: 1,580,927,000) ordinary shares non-beneficially on behalf of the NSW Government. The shares entitle the NSW Government to a dividend from the Corporation. The amount of the dividend is determined as part of the annual process of negotiating and agreeing the Corporation's Statement of Corporate Intent with the shareholder Ministers.

Any changes to the Corporation's share capital can only be undertaken in accordance with the Corporation's constitution and with the agreement of its shareholders.

There were no equity contributions received or issues of shares in the current or previous reporting periods.

## Unrecognised Items

### Note 15. Commitments

	2018 \$'000	2017 \$'000
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#### (a) Capital expenditure commitments

The total amount of contractual commitments for capital expenditure (covering both property, plant and equipment and intangible assets) at the reporting date (inclusive of GST) is \$812.257 million for the Corporation (2017: \$678.140 million). The amount of GST included in this amount that is recoverable from the ATO is \$73.842 million (2017: \$61.649 million).

#### (b) Operating lease commitments

##### Payable as lessee

Future operating lease rentals not provided for in the financial statements and payable:

Not later than one year	47,596	47,373
Later than one year and not later than five years	179,191	178,569
Later than five years	218,053	262,983
	<b>444,840</b>	<b>488,925</b>

Representing:

Cancellable operating leases	19,643	24,165
Non-cancellable operating leases	425,197	464,760
	<b>444,840</b>	<b>488,925</b>

Non-cancellable operating lease rentals are payable:

Not later than one year	39,263	37,971
Later than one year and not later than five years	167,895	163,860
Later than five years	218,038	262,929
	<b>425,196</b>	<b>464,760</b>

The Corporation leases property and motor vehicles under operating leases. It also has an agreement to obtain recycled water from a plant that is owned and operated by an external party in the Rosehill/Camellia area. This recycled water plant was constructed under a privately financed project (PFP) that is in substance an operating lease for the Corporation in relation to the payments made to obtain the recycled water, which is subsequently sold to a small number of foundation customers for industrial and irrigation purposes.

Leases for property generally have terms of one to 10 years' duration with option periods following, ranging up to 15 years. The only exception is a 99-year ground lease at Homebush that does not expire until 2086.

Where no option periods exist under these leases, it is necessary to negotiate a new lease with the owner, who has the right to require vacant possession. Where there are option periods, the option to continue occupation rests with the Corporation alone.

The leasing of the head office building at 1 Smith Street, Parramatta is by way of an operating lease of 15 years (ending in May 2024) with two 5-year option periods.

Leases for motor vehicles are predominantly for terms between two and five years and provide the Corporation with an option to replace at the end of the lease term.

The lease agreement involving the recycled water plant at Rosehill/Camellia is for a term of 20 years, extending to 2031-32.

Amounts disclosed for these commitments include total GST of \$13.989 million (2017: \$16.344 million).

	Note	2018 \$'000	2017 \$'000
<b>Receivable as lessor</b>			
Future operating lease rentals not provided for in the financial statements and receivable:			
Not later than one year		15,533	14,903
Later than one year and not later than five years		9,149	8,727
Later than five years		12,203	10,096
		<b>36,885</b>	<b>33,726</b>

Operating leases are non-cancellable and are mainly in respect of residential, commercial and industrial properties, open space and space for telecommunication towers. Operating leases are for terms ranging from less than one year to 50 years, with the longest remaining term expiring in 2039. Lease rentals are generally reviewed annually.

Amounts disclosed for these commitments include total GST of \$3.353 million (2017: \$3.066 million) that is payable to the ATO.

### (c) Finance lease commitments

#### Payable as lessee

Future minimum lease payments payable:

Not later than one year		61,577	61,062
Later than one year and not later than five years		245,103	248,082
Later than five years		621,334	685,204
		<b>928,014</b>	<b>994,348</b>
Future finance costs		(519,566)	(571,541)
Finance lease liabilities – present value		<b>408,448</b>	<b>422,807</b>
		<b>15,954</b>	<b>14,359</b>
Current		392,494	408,448
Non-current		<b>408,448</b>	<b>422,807</b>
<b>Financial lease liabilities in statement of financial position</b>	10	<b>408,448</b>	<b>422,807</b>

These finance lease commitments represent the future payments arising from finance leases within the agreements for the Prospect, Macarthur, Illawarra and Woronora Water Filtration Plants and for the Blue Mountains Sewage Transfer Scheme. (Refer also to note 10(c)).

Amounts disclosed for these commitments do not include GST as they are comprised of principal and interest payments.

## Note 16. Contingencies

### (a) Contingent liabilities

Details of contingent liabilities by class are set out below. These are matters in which provisions are not required as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

#### Litigation

Claims made against the Corporation in which there is a risk of financial exposure (other than matters covered by workers' compensation self-insurance and general insurance provisions – refer to note 11(c)) and which have been referred to lawyers amounted to \$0.166 million (2017: \$0.372 million). There are other claims that are in existence at the reporting date but they cannot be reliably measured at this time. In the directors' opinion, disclosure of any further information would be prejudicial to the interests of the Corporation.

#### Site contamination and licence compliance

The Corporation has risk exposures from normal operations in the form of contaminated land/infrastructure and environmental incidents. These risks are managed in conjunction with the Office of Environment and Heritage. There is an ongoing program for management of contamination and its remediation. It is not possible to estimate these contingent liabilities reliably, as the need for and the type of remediation are dependent on future events that cannot be determined at this time.

Matters identified in which there is a risk of financial exposure due to matters relating to contamination and environmental incidents amounted to \$6.700 million (2017: \$6.700 million).

#### Operational activities

Risk exposures occur as a result of past or existing contracts or other operational activities. It is not possible to estimate these contingent liabilities reliably as most exposures require clarification of the extent of loss.

Matters identified in which there is a risk of financial exposure from operational activities amounted to \$3.400 million (2017: \$2.039 million).

#### Guarantees provided

Under the *Workers' Compensation Act 1987*, as the Corporation was a self-insurer until 1 March 2007 and as a state owned corporation was deemed to not have government employer status, the Corporation is required to provide a guarantee to Insurance and Care NSW that secures the Corporation's remaining self-insurance workers' compensation liability. The value of the guarantee at the reporting date was \$19.750 million (2017: \$22.320 million). (Refer also to note 10(b)).

There are other indemnities that are in existence at the reporting date. However, they are considered remote or not able to be reliably measured at this time.

### (b) Contingent assets

The Corporation is seeking to recover costs incurred under contractual arrangements through litigation. It is also seeking to settle a number of outstanding insurance claims and recover costs or losses from insurers.

In the directors' opinion, disclosure of any further information about these claims would be prejudicial to the interests of the Corporation and cannot be reliably measured at this time.

## Other Notes

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### Note 17. Financial risk management

#### (a) Financial instruments and financial risk factors

The Corporation has the following financial instruments:

- cash and cash equivalents (refer to note 6);
- trade and other receivables (refer to note 7);
- trade and other payables (refer to note 9);
- borrowings (refer to note 10); and
- other financial liabilities (refer to note 10).

These financial instruments expose the Corporation to a range of financial risks in its normal course of business operations. These risks include liquidity risk, credit risk, interest rate risk and regulatory risk. The Corporation does not have any material exposure to foreign currency risk.

#### (b) Financial risk exposures

##### Liquidity risk

During the current and previous reporting periods, there were no defaults or breaches on any loans payable. No assets have been pledged as collateral. The Corporation's exposure to liquidity risk is deemed low based on previous reporting periods' data and current reassessment of risk.

Liquidity risk is managed by the Corporation through the maintenance of extensive short-term and long-term cash flow forecasting models, and through the availability of financial accommodation facilities approved by the NSW Treasurer under the *Public Authorities (Financial Arrangements) Act 1987*. (Refer to note 10(b)).

The objective is to maintain a balance of funding and flexibility in ensuring cash is available each day to meet the Corporation's financial obligations, whilst maintaining a daily bank balance with minimum surplus funds (with a target of between \$Nil and \$4 million on at least 80% of calendar days). In addition, the Corporation's treasury management policies limit debt with terms to maturity of less than three months to 30% of total borrowings within the Corporation's debt portfolio.

While current liabilities are greater than current assets, the Corporation continues to operate as a going concern. The Corporation derives the majority of its revenue from the operation of its infrastructure assets. (Refer to note 4).

##### Credit risk

Exposures to credit risk for the Corporation are primarily in relation to trade and other receivables, but can exist in respect of all financial assets recognised in the statement of financial position, such as cash and cash equivalents, investments in marketable securities and derivative financial instruments (if any).

In respect of trade and other receivables, the Corporation monitors balances outstanding on an ongoing basis and has policies in place for the recovery or write-off of amounts outstanding.

In respect of cash and cash equivalents the Corporation only deals with creditworthy counterparties and recognised financial intermediaries as a means of mitigating the risk of financial losses from defaults. Policies are in place to monitor the credit ratings of counterparties and to limit the amount of funds placed with those counterparties, depending on their credit rating. In addition, only highly liquid marketable securities are used for investment purposes.

At the reporting date, the maximum exposure to credit risk for the Corporation is represented by the carrying amount of each financial asset in the statement of financial position. (Refer to notes 6 and 7).

##### Interest rate risk

The Corporation is exposed to changes in market interest rates, primarily from the Corporation's portfolio of interest-bearing short and long-term borrowings. The Corporation manages this exposure by implementing various treasury management policies and controls approved by the Board that are designed to ensure debt maturities are spread across the yield curve. These controls include approved parameters specifying the minimum and maximum percentages of debt issuance in maturity bands, approved parameters limiting the maximum exposure to floating interest rate debt products, portfolio duration and weighted average life management targets and approved trading bands. In addition, the Corporation is able to enter into derivative financial instruments, such as interest rate swaps, to assist in managing interest rate risk (if required).

Long-term fixed rate and CPI indexed bonds with maturities to 2041 have been issued in order to maintain a high modified duration of the debt portfolio over time. At the reporting date, the debt portfolio was comprised of 64% of fixed rate bond debt and 36% CPI indexed debt (2017: 61% of fixed rate bond debt and 39% CPI indexed debt).

