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Trends in New South Wales public sector assets and sales

Statistical Indicators 3/14

by Andrew Haylen

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Trends in New South Wales public sector assets and sales

by

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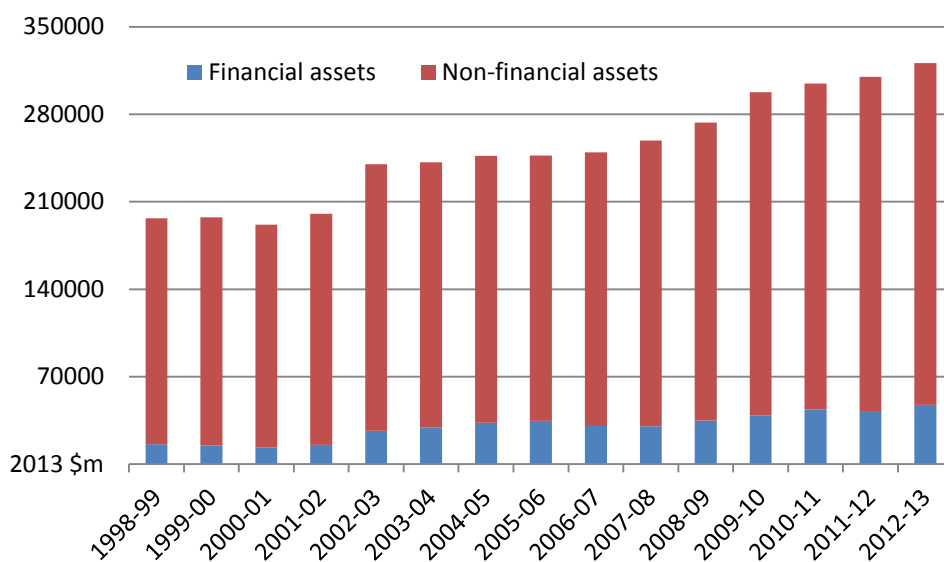
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SUMMARY

This statistical indicators paper identifies the recent trends in the value, sales and acquisitions of NSW public sector assets, at a whole of government, and individual department and public sector corporation level (selected by order of asset value for the 2012-13 financial year). As a preliminary to that discussion, the paper also presents recent trends in the State Budget position.

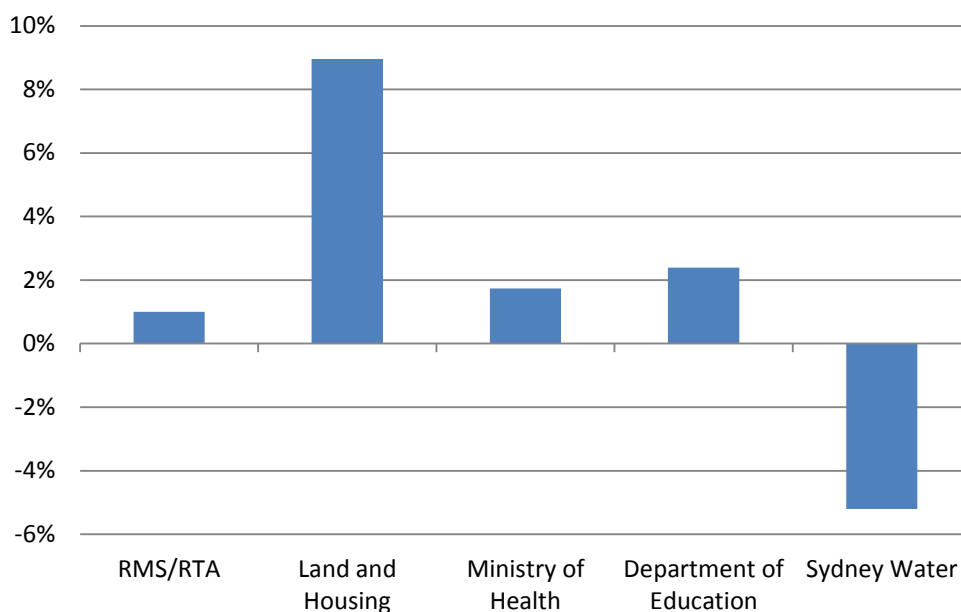
The data presented in this paper illustrates that real value of NSW public sector assets has increased consistently in the last decade or so. This has been driven predominantly by the revaluation of non-financial assets such as land and property, and also non-financial asset purchases.

