

State
water

Taking care of it

Statement of Corporate Intent 2013-14



State Water Corporation

Table of contents

1. Shareholder agreement	3
2. Objectives	4
3. Business overview	5
4. Financial performance targets	7
5. Non-financial performance targets	8
6. Reporting obligations	9
7. Policy compliance	10

Statement of Corporate Intent 2013-14

State Water reference: DOC13/281

June 2013

State Water Corporation

Level 10, 55 Clarence Street
Sydney NSW 2000

GPO Box 1604 Sydney NSW 2001

Ph. 1300 662 077

www.statewater.com.au

1. Shareholder agreement

The Statement of Corporate Intent (SCI) outlines the future strategic direction and priorities for State Water Corporation, including detailed information for 2013-14.

The SCI sets out State Water's vision, values, strategic goals, outcomes, strategies and programs. These guide the way that State Water will operate. The SCI is reviewed annually.

Commencement date: 1 July 2013

This Statement of Corporate Intent has been agreed between:



Bruce Foy
Chairman
State Water Corporation
Date: 30 September 2013



B L Tucker
Chief Executive Officer
State Water Corporation
Date: 30 September 2013

Hon Michael Baird, MP
Treasurer
Minister for Industrial Relations
Member for Manly
Date:

Hon Andrew Constance, MP
Minister for Finance and Services
Date:

2. Objectives

2.1 Corporate objectives

State Water Corporation (State Water) was established as a statutory State-owned corporation in 2004 under the *State Owned Corporations Act 1989*. Under section 5 of the *State Water Corporation Act 2004* State Water's principle objective is to "capture, store and release water in an efficient, effective, safe and financially responsible manner". Its secondary objectives are:

- a) to be a successful business and, to that end:
 - (i) to operate at least as efficiently as any comparable business, and
 - (ii) to maximise the net worth of the State's investment in the Corporate
- b) to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates,
- c) where its activities affect the environment, to conduct its operations in compliance with the principles of ecologically sustainable development contained in section 6 (2) of the *Protection of the Environment Administration Act 1991*,
- d) to exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates.

2.2 Statutory and regulatory instruments

- State Water's operations are governed and facilitated by the following statutory and regulatory instruments:
- *State Water Corporation Act 2004 (NSW)*
- *State Owned Corporation Act 1989 (NSW)*
- *Dams Safety Act 1978 (NSW)*
- *Water Act 2007 (Commonwealth)*
- *Water Management Act 2000*
- Water Sharing Plans under the *Water Management Act 2000*
- Works Approvals (under development by NSW Office of Water)
- State Water Operating Licence 2008 – 2013 (The Licence is currently under review, with a new Licence to come into effect from July 2013)

3. Business overview

State Water is a bulk water supply business, delivering water to around 6,000 licence holders including farm business customers, rural towns, cities, mining companies, power generators and the environmental water holders.

State Water's area of operations includes the whole of the State, (including the Fish River Water Supply) other than the area of operations of Sydney Water Corporation, Sydney Catchment Authority, Hunter Water Corporation and any other water supply authority in NSW.

State Water's customer base is dominated by five large private irrigation companies that, in turn, distribute water to shareholding water users. Environmental water holders are increasingly becoming a major customer segment for State Water.

State Water owns, maintains, manages and operates major infrastructure assets valued at \$3.6 billion (unimpaired) that enable delivery of bulk water services that are integral to the economic activity of rural and regional NSW, and increasingly to the restoration of a healthy environment.

State Water operations at a glance	
Dams	20
Weirs and regulators	280
Storage capacity (approx)	14,500 GL
Regulated river systems	14
Length of river system (approx)	7,000km
Customers (approx)	6,000
High security entitlements serviced	926 GL
General security entitlements serviced	6,826 GL
Offices	12
Employees	318

2012-13 performance highlights

Sales - estimated water sales of around 6,320 GL (excluding Fish River Water Supply System), the highest since corporatisation in 2004.

Profitability – Regulated operating expenditure target on track and target dividend payment of \$30.8 million, the highest since corporatisation.

Safety – Lost time injury frequency rate of 4.75 (May 2013 excluding capital project contractors).