The Corporation's Treasury Management Policy has been approved by the Board, allowing debt management strategies to manage the financial impact of regulatory risks that occur in the current regulatory pricing environment. (See below under Regulatory risk).



The table below details the carrying amounts of financial assets and financial liabilities, including their weighted average interest rates, that are exposed to interest rate risk at the reporting date and that are not designated in cash flow hedges:

	Note	Weighted average interest rate		Carrying amount	
		2018 %	2017 %	2018 \$'000	2017 \$'000
<b>Financial assets</b>					
<b>At amortised cost:</b>					
Cash	6	1.30	1.20	3,983	3,401
				<b>3,983</b>	<b>3,401</b>
<b>Financial liabilities</b>					
<b>At amortised cost:</b>					
Borrowings					
Other advances	10	8.44	7.80	12	37
NSW Treasury Corporation loans	10	4.00	4.03	7,780,570	7,235,812
Obligation under Blue Mountains Sewage Transfer Scheme	10	6.25	6.25	49,093	51,543
Finance lease liabilities	10	10.19	10.19	359,355	371,264
				<b>8,189,030</b>	<b>7,658,656</b>

### Sensitivity analysis

The table below shows the effect on profit after tax and equity at the reporting date if nominal interest rates had been 100 basis points (that is, one percentage point) higher or lower than current levels, with all other variables being held constant and taking into account all underlying exposures and related hedges if any.

Based on the value of the Australian short-term interest rates (one month Bank Bill Swap Rate – BBSW) at the reporting date of 2.02% (2017: 1.62%), a 100 basis points increase would increase the rate to 3.02% (2017: 2.62%) and a 100 basis points decrease would reduce the rate to 1.02% (2017: 0.62%). This is broadly representative of recent interest rate increases and decreases within a certain range, which is reasonably possible given historical movements in official interest rates by the Reserve Bank of Australia (RBA). Historically, the RBA official cash rate has fluctuated between 1.50% and 2.75% over the past five years.

	Interest Revenue		Post Tax Profit		Equity	
	Higher (lower)		Higher (lower)		Higher (lower)	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>Judgement of reasonably possible events</b>						
Interest rates 100 basis points higher	40	34	28	24	28	24
Interest rates 100 basis points lower	(40)	(34)	(28)	(24)	(28)	(24)

For the current reporting period shown above, the sensitivity to changes in interest rates at the reporting date relates to the bank account balance only, as no debt was subject to changes in interest rates at the reporting date.

### Regulatory risk

Regulatory risk is the risk that the Corporation's actual cost of debt will not be fully compensated through the methodology employed by IPART in determining the Corporation's prices to be charged to customers. The main components of regulatory risk are real interest rate risk, debt margin risk and inflation risk.

Regulatory risk is managed by the Corporation through policies and strategies to hedge the components of regulatory risk. These include strategies that align the debt portfolio structure to IPART's cost of debt determination methodology.

The objective of managing regulatory risk is to ensure that the Corporation's actual cost of debt does not vary significantly from the cost of debt included by IPART in its Pricing Determination, and so that this does not impact negatively on financial ratios and the Corporation's corporate credit rating.

### (c) Financial risk management policies, objectives and reporting

The risks outlined above are managed in accordance with treasury management policies approved by the Board. These policies provide a framework of strict controls to manage the impact of these exposures, within the overall framework of the *Public Authorities (Financial Arrangements) Act 1987* in NSW. The policies cover a number of aspects such as:

- approved delegation levels and segregation of duties for dealing, authorising and settling treasury management transactions;
- approved credit limits for dealing with counterparties;
- the types of treasury transactions, including derivatives, that the Corporation can enter into;
- approved limits for hedging foreign exchange exposures;
- the structure of debt and investment portfolios; and
- approved benchmarks for managing performance.

Treasury and financial risk management performance is reported to a designated sub-committee of the Board on a quarterly basis. Treasury management strategies and performance are also reported on and reviewed on a monthly basis by a Treasury Committee of senior finance managers. In addition, NSW Treasury conducts regular reviews of the Corporation's treasury management activities as to its compliance with the *Public Authorities (Financial Arrangements) Act 1987*.

### (d) Use of derivative financial instruments and hedge accounting

The Corporation enters into a small number of derivative financial instruments from time to time, mainly to manage its exposure to certain risks. Derivative financial instruments are only used for hedging purposes and they are not entered into or traded for speculative purposes. Strict internal guidelines and treasury management policies approved by the Board exist to control the use of derivative financial instruments. There were no derivative financial instruments at either the current or previous reporting date.

### (e) Capital management

The Corporation's objective when managing capital is to safeguard the Corporation's ability to continue as a going concern, so that it can continue to provide appropriate returns for its shareholders and benefits for the community within its area of operations. This is achieved by maintaining an optimal capital structure that aims to minimise or reduce the cost of capital, whilst at the same time ensuring the Corporation's operations and capital works objectives are achieved.

The capital structure of the Corporation is monitored on the basis of key performance indicators, which include:

- the level of gearing for the Corporation, and
- its debt to equity ratio.

In determining appropriate prices for the Corporation to charge its customers, IPART has adopted a standard gearing assumption of 60 per cent for the purposes of determining the Corporation's weighted average cost of capital (WACC). The WACC is a key input in IPART's regulatory pricing methodology in which a regulated asset base is used to determine the Corporation's 'annual revenue requirement' (and ultimately prices to be charged to customers) based on the efficient use of resources and an appropriate rate of return on capital invested. The table below shows the level of capital employed at the reporting date for the Corporation, as well as financial ratios used in the management of capital based on the definitions within NSW Treasury's Commercial Policy Framework.

	Note	2018 \$'000	2017 \$'000
Interest-bearing debt*	10	7,780,582	7,235,849
Other interest-bearing liabilities**	10	408,448	422,807
<b>Total interest-bearing liabilities</b>		<b>8,189,030</b>	<b>7,658,656</b>
Total equity		7,821,598	7,313,306
<b>Total capital employed</b>		<b>16,010,628</b>	<b>14,971,962</b>
		%	%
Gearing ratio (Interest-bearing debt / Interest-bearing debt + Total equity)		49.87	49.73
Debt to equity ratio (Total interest-bearing liabilities / Total equity)		104.70	104.72

\*Interest-bearing debt consists of borrowings from NSW Treasury Corporation and borrowings from other advances.

\*\* Other interest-bearing liabilities consists of the Blue Mountain Sewage Transfer Scheme finance lease liability and the water filtration agreement finance lease liabilities.

## (f) Maturity analysis of financial assets and financial liabilities recognised in the statement of financial position.

The following tables reflect the maturity bands for settlement of the carrying amounts of financial assets and financial liabilities recognised in the statement of financial position at the reporting date.

	Note	Less than 1 year \$'000	1 to 2 years \$'000	Repricing or maturing in:					Total \$'000
				2 to 3 years \$'000	3 to 4 years \$'000	4 to 5 years \$'000	More than 5 years \$'000		
<b>2018</b>									
<b>Financial assets</b>									
<b>At amortised cost:</b>									
Cash	6	3,983	-	-	-	-	-	-	3,983
Trade and other receivables *		304,405	-	-	-	-	-	-	304,405
		<b>308,388</b>	-	-	-	-	-	-	<b>308,388</b>
<b>Financial liabilities</b>									
<b>At amortised cost:</b>									
Trade and other payables *		622,582	-	-	-	-	-	-	622,582
Borrowings									
Other advances	10	12	-	-	-	-	-	-	12
NSW Treasury Corporation Loans	10	696,794	1,566,903	1,139,666	518,951	520,443	3,337,813	7,780,570	
Blue Mountains Sewage Transfer Scheme finance lease liability	10	2,607	2,773	2,951	3,139	3,341	34,282	49,093	
Water filtration agreement finance lease liabilities	10	13,347	14,958	16,729	14,206	15,013	285,102	359,355	
		<b>1,335,342</b>	<b>1,584,634</b>	<b>1,159,346</b>	<b>536,296</b>	<b>538,797</b>	<b>3,657,197</b>	<b>8,811,612</b>	
<b>2017</b>									
<b>Financial assets</b>									
<b>At amortised cost:</b>									
Cash	6	3,401	-	-	-	-	-	-	3,401
Trade and other receivables *		259,095	-	-	-	-	-	-	259,095
		<b>262,496</b>	-	-	-	-	-	-	<b>262,496</b>
<b>Financial liabilities</b>									
<b>At amortised cost:</b>									
Trade and other payables *		525,576	-	-	-	-	-	-	525,576
Borrowings									
Other advances	10	25	12	-	-	-	-	-	37
NSW Treasury Corporation Loans	10	351,392	627,346	1,537,325	975,347	512,539	3,231,863	7,235,812	
Blue Mountains Sewage Transfer Scheme finance lease liability	10	2,449	2,607	2,773	2,951	3,140	37,623	51,543	
Water filtration agreement finance lease liabilities	10	11,909	13,347	14,958	16,729	14,206	300,115	371,264	
		<b>891,351</b>	<b>643,312</b>	<b>1,555,056</b>	<b>995,027</b>	<b>529,885</b>	<b>3,569,601</b>	<b>8,184,232</b>	

\* These balances differ from the statement of financial position as they exclude prepayments and statutory taxes receivable in the case of trade and other receivables, and income in advance and statutory taxes payable in the case of trade and other payables. These items are out of scope in relation to these disclosures.

### (g) Contractual maturities of all cash flows from financial liabilities

The following tables reflect the maturity bands for all undiscounted contractual payments for settlement, including repayments of principal and interest, resulting from recognised financial liabilities as at the reporting date. Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at the reporting date.

	Less than 1 year \$'000	1 to 2 years \$'000	2 to 3 years \$'000	Repricing or maturing in:			Total \$'000
				3 to 4 years \$'000	4 to 5 years \$'000	More than 5 years \$'000	
<b>2018</b>							
<b>At amortised cost:</b>							
Trade and other payables *	622,582	-	-	-	-	-	622,582
Borrowings	13	-	-	-	-	-	13
NSW Treasury Corporation Loans	711,946	1,808,825	1,470,553	658,355	710,689	4,048,727	9,409,095
Blue Mountains Sewage Transfer Scheme finance lease liability	13,803	14,356	14,932	15,531	16,154	149,256	224,032
Water filtration agreement finance lease liabilities	47,774	48,105	48,250	44,182	43,593	472,078	703,982
	<b>1,396,118</b>	<b>1,871,286</b>	<b>1,533,735</b>	<b>718,068</b>	<b>770,436</b>	<b>4,670,061</b>	<b>10,959,704</b>
<b>2017</b>							
<b>At amortised cost:</b>							
Trade and other payables *	525,576	-	-	-	-	-	525,576
Borrowings	27	13	-	-	-	-	40
Other advances	533,997	855,658	1,793,249	1,452,329	643,053	4,012,576	9,290,862
NSW Treasury Corporation Loans	13,503	14,056	14,631	15,230	15,853	169,533	242,806
Blue Mountains Sewage Transfer Scheme finance lease liability	47,559	47,775	48,105	48,250	44,182	515,671	751,542
Water filtration agreement finance lease liabilities							
	<b>1,120,662</b>	<b>917,502</b>	<b>1,855,985</b>	<b>1,515,809</b>	<b>703,088</b>	<b>4,697,780</b>	<b>10,810,826</b>

\* These balances differ from the statement of financial position as they exclude income in advance and statutory taxes payable. These items are out of scope in relation to these disclosures.

## (h) Fair values of financial assets and financial liabilities

Fair values of financial assets and financial liabilities are determined on the following bases:

Item	Basis of fair value
Cash	Carrying amount
Cash equivalents	Discounted cash flows using valuation rates supplied by independent market sources
Investments in marketable securities	Discounted cash flows using valuation rates supplied by independent market sources
Trade and other receivables	Carrying amount
Derivative financial instruments	Valuation rates and valuations supplied by independent market sources
Trade and other payables	Carrying amount
Bank overdraft balances	Carrying amount
NSW Treasury Corporation loans	Discounted cash flows using valuation rates supplied by independent market sources
All other loans	Discounted cash flows using equivalent interest rate swap rates supplied by independent market sources
Obligation under Blue Mountains Sewage Transfer Scheme	Discounted cash flows using equivalent interest rate swap rates supplied by independent market sources
Finance lease liabilities	Discounted cash flows using the independently determined yield at the inception of the lease

The following table details the carrying amounts and fair values at the reporting date for all financial instruments:

	Note	Carrying amount		Fair Value	
		2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>Financial assets</b>					
Cash	6	3,983	3,401	3,983	3,401
Trade and other receivables *		304,405	259,095	304,405	259,095
		<b>308,388</b>	<b>262,496</b>	<b>308,388</b>	<b>262,496</b>
<b>Financial liabilities</b>					
Trade and other payables *		622,582	525,576	622,582	525,576
Borrowings:					
Other advances	10	12	37	13	39
NSW Treasury Corporation Loans	10	7,780,570	7,235,812	8,228,909	7,744,195
Blue Mountains Sewage Transfer Scheme finance lease liability	10	49,093	51,543	167,735	176,741
Water filtration agreement finance lease liabilities	10	359,355	371,264	359,355	371,264
		<b>8,811,612</b>	<b>8,184,232</b>	<b>9,378,594</b>	<b>8,817,815</b>

\* These balances differ from the statement of financial position as they exclude prepayments and statutory taxes receivable in the case of trade and other receivables, and income in advance and statutory taxes payable in the case of trade and other payables. These items are out of scope in relation to these disclosures.

The face value of NSW Treasury Corporation loans at the reporting date is \$8,070.207 million (2017: \$7,530.731 million). The face value of Other advances is equal to their carrying amount.

### Fair value hierarchy

There were no financial instruments at either the current or previous reporting date that were carried in the statement of financial position at fair value determined by any of the three valuation methods defined in note 4(d).

## Note 18. Related party disclosures

The Corporation has related party relationships with key management personnel and with entities that belong to the NSW Total State Sector consolidated group controlled by the NSW Government.

### (a) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. This comprises all directors, whether executive or non-executive, senior executives who lead the various divisional groups of the Corporation, the Corporation's two shareholder Ministers and its Portfolio Minister.

Compensation is shown below for the directors and the senior executives only. The NSW Legislature pays the Ministers their compensation and this is not reimbursable from the Corporation.

	2018 \$'000	2017 \$'000
Short-term employee benefits	4,066	4,079
Post-employment benefits	290	457
Other long-term benefits	23	431
	<b>4,379</b>	<b>4,967</b>
This comprises compensation relating to:		
Directors:		
Executive	806	757
Non-executive	622	645
	<b>1,428</b>	<b>1,402</b>
Senior executives	2,951	3,565
	<b>4,379</b>	<b>4,967</b>

The above disclosures for senior executives are based on actual payments made for employee benefits during the reporting period.

### (b) Other transactions with key management personnel and related entities

From time to time, key management personnel may purchase goods or services from the Corporation. These purchases are on the same terms and conditions as those entered into by other customers and are trivial or domestic in nature. There were no related party transactions during either the current or previous reporting periods with other entities related to the Corporation's directors and senior executives.

### (c) Other related party transactions

The Corporation is both a lessor and a lessee to a number of peppercorn leases at nominal amounts where the other party is a member of the NSW Total State Sector consolidated group. The peppercorn leases are held to help further the strategic objectives of the NSW Government. The fair value of these leases is not quantified as the costs to obtain valuations would outweigh any benefits of providing such disclosure. The Corporation also provides unmetered water for urban and bush firefighting free of charge to NSW Fire and Rescue and the NSW Rural Fire Service.

## Note 19. Consultants

The total amount paid or payable to consultants engaged by the Corporation during the reporting period was \$1.603 million. (2017: \$0.594 million).

## Note 20. Auditors' remuneration

The audit fee (exclusive of GST) for the audit of the financial statements by the Audit Office of NSW is \$0.455 million (2017: \$0.470 million).

## Note 21. Accounting Standards and Interpretations issued but not yet effective

At the reporting date, several Australian Accounting Standards and Accounting Interpretations have been issued by the AASB that are not yet effective and which have not been early adopted by the Corporation. These Accounting Standards are not expected to have a material impact on the financial results of the Corporation in the reporting period when they become operative, with the exception of AASB 16 'Leases', and AASB 1059 'Service Concession Arrangements: Grantors'.

### Australian Accounting Standard AASB 16 'Leases' – effective from 1 July 2019

AASB 16 'Leases' will require the Corporation to recognise, as a lessee, right-of-use assets and lease liabilities for all operating leases with a term of more than 12 months, unless the underlying asset within those leases is of low value. The right-of-use asset represents the lessee's right to use the underlying leased asset and will be measured similar to other non-financial assets (such as property, plant and equipment). Accordingly, this new asset will be depreciated similar to existing finance lease assets. The lease liability represents the lessee's obligations to make lease payments.

The lease liability will be initially measured as the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease or the incremental borrowing rate of the lessee if the first option is not readily determined. Lease payments will be dissected into a principal portion and an interest portion, with the principal portion reducing the lease liability over time. Operating lease payments that are currently expensed in profit or loss will be replaced by depreciation of the recognised right-of-use asset and the interest expense incurred on the lease liability.

Based on the current portfolio of operating leases and the incremental borrowing rates as at the reporting date and the transition options mandated by NSW Treasury, it is forecast that lease liabilities and lease assets will increase by approximately \$368 million as at 1 July 2019. Forecast operating lease rental expense of \$45 million will be replaced by an increase in forecast depreciation expense of \$32 million and an increase in forecast interest expense of \$25 million for the year ended 30 June 2020. These estimates are subject to change as it is highly likely that the portfolio of operating leases and the incremental borrowing rates will change between the current reporting date and the transition date.

Lessor accounting under AASB 16 is substantially unchanged from the current accounting under AASB 117 'Leases'.

### Australian Accounting Standard AASB 1059 'Service Concession Arrangements: Grantors' – effective from 1 July 2019

AASB 1059 'Service Concession Arrangements: Grantors' (AASB 1059) will require the Corporation (as a grantor) to recognise the service concession assets it controls. A service concession arrangement involves an external operator providing public services related to a service concession asset on behalf of a public-sector grantor for a specified period and managing at least some of those services.