Operations - 100% of audited Operating Licence compliance obligations graded as full to high compliance by IPART for 2011-12.

Strategic direction

State Water vision	Excellence and growth
State Water values	<p>Safety - above all else</p> <p>People - respectful, expert, accountable, leaders</p> <p>Environment - respected and enhanced</p> <p>Customers - needs met and expectations exceeded</p> <p>Profit - commercial success</p>

State Water corporate plan 2012-15

Strategic themes	Strategies
Build core business strength: resilient and profitable	1. Develop and maintain safe and sustainable assets that reflect best practice standards of fiscal responsibility and public risk
	2. Establish systems and processes that drive business improvement, flexibility and audit requirements
	3. Exceed the commercial expectations of shareholders and regulators, including profitability and cost efficiency
Create tangible value for our customers: supporting regional growth	4. Maximise water delivery efficiency
	5. Modernise and expand our service offerings to customers
	6. Develop works and measures projects to maximize long term water availability for customers
Develop our people: safe and engaged.	7. Build a capable, safe and engaged workforce
	8. Develop leadership capability that inspires people to achieve
	9. Ensure State Water is engaged with the broader community
Grow and promote our utility business: broader profit base	10. Expand our rural bulk water operations
	11. Extend water services capability and asset ownership in related sectors of urban water and mining
	12. Fully utilise assets by exploiting potential for renewable energy and/or carbon sequestration

4. Financial performance targets

	FY14					FY15	FY16
	Q1	Q2	Q3	Q4	Full year		
Revenue	28.2	53.8	46.6	31.8	160.4	115.2	125.7
EBITDA	3.4	36.2	22.5	10.3	72.4	50.0	55.5
EBIT	(3.0)	29.8	16.0	3.6	46.4	7.1	23.4
OPAT	(6.0)	26.6	12.6	0.0	33.3	(10.7)	(1.1)
NPAT	(6.0)	26.6	12.6	0.0	33.3	(10.7)	(1.1)
Dividend payout ratio					70%	70%	70%
ROA (%)					5.6%	0.8%	2.2%
ROE (%)					8.5%	(2.7%)	(0.3%)

Key features for the 2013-14 financial year include:

- Revenue comprising regulated revenue of \$111.8 million, community service obligations of \$0.5 million, MDBA commercial business revenue of \$15.7 million and other commercial business revenue of \$32.4 million.
- Net Profit After Tax (NPAT) forecast to increase on forecast NPAT for 2012-13 by \$16 million.

The achievement of financial performance targets is contingent on water availability. State Water's total storage level as at March 2013 was 68% of total capacity. State Water's estimate of water deliveries in 2013-14 and forward years is 4,600 GL (as the average sales volume). Given the 2013-14 financial year is the last year under the current pricing determination, the regulated revenue forecasts for 2014-15 and 2015-16 are based upon estimated regulated revenue requirements using a building block approach.

Revenue projections for 2014-15 and 2015-16 are impacted by an expected reduction in regulated revenue allowed for the next regulatory period (2014 – 2017), a reduction in non-regulated revenue for works undertaken on behalf of the Murray Darling Basin Authority (MDBA) as projects are finalised and funding is reduced and an reduction in revenue for meter installation on behalf of the NSW Office of Water (NOW) over the next 5 years (which are both offset by corresponding reductions in operating expenditure). Forecast net losses after tax are due to 'best estimates' of future impairment adjustments (shown within depreciation) and increasing interest expense as a result of increasing capital expenditure.

5. Non-financial performance targets

State Water operates in a regulated environment and is required to meet a broad range of performance standards set by regulatory agencies. These requirements all serve as performance targets for the business and State Water strives to meet these targets.

State Water also sets itself non-financial performance targets that relate back to the high level strategic themes outlined in its corporate plan.