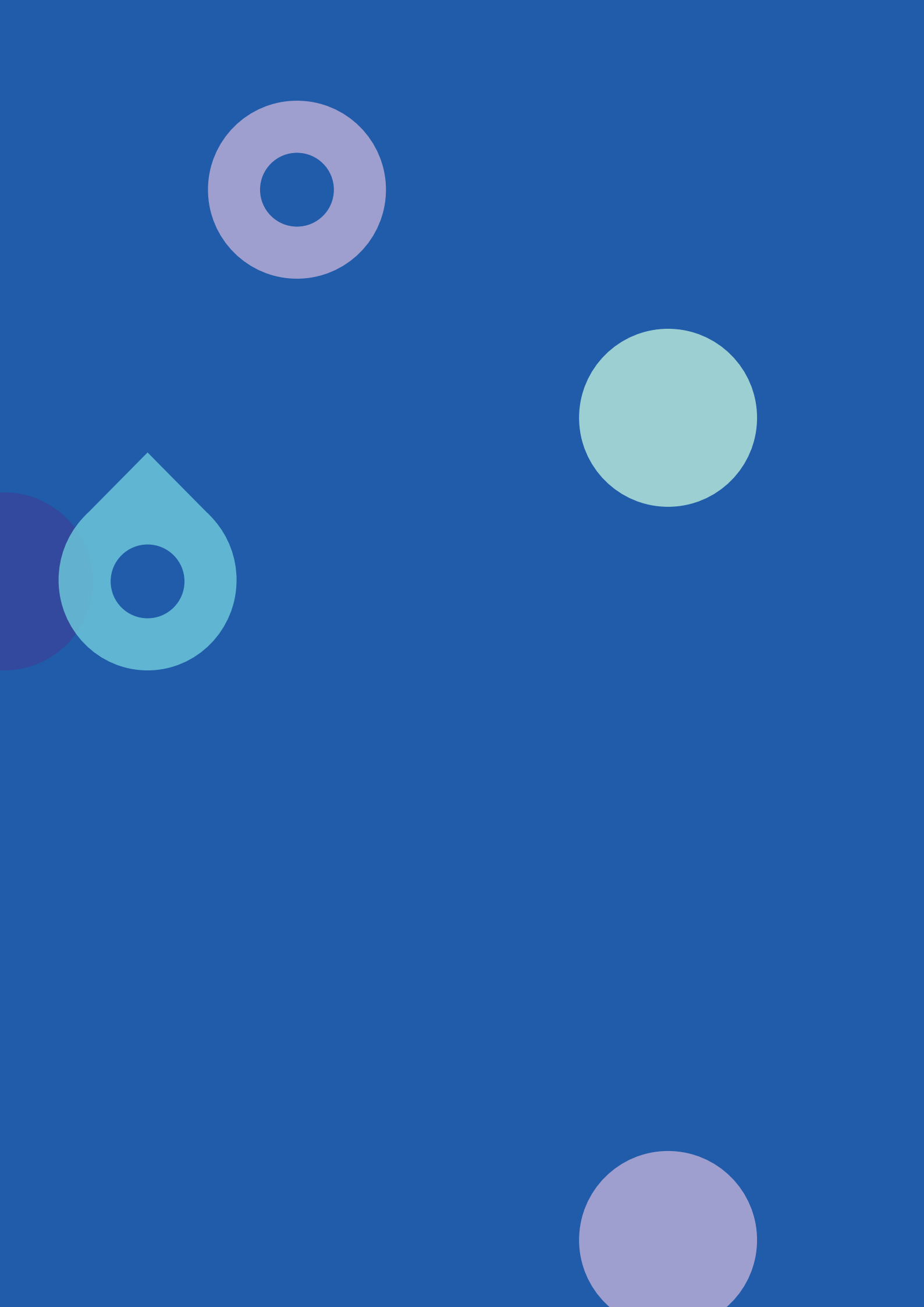
The grantor controls the service concession asset if it controls or regulates the services an external operator must provide with the service concession asset, to whom it must provide them and at what price; and if it controls any significant residual interest in the asset at the end of the service concession arrangement term. A service concession asset shall be measured at current replacement cost as defined by the cost approach to fair value under AASB 13 'Fair Value Measurement'.

The impact for the Corporation is that the existing water filtration plant assets at Prospect, Macarthur, Illawarra and Woronora, the Blue Mountains Sewage Tunnel asset, the Gerringong Gerroa Sewage Treatment Plant and the St Mary's Advanced Water Treatment Plant assets all meet the definition of service concession assets. These assets will be reclassified from system assets to service concession assets (within property, plant and equipment) on 1 July 2019.

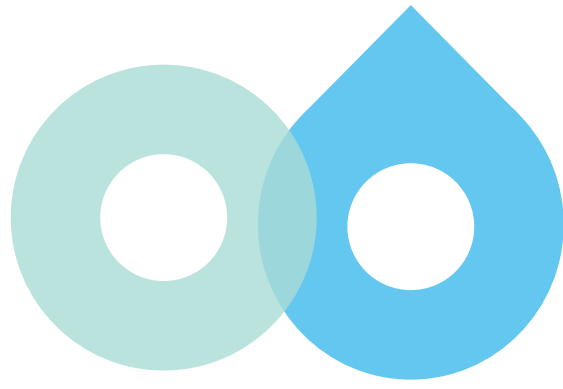
Further, the impact of a change in valuation from the existing income approach to the cost approach will result in an increase in value of the afore-mentioned assets in the range of approximately \$500 million to \$700million. This increase will be recorded as an increase to retained earnings on 1 July 2019. The increase in value will lead to an increase in depreciation expense of between \$10 million to \$15 million per annum. These estimates are subject to change as more detailed current replacement cost valuations will be performed before the transition date.

There will also be a corresponding decrease to the value of system assets on that date, via the asset revaluation reserve, as the overall fair value of all assets held by the Corporation under the income approach does not change because of AASB 1059. The only impact is to the valuations between the two asset classes of system assets and service concession assets and not to the overall value of property, plant and equipment.

### End of audited financial statements





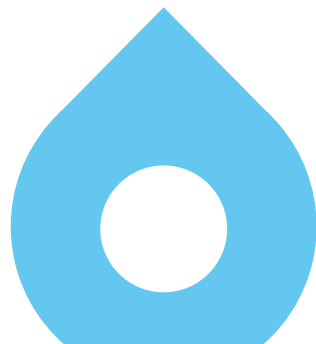


## Chapter 4

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# Appendixes

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# Appendix 1:

## Corporate governance

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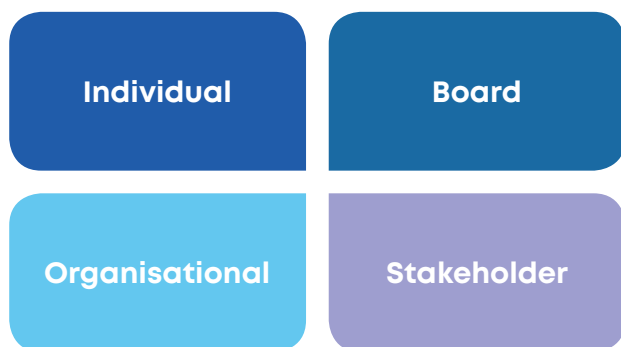
### Our Corporate Governance Framework

The Board and Executive believe good corporate governance is essential for Sydney Water to be a high performing organisation with a sustainable future. Our governance framework helps us to:

- deliver the outcomes our shareholders expect
- support our people and business operations
- set the framework for sound ethical, financial and risk management practices and effective compliance and auditing programs.

The Board adopts the Australian Institute of Company Directors (AICD) Corporate Governance Framework which outlines the practices of good corporate governance across four major quadrants of focus and engagement.

**Figure 5: AICD Corporate Governance Framework**



The framework aligns with the *ASX Corporate Governance Principles and Recommendations* (3rd Edition) and the NSW Audit Office Governance Lighthouse Model. It serves as

a basis for measuring and comparing the activities of the Board and management to corporate governance best practice. Under the Board Charter, the Board assesses its performance each year. In 2017–18, the Board evaluated its performance via a self-assessment.

The Board also complies with the NSW Treasury *TPP 17-10 Guidelines for Governing Boards of Government Businesses*.

### Board of Directors

In line with the *Sydney Water Act 1994* (NSW), the *State Owned Corporations Act 1989* (NSW) and the Constitution of Sydney Water, the Board consists of a Chairperson and up to nine other Directors appointed by the Shareholders.

The Portfolio Minister publicly advertises for nominations for Board members. All members of the Board, except the Managing Director, are appointed for terms of up to five years, which may be renewed by the Shareholders. Each Non-Executive Director's remuneration is set by the Shareholders and paid by Sydney Water.

### The Board's role and responsibilities

The Board is responsible for the corporate governance of Sydney Water. This includes:

- setting the strategic direction
- establishing performance targets as set out in the *Statement of Corporate Intent*
- monitoring the achievement of those targets
- reviewing internal control systems, corporate governance frameworks, and compliance.

The Board honestly, fairly and diligently serves the interests of the Shareholders, staff, suppliers, customers and the broader community. It delegates responsibility to the Managing Director for implementing the strategic direction and managing Sydney Water's day-to-day operations. The Board of Directors operates according to its Board Charter, which complements the Constitution and the Board's Code of Conduct.

## Director independence

All Non-Executive Directors on the Board are independent. To ensure their independence, all Directors are subject to the statutory duties and responsibilities regarding conflicts of interest. The Corporate Secretary maintains the Register of Disclosures which is reviewed annually. Conflicts of interest (perceived or actual) are discussed at the start of each Board meeting.

At the discretion of the Chair, Directors may obtain independent professional advice at the expense of Sydney Water if doing so is necessary to discharge their duties.

## Indemnity and insurance

In line with the *State Owned Corporations Act 1989* and the Constitution of Sydney Water, all Directors have been granted an indemnity with the approval of our Shareholders, in accordance with the NSW Treasury *TPP 18-04 Directors and Officers Indemnity Policy for State Owned Corporations*.

Sydney Water has a policy of insurance for Directors' and Officers' liability, which underpins and augments the Deed of Indemnity. Our *Insurance Policy* does not cover conduct involving a lack of good faith or a wilful breach of duty.

## Board of Directors skills matrix

The Board considers that its membership should comprise of Directors with a broad range of skills, expertise and experience from a diverse range of backgrounds. The Board has identified its desired skills, knowledge, experience and capabilities, and agreed how many Directors should be specialists in these areas.

This matrix enables the Board Nominations Committee to assess how the Board is currently constituted and how it should best be constituted in the future to align with our Corporate Strategy. It is not expected that all Directors will have specialist skills in all areas. Rather, the Board as a whole should have the necessary skills to enable the effective corporate governance of Sydney Water.

**Table 28: Board of Directors skills matrix as at 30 June 2018**

Skill set	Target number of Directors at the desired specialist level of competency	Status
Commercial/business experience and acumen	2	▲
Engineering and safety	2	▲
Health	1	▲
Environment	1	▲
Financial literacy	2	▲
Strategy development and implementation	3	▲
Corporate Governance	2	▲
Risk management	2	▲
Law	1	▲
Digital Services/Strategy	1	▲
Government/State Owned Corporations	2	▲
Capital markets/investments	1	▲
Public affairs/economic reputation	2	▲

### Performance indicator key

▲ Target met or exceeded    ■ Target not met

## Sydney Water Board Directors



**Bruce Morgan**

BComm, FCA, FAICD

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### TERM

**Director:** 1 January 2012 to 30 September 2013

**Chairman:** 1 October 2013 to 30 September 2016

1 October 2016 to 30 September 2019

Bruce has been Chairman of Sydney Water since 2013, prior to which he was a Director (from January 2012). He is a Director of Redkite (since 2013, previously Chairman from 2015–2018), Caltex Australia Ltd (since June 2013), Origin Energy Ltd (since November 2012), the European Australian Business Council and University of NSW Foundation.