Non-financial performance targets	Actual	Target			
	FY12	FY13	FY14	FY15	FY16
<i>Build core business strength: resilient and profitable</i>					
Operating Licence compliance	High to full	Full	Full	Full	Full
<i>Create tangible value for our customers: supporting regional growth</i>					
Maximise water delivery efficiency - operational surplus to sales	6%	5%	5%	5%	5%
<i>Develop our people: safe and engaged</i>					
Lost time injury frequency rate	4.4	Zero	Zero	Zero	Zero
<i>Grow and promote utility business: broader profit base</i>					
Stakeholder engagement – satisfaction score (biennial survey)	NA	91% (actual)	NA	95%	NA

6. Reporting obligations

The following reports will be provided to NSW Treasury by State Water during the course of the year:

- Half yearly report
- Quarterly reports
- Forecast financial statements requested by NSW Treasury e.g. via TOES
- Forecast of financial distributions and tax equivalents requested by NSW Treasury (budget round forecasts)
- Forecast capital works program via CAPTOES
- Reporting on capital projects monthly via the Major Capital Projects Reporting System (MCPRS)
- Submissions for Projects of State Significance
- Annual report

Accounting standards

As a 'For Profit' State Owned Corporation, State Water will comply with standards issued by the Australian Accounting Standards Board, NSW Treasury Circulars and NSW Treasury Policy Papers.

7. Policy compliance

Representation and commitment statement

1 The Board of State Water Corporation confirms that:

- a) performance targets within the SCI are based on and supported by State Water's Business Plan.
- b) the Chief Executive Officer has an employment contract and performance agreement. The employment contract is appraised annually with the next appraisal scheduled for August 2013. The contract expires on 19 August 2016.
- c) the voting shareholders will be provided with financial and other information, including information on major capital expenditure projects, on a quarterly basis to assess the performance against commitments in this SCI and to assess the value of the shareholders' investment in the business.
- d) State Water has a Strategic Asset Management Plan, which is as far as practicable consistent with the principles of the *TPP08-2 Total Asset Management (TAM) requirements for updating the NSW State Infrastructure Strategy (SIS)* and the *TPP04-1 NSW Government Procurement Policy*.
- e) asset maintenance policies and processes are adequate and appropriate to manage and control risks associated with physical assets.
- f) all known 'key risks' and 'major emerging contingent liabilities' which could materially impact the current and future results of State Water have been disclosed.
- g) it is aware of the internal audit and risk management policy outlined in *NSWTC09-08 Internal Audit and Risk Management Policy* and the associated *TPP09-5 Internal Audit and Risk Management Policy for the NSW Public Sector*. State Water has demonstrated its own practices are consistent with standards recommended for Australian Securities Exchange (ASX) listed companies and where appropriate, has applied any additional requirements that are set out in *NSWTC09-08*.
- h) projects of State Significance have been identified in accordance with the criteria set down in the *TPP02-4 Guidelines for Assessment of Projects of State Significance*. In-principle approval from the Expenditure Review Committee and final approval from the shareholder Ministers has been received for Projects of State Significance planned to commence in 2013-14.

7. Policy compliance (continued)

2 State Water complies with the requirements of:

- a) *TPP07-4 Financial Appraisal Guidelines* for capital expenditure projects commencing in 2013-14.
- b) *TPP07-7 Treasury Management Policy* and has disclosed related party interests which may represent a possible conflict of interest for Directors.
- c) section 3.4 Continuous Disclosure of the *TPP05-2 Reporting and Monitoring Policy for Government Businesses*; and
- d) NSW Treasury Circulars on accounting policy matters applicable to SOCs, as listed in the attachment 'State Owned Corporations Mandatory Accounting Policies 2013'.

3 State Water has agreed to comply with the requirements of:

- a) *Ministerial Memorandum M2012-04 Application of NSW Public Sector Wages Policy 2011 to State Owned Corporations*.
- b) *Ministerial Memorandum M2012-08 Application of Biofuels*.
- c) *Ministerial Memorandum M2010-07, Working Together: Public Sector Workplace Health and Safety and Injury Management Strategy 2010-2012*
- d) *Ministerial Memorandum M2010-03 Strengthening Aboriginal Employment Opportunities and Community Partnerships* and supports the adoption of initiatives contained within same.
- e) *Ministerial Memorandum M2009-04, Official Travel within Australia and Overseas*, as far as practical.
- f) *Ministerial Memorandum M2013-04, Implementation guidelines for procurement of publicly funded construction services* as far as practical from 1 July 2013