Bruce served as Chairman of the Australian PwC Board for six years until 2012 and was a member of the PwC International Board for four years. He previously held roles as managing partner of the PwC's Sydney and Brisbane offices. Bruce practised as an audit partner focused on the financial services, energy and mining sectors. He retired as a partner of PwC in October 2012.



**Kevin Young**

BEng (Hons), MBA, FIE Aust, CPENG, FAICD

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### TERM

1 August 2011 for a term equivalent to his appointment as Managing Director of Sydney Water.

Kevin was reappointed as Managing Director on 1 August 2016.

Kevin was previously the Managing Director of Hunter Water and a Director of Hunter Water Australia Pty Limited. He was also previously Chairman of the Water Services Association of Australia (WSAA) and currently chairs WSAA's Utility Excellence Committee. Kevin is currently a Director of Water Aid Australia. He is a Fellow of the Institution of Engineers Australia and the Australian Institute of Company Directors.



**Dr Abby Bloom**

BA (High Hons), MPH, PhD, FAICD

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### TERM

1 January 2013 to 31 December 2015

1 January 2016 to 31 December 2018

Abby is an experienced company Director and former senior executive and corporate advisor in health care and health financing, insurance, water and wastewater, and ageing. She is a Director of the State Insurance Regulatory Authority and The Sydney Children's Hospitals Network and serves as an independent Risk and Audit specialist. Abby is a member of the Griffith University Enterprise Advisory Board and an advisor to ID Exchange, a digital company that enables individuals to manage their digital rights and protect their privacy. During 10 years in the US Department of State, Abby was the Senior Health, Water and Sanitation Policy Advisor responsible for US foreign aid water and health policy and programs globally. A graduate of Yale and Sydney Universities, Abby is also Adjunct Professor, Sydney University Medical School's Menzies Centre for Health Policy.



### Trevor Bourne

BSc.(Mech. Eng.),  
MBA, FAICD

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#### TERM

10 February 2014 to  
9 February 2017

10 February 2017 to  
9 February 2020

Trevor is a highly experienced Non-Executive Director, having served on public and private company boards in Australia and Asia for more than 15 years. He is a Director of Caltex Australia, Virgin Australia Ltd and Chairman of Senex Energy Limited (since March 2015). Trevor was also a founding director of Origin Energy for 12 years following the demerger from Boral. Trevor’s executive career included 15 years at BHP, eight years with the then Orica subsidiary Incitec Pivot, and 15 years with Brambles – the last six of which he was Managing Director of Australasia.



### Greg Couttas

B.Comm, FCA, MAICD

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#### TERM

17 November 2016 to  
16 November 2019

Greg’s career was in professional services, having served as a senior audit partner at Deloitte for 28 years until his retirement in November 2016. He held several management roles at Deloitte including being the Managing Partner for NSW from 2005 to 2008. He served as a member of the Deloitte Australia Board from 2005 to 2016 and chaired the firm’s Audit and Risk Committee for 11 years. Greg is a Director of Virtus Health Limited and a Member of the Board of The Salvation Army Australia Territory.



### Richard Fisher AM

MEc, LLB, MAICD

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#### TERM

1 January 2012 to  
31 December 2014

1 July 2015 to 30 June 2018  
1 August 2018 to 31 July 2021

Richard is General Counsel of the University of Sydney and an Adjunct Professor in its Faculty of Law. He is also Chairman of InvoCare and was previously Chairman of Partners at Blake Dawson (now Ashurst). He is a former part-time Commissioner of the Australian Law Reform Commission and was an international consultant for the Asian Development Bank. Richard was a member of the Library Council of NSW from 2004 to 2013. Richard holds a Master of Economics from the University of New England and a Bachelor of Laws from the University of Sydney.

## Former Directors



### Dr Marlene Kanga AM

B.Tech., M.Sc., Ph.D, Hon. FIEAust,  
Hon. FIChemE FTSE, FAICD

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#### TERM

10 February 2014 to 9 February 2017  
10 February 2017 to 9 February 2020

Marlene is an experienced business leader and company Director with more than 30 years' experience in process safety and risk engineering in Australia and New Zealand. Marlene is a member of the Board of Airservices Australia, the HEARing Cooperative Research Centre, and several boards involving innovation and the commercialisation of new technologies. She is President of the World Federation of Engineering Organizations and a past President of Engineers Australia, and has been listed among Australia's Top 100 engineers. She holds degrees in chemical engineering from the Indian Institute of Technology Bombay and Imperial College, University of London and a doctorate in Finance from Macquarie University. Marlene is Fellow of the Australian Academy of Technology Science and Engineering, an Honorary Fellow of the Institution of Engineers Australia, an Honorary Fellow of the Institution of Chemical Engineers (UK) and a Fellow of the Australian Institute of Company Directors. She was made a Member of the Order of Australia for her leadership in the engineering profession.



### Cameron Robertson

MEc, FIAA, GAICD

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#### TERM

21 December 2017 to  
20 December 2020

Cameron's executive career included roles in investment banking, asset management, development, social services, and not-for-profit organisations, including leading the Infrastructure and Utilities group at Deutsche Bank. He is also a Non-Executive Director of Sydney Motorway Corporation, Worsley Cogeneration Plant, and a Member of the Direct Asset Committee for First State Super and the Finance and Investment Committee for the St Vincent's Health Australia Group. Cameron holds a Master of Economics from Macquarie University, is a Fellow of the Institute of Actuaries of Australia and is a Graduate of the Australian Institute of Company Directors.



### Paul Leaming

B.Bus, FCPA

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#### TERM

15 September 2014 to  
14 September 2017

Paul had an extensive executive career spanning 30 years in financial services. He held the role of Chief Financial Officer for AMP Limited and before that, Chief Financial Officer and other senior finance roles at Macquarie Bank Limited. He retired from AMP Limited in December 2011.



**Dr Diana Day**  
BA (Hons), DipEd,  
PhD, FAICD

**TERM**

1 June 2012 to 31 May 2015  
1 June 2015 to 31 May 2018

Diana is an experienced independent company Director of federal and state statutory authorities, businesses, universities and not-for-profit boards. She has been a Director of the Murray-Darling Basin Authority, the Cooperative Research Centre for Irrigation Futures, Meat and Livestock Australia Ltd, The Fisheries Research and Development Corporation and the Australian Maritime College. Diana is Senior Visiting Fellow of the University of NSW and consults in career strategy. She holds a First Class Honours Degree (Geography) and a Diploma in Education from the University of Newcastle NSW, and a Doctorate in fluvial geomorphology of drainage systems from the University of New England, NSW.

## Board committees

The Board reviewed its Committee structure and effective from 1 July 2017, the following Committees have been convened.

### Audit and Risk

**Purpose:** To oversee Sydney Water’s financial reporting, evaluate the audit processes, and assess the risk and control environment.

**Members:** G Couttas (Chair), R Fisher, A Bloom, D Day<sup>24</sup>, P Leaming<sup>25</sup>

### Safety and Wellbeing

**Purpose:** To oversee Sydney Water’s strategy and performance for safety and wellbeing.

**Members:** T Bourne (Chair), M Kanga, C Robertson<sup>26</sup>, G Couttas, P Leaming<sup>25</sup>, K Young

### Planning and Infrastructure

**Purpose:** To oversee Sydney Water’s strategic approach to planning for Greater Sydney, including asset investment, and environmental and regulatory strategies.

**Members:** M Kanga (Chair), R Fisher, A Bloom, T Bourne, D Day<sup>24</sup>, C Robertson<sup>26</sup>, K Young

### Nominations

**Purpose:** To assist the Board in fulfilling its corporate governance responsibilities with regard to Director appointments and re-appointments.

**Members:** B Morgan (Chair), A Bloom, T Bourne, G Couttas, D Day<sup>24</sup>, R Fisher, M Kanga, P Leaming<sup>25</sup>, C Robertson<sup>26</sup>

### Remuneration

**Purpose:** To oversee Sydney Water’s people strategy including culture, employee relations, remuneration, capability, talent management and succession planning.

**Members:** B Morgan (Chair), A Bloom, T Bourne, G Couttas, D Day<sup>24</sup>, R Fisher, M Kanga, P Leaming<sup>25</sup>, C Robertson<sup>26</sup>, K Young

<sup>24</sup> Diana Day – July 2017 to May 2018.

<sup>25</sup> Paul Leaming – July 2017 to September 2017.

<sup>26</sup> Cameron Robertson – commenced December 2017.

## Board meetings and attendance

The Board meets monthly, except in January and June (unless required). Meetings are held in line with Sydney Water's Constitution following an annual schedule of set meeting dates and additional meetings called when Directors see fit. Thirteen meetings were held in 2017–18.

**Table 29: Director meetings, from 1 July 2017 to 30 June 2018**

Director	Board of Directors	Audit and Risk Committee	Planning and Infrastructure Committee	Remuneration Committee	Safety and Wellbeing Committee	Nominations Committee	Board Special CxP Subcommittee
	Attended (number held) <sup>27</sup>	Attended (number held)	Attended (number held)	Attended (number held)	Attended (number held)	Attended (number held)	Attended (number held)
B Morgan	(C) 12 (13)	4 (5)	3 (4)	(C) 1 (1)	1(4)	(C) 2 (2)	(C) 1 (1)
A Bloom	13 (13)	5 (5)	4 (4)	1 (1)		1 (2) <sup>28</sup>	
T Bourne	12 (13) <sup>29</sup>		4 (4)	1 (1)	(C) 4 (4)	2 (2)	
G Couttas	13 (13)	(C) 5 (5)		1 (1)	4 (4)	2 (2)	1 (1)
D Day	11 (12) <sup>30</sup>	4 (5)	4 (4)	1 (1)		1 (1) <sup>30</sup>	
R Fisher	12 (13)	5 (5)	2 (4)	0 (1)		2 (2)	
M Kanga	13 (13)		(C) 4 (4)	1 (1)	4 (4)	1 (2)	
P Leaming	3 (3) <sup>31</sup>	2 (2) <sup>31</sup>		0 (1) <sup>31</sup>	0 (1) <sup>31</sup>		
C Robertson	6 (6) <sup>32</sup>		2 (2) <sup>32</sup>		2 (2) <sup>32</sup>	1 (1) <sup>32</sup>	
K Young	11 (13)	5 (5)	4 (4)	1 (1)	4 (4)		1 (1)

**Note:** The above table reflects meetings attended by a Director in their capacity as a member only, except for the Chairman of the Board and the Managing Director whose attendance has been recorded for all meetings whether as a member or observer.

(C) stands for Chairperson for Board or Committee meeting.

<sup>27</sup> The Board held a strategy session with the Executive on 22 November 2017. This session is not counted as a Directors meeting.

<sup>28</sup> Dr Abby Bloom was not invited to participate in the Nominations Committee held on 26 June 2018, as she had a conflict of interest.

<sup>29</sup> Mr Trevor Bourne chaired the Board meeting on 23 May 2018, as Mr Bruce Morgan was an apology.

<sup>30</sup> Dr Diana Day ceased being a Director on 31 May 2018. The figures in this row reflect the number of meetings attended while Dr Diana Day was a Director.

<sup>31</sup> Mr Paul Leaming ceased being a Director on 14 September 2017. The figures in this row reflect the number of meetings attended while Mr Paul Leaming was a Director.

<sup>32</sup> Mr Cameron Robertson was appointed as a Director on 21 December 2017. The figures in this row reflect the number of meetings attended while Mr Cameron Robertson was a Director.



# Appendix 2:

## Government Information (Public Access) (GIPA)

We received 86 valid applications under the *Government Information (Public Access) Act 2009* (GIPA) in 2017–18. We also decided four applications carried over from 2016–17. For 15 applications, the processing period allowed under the GIPA Act extends into the 2018–19 financial year.

One application was withdrawn by the applicant and one application was transferred to another government agency.

In 2017–18, 73 applications were decided.

- We granted 69 applications access to information in full.
- We refused to provide information for one application because there were overriding public interest concerns against disclosing some information (as listed in Table A, regarding section 14 of the GIPA Act).
- We refused to deal with two applications because the applicants failed to provide the requested advance deposit for the processing charge.
- For one application, information was not held by Sydney Water.

We aim to proactively make information publicly available on our website. We do this by identifying the:

- categories of information often asked about
- initiatives, developments or projects that we want the public to know about
- important information we've produced since the last review
- information that it would be in the public interest for us to disclose.

In 2017–18, we proactively made information about IPART's review of our *Operating Licence* available on our website, free of charge.

You can learn more about what information is available and how to access it at [sydneywater.com.au/GIPA](http://sydneywater.com.au/GIPA).

**Table A: Number of applications by type of applicant and outcome**<sup>33</sup>

Applicant	Access granted in full	Access granted in part	Access refused in full	Information not held	Information already available	Refuse to deal with application	Refuse to confirm/deny whether information is held	Application withdrawn
Media	0	0	0	0	0	0	0	0
Members of Parliament	1	0	0	0	0	1 <sup>34</sup>	0	0
Private sector business	17	0	0	0	0	0	0	0
Not-for-profit organisations or community groups	1	0	0	0	0	0	0	0
Members of the public (application by legal representative)	28	0	0	1	0	0	0	0
Members of the public (other)	22	0	1	0	0	1 <sup>34</sup>	0	1

**Table B: Number of applications by type of application and outcome**

Type	Access granted in full	Access granted in part	Access refused in full	Information not held	Information already available	Refuse to deal with application	Refuse to confirm/deny whether information is held	Application withdrawn
Personal information applications <sup>35</sup>	0	0	0	0	0	0	0	0
Access applications (other than personal information applications)	68	0	1	1	0	2	0	1
Access applications that are partly personal information applications and partly other	1	0	0	0	0	0	0	0

<sup>33</sup> Note: We may make more than one decision regarding a particular access application. If so, we record each decision made. This also applies to Table B.

<sup>34</sup> Failure to pay advance deposit for processing charges.

<sup>35</sup> A personal information application is an access application for personal information (as defined in clause 4 of Schedule 4 to the GIPA Act) about the applicant, where the applicant is an individual.

**Table C: Invalid applications**

Reason for invalidity	Number of applications
Application does not comply with formal requirements (section 41 of the Act)	1
Application is for excluded information of the agency (section 43 of the Act)	0
Application contravenes restraint order (section 110 of the Act)	0
Total number of invalid applications received	1
Invalid applications that subsequently became valid applications	1

**Table D: Conclusive presumption of overriding public interest against disclosure: matters listed in Schedule 1 to Act**

	Number of times consideration used <sup>36</sup>
Overriding secrecy laws	0
Cabinet information	0
Executive Council information	0
Contempt	0
Legal professional privilege	0
Excluded information	0
Documents affecting law enforcement and public safety	0
Transport safety	0
Adoption	0
Care and protection of children	0
Ministerial code of conduct	0
Aboriginal and environmental heritage	0

**Table E: Other public interest considerations against disclosure: matters listed in table to section 14 of Act**

	Number of occasions when application not successful
Responsible and effective government	0
Law enforcement and security	0
Individual rights, judicial processes and natural justice	0
Business interests of agencies and other persons	0
Environment, culture, economy and general matters	0
Secrecy provisions	1
Exempt documents under interstate Freedom of Information legislation	0

<sup>36</sup> More than one public interest consideration may apply in relation to a particular access application and, if so, each such consideration is to be recorded (but only once per application). This also applies in relation to Table E.

**Table F: Timeliness**

	Number of applications
Decided within the statutory timeframe (20 days plus any extensions)	73
Decided after 35 days (by agreement with applicant)	0
Not decided within time (deemed refusal)	0
Total	73

**Table G: Number of applications reviewed under Part 5 of the Act (by type of review and outcome)**

	Decision varied	Decision upheld	Total
Internal review	0	0	0
Review by Information Commissioner <sup>37</sup>	1	0	1
Internal review following recommendation under section 93 of Act	1	0	1
Review by NCAT	0	0	0
Total	2	0	2

**Table H: Applications for review under Part 5 of the Act (by type of applicant)**

	Number of applications for review
Applications by access applicants	4
Applications by persons to whom information the subject of access application relates (see section 54 of the Act)	1

**Table I: Applications transferred to other agencies**

	Number of applications transferred
Agency-initiated transfer	1
Applicant-initiated transfer	0

<sup>37</sup> The Information Commissioner does not have the authority to vary decisions, but can make recommendations to the original decision maker. The data in this case indicates that a recommendation to vary or uphold the original decision has been made. Sydney Water did not receive the outcome of three additional applications under review by the Information Commissioner in 2017–18.

# Appendix 3: Public interest disclosures

**Table 30: Public interest disclosures, 1 July 2017 to 30 June 2018**

Public interest disclosures	Number of disclosures <sup>38</sup>
Number of public officials who made public interest disclosures to Sydney Water	26
Number of public interest disclosures received by Sydney Water	26
Of the public interest disclosures received, how many were primarily about:	
• corrupt conduct	24
• maladministration	2
• serious and substantial waste	0
• government information contravention	0
• local government pecuniary interest contravention	0
Number of public interest disclosures finalised in this reporting period	21

We have an established internal reporting policy to the Managing Director and Internal Audit. We also maintain an independent corruption hotline available to staff and the public to report corrupt behaviour, serious waste of resources or any other suspicious matters.

We raise staff awareness through:

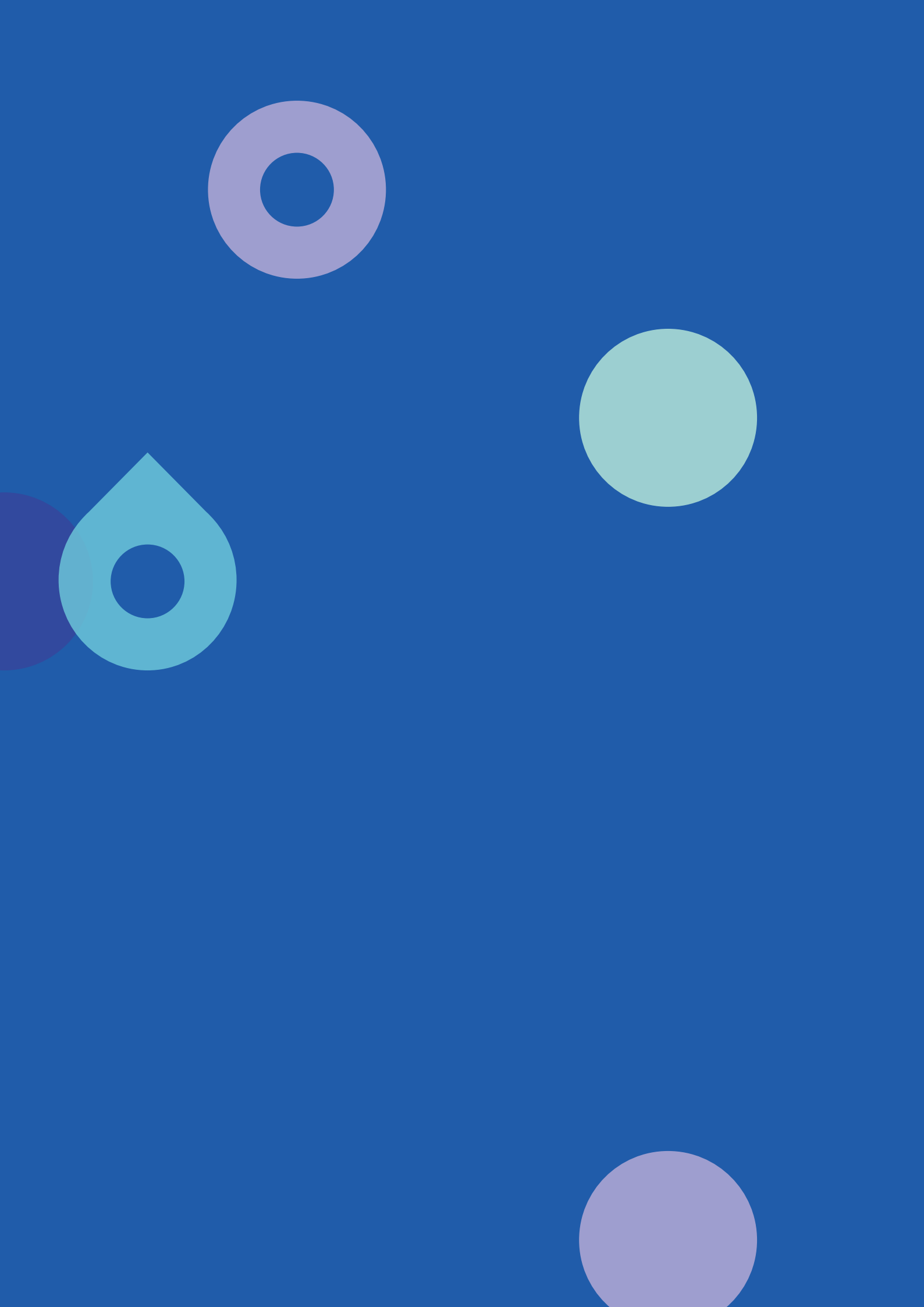
- an annual e-learning program
- a quarterly integrity update on current issues
- awareness articles in the weekly staff newsletter, eNews
- face-to-face training for teams, including new staff members during their induction.

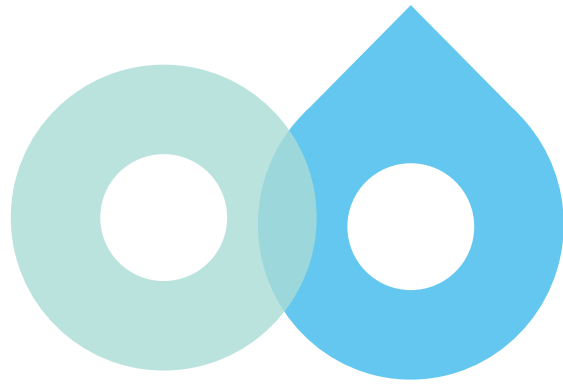
# Appendix 4: Annual Report external production costs

We have outsourced some elements of this year's Annual Report production due to limitations with internal capabilities and resources. The total estimated cost of producing the Annual Report 2017–18 is \$8,340 (excluding GST).<sup>39</sup>

<sup>38</sup> Reporting aligns with the NSW Ombudsman definition, which includes contractors, sub-contractors and instances where anonymous disclosures could reasonably be believed to have been made by employees, contractors or subcontractors.

<sup>39</sup> Estimated figure correct at time of publication.



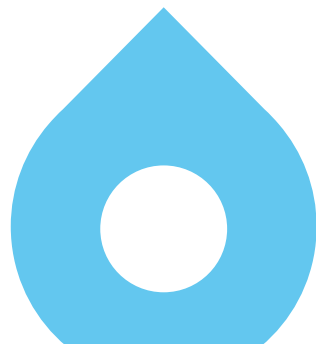


## Chapter 5

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# Glossary and indexes

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# Glossary

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## A

### **AICD**

Australian Institute of Company Directors

### **ARC**

Audit and Risk Committee

### **Average**

The sum of scores divided by the total number of results.

## B

### **BillAssist®**

Sydney Water's Customer Assistance Program to help customers with payment difficulties and/or growing debt.

### **Biosolids**

Nutrient-rich, organic waste products that can be used in agriculture, composting and land rehabilitation.

### **Bypass**

Partially treated wastewater discharged from a wastewater treatment plant.

## C

### **Catchment**

An area of land surrounding a dam or water storage or the area served by a wastewater treatment plant.

Rain falling over a water catchment drains to a dam and may contain nutrients, minerals and contaminants collected from the land surfaces.

Waste is collected from homes and businesses in wastewater pipes (sewers) within a wastewater catchment and drains by gravity or is pumped to a specific wastewater plant.

### **Centrepay**

A regular payment arrangement that allows customers receiving income support from Centrelink to pay bills through regular deductions from their Centrelink payment.

### **Conservation**

Resource use, management and protection to prevent degrading, depleting or wasting resources to ensure resources are sustainable for present and future generations.

### **Culturally and linguistically diverse (CALD)**

Customers who speak English as a second language.

## D

### **Drinking water**

Water treated to comply with Australian Drinking Water Guidelines 2011 to the satisfaction of NSW Health.

### **DSP**

Development Servicing Plan

## E

### **EBITDA**

Earnings before interest, tax, depreciation and amortisation

### **Energy & Water Ombudsman NSW (EWON)**

The NSW Government-approved dispute resolution scheme for NSW electricity, gas and water customers.

### **Environment Protection Authority (EPA)**

An independent body that regulates and responds to activities that can affect the health of the NSW environment and its people.



## ET

Equivalent tenement

## F

### Filtration (water)

A process for removing particles from water by passing it through a porous barrier – such as a screen, membrane, sand or gravel.

## G

### Government Information Public Access Act 2009 (GIPA Act)

An Act to facilitate public access to government information.

## I

### IICATS

Integrated instrumentation, control, automation and telemetry system

### Independent Pricing and Regulatory Tribunal (IPART)

The independent pricing regulator for the water, public transport, local government, electricity and gas industries, as well as the licence administrator of water, electricity and gas.

## K

### Kilolitre (kL)

One thousand litres of water or one tonne of water.

## L

### Litre (L)

A measure of liquid volume.

### Lost time injury (LTI)

A work-related injury or illness that results in an individual being unable to work on a subsequent scheduled workday or shift.

### Lost time injury frequency rate (LTIFR)

The main measure of safety performance in many companies in Australia. It is the number of lost-time injuries multiplied by one million divided by the number of man-hours worked in the reporting period.

## M

### Medical treatment injury (MTI)

A work-related injury or illness that results in treatment by, or under the order of a qualified medical practitioner, or any injury that does not result in the loss of a full day/shift.

### Megalitre (ML)

One million litres of water or one thousand tonnes of water.

### Minimum

The lowest recorded reading.

### Monitoring

An ongoing testing program to assess potential changes in circumstances.

## N

### Naturalise

Adding natural features, such as trees and rocks, to improve environmental and social values.

### NSW Civil and Administrative Tribunal (NCAT)

The specialist tribunal service in NSW dealing with a broad and diverse range of matters including the administrative review of government decisions.

### NDB Scheme

Notifiable Data Breaches Scheme

### NPAT

Net profit after tax

### Nutrients

Compounds needed for growth by plants and other organisms. Major plant nutrients are phosphorus and nitrogen.

## O

### Office of Environment and Heritage (OEH)

Regulates industry, protects and conserves the NSW environment, manages more than 850 national parks and reserves and protects the natural, cultural and built heritage in NSW.

## **Operating Licence**

A licence issued under the *Sydney Water Act 1994* that sets many of our performance standards. IPART administers our Operating Licence.

## **P**

### **PAS**

The Payment Assistance Scheme assists customers who have trouble paying their Sydney Water bill.

### **PIA**

Privacy Impact Assessment

### **PlumbAssist®**

A service that helps customers in financial hardship make emergency or essential plumbing repairs.

## **R**

### **R&D**

Research and development

### **Recycled water**

Highly treated wastewater used in industrial processes, irrigation in agriculture, urban parks and landscapes and in households for flushing toilets, car washing and watering gardens. It is not for drinking or personal use.

### **Recycling**

Collecting and processing a resource so that it can be re-used.

### **Regulators**

Organisations that set regulations and standards. Sydney Water's regulators include IPART, the EPA and NSW Health.

### **Rehabilitate**

To restore to good condition.

### **Renew**

To make new, to restore or to make effective for an additional period.

## **Reservoir**

A man-made water storage area. Water is transferred from dams and treatment plants by gravity or pumping stations to reservoirs, which are usually on high land. The water then flows through a system of mains and smaller pipes to our customers.

## **Risk assessment**

The process of gathering data and making assessments to estimate short and long-term harmful effects on human health or the environment from exposure to hazards from a particular product or activity.

## **S**

### **SCADA**

Supervisory control and data acquisition

### **SDP**

Sydney Desalination Plant

### **SES**

Senior Executive Service

### **Sewage**

See *Wastewater*.

### **Sewage overflow**

See *Wastewater overflow*.

### **Sludge**

Solid matter removed during wastewater or water treatment, which can be processed into a material that can be beneficially used (biosolids).

### **Staff engagement**

The extent to which staff commit to someone or something in their organisation, how hard they work, and how long they stay as a result of that commitment.

### **Stormwater**

Rainwater that runs off the land, frequently carrying various forms of pollution such as litter, debris, animal droppings and dissolved chemicals. This untreated water is carried in stormwater channels and discharged directly into creeks, rivers, the harbour and the ocean.



## Stormwater system

The system of pipes, canals and other channels used to carry stormwater to bodies of water, such as rivers or oceans. The system does not usually involve treatment.

## Streamwatch

A water quality monitoring program formerly run by Sydney Water and the Sydney Catchment Authority (now WaterNSW) and now transferred to the Australian Museum.

## T

### Total recordable injury frequency rate (TRIFR)

TRIFR is the sum of all lost time injuries plus the number of work-related injuries or illnesses requiring medical treatment per million hours worked.

## Trade waste

Industrial or commercial wastewater with significant potential contaminants, with limits usually set by agreements.

## Treatment (water)

The filtration and disinfection process.

## V

## Volume

The size, measure, or amount of anything in three dimensions.

## W

## Waste

Discarded, rejected, unwanted, surplus or abandoned substances. Does not include gas, water, wastewater, beneficially used biosolids and re-used water.

## Wastewater

The dirty water that goes down the drains of homes and businesses and into the wastewater system.

## Wastewater overflow

A wastewater overflow occurs when wastewater escapes from the wastewater system due to insufficient capacity or blockage in the pipe.

## Wastewater system

The system of pipes and pumping stations for collecting and transporting wastewater from each property to the wastewater treatment plant.

## Wastewater treatment plant

The place where we put wastewater through filtration and other treatment processes. Once the waste is treated we then either discharge it to the environment or recycle it.

## Water demand

Total amount of water needed for drinking, agriculture, industry, recreation and gardening. This is seasonal and highly influenced by the weather.

## Water filtration plant

A treatment plant that improves water quality by removing impurities through filtration.

## Water pumping stations

Stations house mechanical pumping equipment used to transport water from lower ground to higher ground through pipes.

## Water quality

The physical, chemical and biological measures of water.

## Water Services Association of Australia (WSAA)

The peak industry body that brings together and supports the Australian urban water industry. Members provide water and wastewater services to more than 16 million Australians and provide services to many of the country's largest industries and commercial enterprises.

## Waterways

All streams, creeks, rivers, estuaries, inlets and harbours.

## Wetlands

A low-lying area often covered by shallow water, such as marshes, mangroves, swamps, bogs or billabongs. Rich in biodiversity, they store and filter water and replenish underground water supplies.

# Index of figures, maps and tables

Reference	Title	Page
Table 1	Principal statistics, 1 July 2017 to 30 June 2018	9
Figure 1	Map of our area of operations	10
Table 2	Safety performance, 1 July 2016 to 30 June 2018	16
Table 3	Corporate reputation performance, 1 July 2016 to 30 June 2018	17
Table 4	Customer experience performance, 1 July 2016 to 30 June 2018	18
Table 5	Business sustainability performance, 1 July 2016 to 30 June 2018	18
Table 6	Customer satisfaction indicators, 2014 to 2018	22
Table 7	Social program expenditure, from 2013–14 to 2017–18	24
Table 8	CALD initiatives, 1 July 2017 to 30 June 2018	25
Table 9	Funds granted to organisations, 1 July 2017 to 30 June 2018	28
Figure 2	Organisation chart as at 30 June 2018	31
Figure 3	TRIFR for staff and contractors, from 1 July 2016 to 30 June 2018	32
Figure 4	LTIFR for staff and contractors, from 1 July 2016 to 30 June 2018	32
Table 10	Trends in the representation of workforce diversity groups	34
Table 11	Trends in the distribution of workforce diversity groups – distribution index	34
Table 12	Workforce numbers	36
Table 13	Executive remuneration, from 1 July 2017 to 30 June 2018	37
Table 14	Payments to consultants for engagements over \$50,000, from 1 July 2017 to 30 June 2018	37
Table 15	Overseas travel, 1 July 2017 to 30 June 2018	38
Table 16	Enterprise risks for 1 July 2017 to 30 June 2018	40
Table 17	Research and development investments made during 2017–18	42
Table 18	Significant amendments to projects reported for the previous financial year	43
Table 19	Decisions made under the Heritage Council of NSW delegation, 1 July 2017 to 30 June 2018	43

Reference	Title	Page
Table 20	Major capital works projects completed, 1 July 2017 to 30 June 2018	44
Table 21	Major capital works in progress as at 30 June 2018	45
Table 22	Profit and loss statement, from 2014–15 to 2017–18	50
Table 23	Debt management, from 1 July 2017 to 30 June 2018	52
Table 24	2018–19 budget	52
Table 25	List of annual reporting exemptions	52
Table 26	Compliance with IPART's Determination No. 8, 2006	53
Table 27	IPART pricing table, 1 July 2017 to 30 June 2018	54
Figure 5	AICD Corporate Governance Framework	122
Table 28	Board of Directors skills matrix, as at 30 June 2018	123
Table 29	Director meetings, from 1 July 2017 to 30 June 2018	128
Table A	Number of applications by type of applicant and outcome	130
Table B	Number of applications by type of application and outcome	130
Table C	Invalid applications	131
Table D	Conclusive presumption of overriding public interest against disclosure: matters listed in Schedule 1 to Act	131
Table E	Other public interest considerations against disclosure: matters listed in table to section 14 of Act	131
Table F	Timeliness	132
Table G	Number of applications reviewed under Part 5 of the Act (by type of review and outcome)	132
Table H	Applications for review under Part 5 of the Act (by type of applicant)	132
Table I	Applications transferred to other agencies	132
Table 30	Public interest disclosures, 1 July 2017 to 30 June 2018	133

## Statutory information index

<b>Annual Reports (Statutory Bodies) Act 1984</b>	
<b>s7(1)(a)(i)</b> The financial report prepared in accordance with requirements of the <i>Public Finance and Audit Act 1983</i> (PF&A Act)	60–119
<b>s7(1)(a)(ii)</b> The opinion of the auditor given under Div 3 Part 3 of the PF&A Act	58–59
<b>s7(1)(a)(iia)</b> A response from the statutory body to any issue which the Auditor-General or an authorised person raises in a report under section 43 (2) of the PF&A Act as being a significant issue.	57
<b>s7(1)(a)(iii)</b> A detailed budget for the financial year to which the report relates and an outline budget for the next financial year	50–52
<b>s9(1)</b> Nature of report of operations: (a) charter (b) aims and objectives (c) access (d) management and structure (e) summary review of operations (f) legal change	Please refer to individual items listed under Schedule 1 within this Statutory index
<b>s9A</b> Letter of submission	3
<b>Annual Reports (Statutory Bodies) Regulation 2015</b>	
<b>Regulation 5</b> Identification of audited financial statements	62, 119
<b>Regulation 7</b> Detailed budget	50–52
<b>Regulation 8 (1)(a)</b> Significant matters	Not applicable
<b>Regulation 8 (1)(b)(c)</b> Privacy and Personal Information Protection Act 1998	30
<b>Regulation 8 (2)(a)</b> External production costs	133
<b>Regulation 8 (2)(b)</b> Internet address	Back page
<b>Regulation 10</b> Comparison of investment performance	51
<b>Regulation 11</b> Comparison of liability management	52
<b>Regulation 12</b> Number and remuneration of senior executive	37
<b>Regulation 14 (2)</b> Content index	This table
<b>Regulation 14 (2)</b> Table of contents	4–5
<b>Regulation 17 (4)</b> Exemptions from reporting	52
<b>Schedule 1</b> Charter	8
<b>Schedule 1</b> Aims and objectives	8–10, 16–19
<b>Schedule 1</b> Access	Back cover
<b>Schedule 1</b> Management and structure – organisation chart	31, 122–128
<b>Schedule 1</b> Summary review of operations	11–15, 22, 44–47, 50–52
<b>Schedule 1</b> Funds granted to non-government community organisations	28–29
<b>Schedule 1</b> Social programs	23–24
<b>Schedule 1</b> Legal change	40–41
<b>Schedule 1</b> Economic or other factors	11–13, 50–52
<b>Schedule 1</b> Management and activities	8–19, 44–47

<b>Schedule 1</b> Research and development	41–43
<b>Schedule 1</b> Human resources	34–36
<b>Schedule 1</b> Consultants	37
<b>Schedule 1</b> Workforce diversity	26, 34–35
<b>Schedule 1</b> Land disposal	51, 143
<b>Schedule 1</b> Promotion – overseas travel	38
<b>Schedule 1</b> Consumer response	22
<b>Schedule 1</b> Payment of accounts	Not applicable
<b>Schedule 1</b> Time for payment of accounts	51
<b>Schedule 1</b> Risk management and insurance activities	39–40
<b>Schedule 1</b> Controlled entities	Not applicable
<b>Schedule 1</b> Multicultural policies and services program	25–27
<b>Schedule 1</b> Agreements with Multicultural NSW	Not applicable
<b>Schedule 1</b> Work health and safety	13, 16–17, 32–33
<b>Government Information (Public Access) Act 2009</b>	
s125 Reports to Parliament	129–132
<b>Heritage Act 1977</b>	
s169 Heritage delegations	43
<b>Independent Pricing and Regulatory Tribunal Act 1992</b>	
s18 Implementation of price determinations	53–56
<b>Public Interest Disclosures Act 1994</b>	
s31 Reports to Parliament	133
<b>State Owned Corporations Act 1989</b>	
s24A (3)(a) Departures from performance targets in the Statement of Corporate Intent	50–51
s24A (3)(b) Reasons for departures from performance targets	50–52
<b>Sydney Water Act 1994</b>	
<b>Schedule 5(2)(a)</b> Detailed budget	50–51
<b>Schedule 5(2)(b)</b> Outline budget for 2018–19	52
<b>Schedule 5(3)(a)</b> Research and development	41–43
<b>Schedule 5(3)(b)</b> Human resources	34–36
<b>Schedule 5(3)(c)</b> Consultants	37
<b>Schedule 5(3)(d)</b> Equal employment opportunity	34–35
<b>Schedule 5(3)(e)(i)</b> Promotion	29–30
<b>Schedule 5(3)(e)(ii)</b> Overseas travel	38
<b>Schedule 5(3)(f)</b> Consumer response	22
<b>Schedule 5(3)(g)</b> Guarantee of service	22
<b>Schedule 5(3)(h)</b> Time for payment of accounts	51
<b>Schedule 5(4)</b> Comparison of investment performance	51
<b>Schedule 5(5)</b> Comparison of liability management performance	52

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## About this report

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This is Sydney Water's full Annual Report for 1 July 2017 to 30 June 2018. It covers our:

- statutory information
- financial statements
- other regulatory information.

Visit [sydneywater.com.au/annualreport](http://sydneywater.com.au/annualreport) to read the *Annual Report 2017–18* and previous reports.

If you have any comments or questions about this report, please email [annualreport@sydneywater.com.au](mailto:annualreport@sydneywater.com.au) or write to:

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## Contact us

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### By telephone

**Customer enquiries:**

13 20 92 (Monday – Friday, 8.30 am – 5.30 pm)

**Help with leaks and faults:**

13 20 90 (24 hours every day)

**Corruption hotline:**

Freecall 1800 500 965 (24 hours every day)

**Interpreter service:** 13 14 50

**Hearing and speech difficulties:** We offer a free teletypewriter (TTY) service for customers with hearing and speech difficulties. Call the National Relay Service on 13 36 77 and enter the phone number 13 20 90 (24 hours every day).

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