Real value of NSW public sector financial and non-financial assets



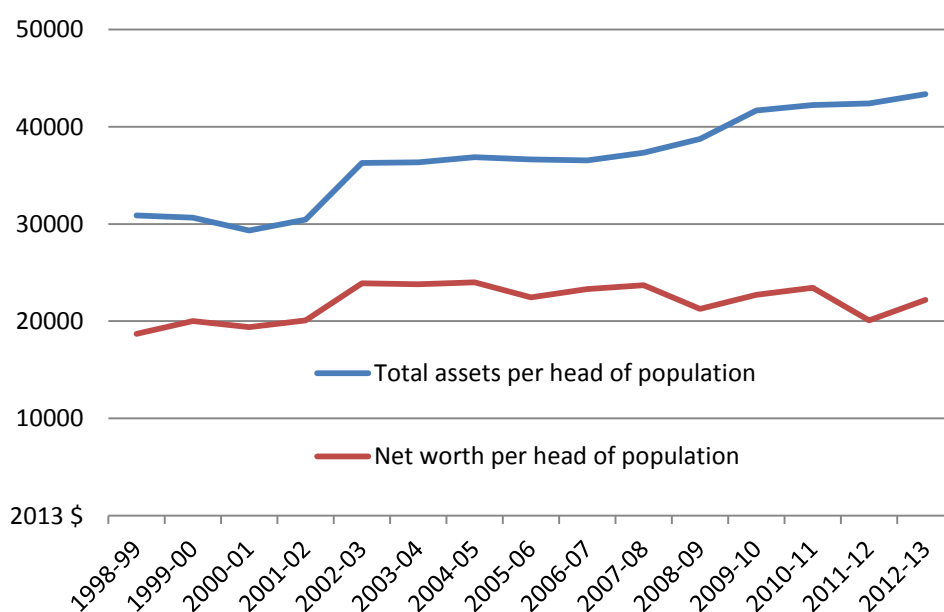
This growth has not been consistent across all NSW public sector organisations. Of those presented in this paper, it is evident that public trading enterprises with a high composition of land and property assets (such as the NSW Land and Housing Corporation) have experienced considerably higher real net asset value growth than other general government organisations (which are comprised of a higher proportion of operational assets subject to depreciation).

Figure: Average annual real net asset value growth rates, 1995-96 to 2012-13, selected agencies



While the value of NSW public sector assets has increased, so too has the value of the State's liabilities; and when assessing the State's net worth, in real terms and by per head of population, the NSW public sector is in a similar financial position to what it was a decade ago.

Real value of NSW public sector assets and net worth, per head of population



1. INTRODUCTION

In October 2012, the NSW Government released its 20-year [State Infrastructure Strategy](#) which outlined a forward program of more than 70 urban and regional infrastructure projects and reforms that should take priority over the next 20 years.¹ In the 2013-14 Budget Speech then Treasurer Mike Baird identified asset recycling as a key mechanism to fund these infrastructure projects:²

The vision laid out by the Government will become a reality, but only because we are prepared to create capacity on the balance sheet by recycling assets.

The long-term leases of Port Botany and Port Kembla to the private sector have been used to reduce net debt and provide additional capacity to finance infrastructure spending without accruing further debt.³ The Government also recently decided to proceed with the long term lease of the Port of Newcastle.

In the 2014-15 Budget, NSW electricity assets, including segments of its transmission and distribution network, were identified by the Baird Government to be privatised by mid-2015 at the earliest.⁴ The sale of these assets is expected to result in a \$20 billion windfall for the State Government, funds which will be injected directly into State infrastructure projects, such as the second harbour rail crossing and extending the North West Rail Link.⁵

This paper does not discuss which, if any, asset should or should not be privatised. Rather, its purpose is to identify recent trends in the value, sales and acquisitions⁶ of NSW public sector assets, at a whole of government, and individual department and public sector corporation level (for the top nine public sector agencies by asset value in 2012-13, as well as other selected water and electricity corporations).⁷ As a preliminary to that discussion, the paper also presents recent trends in the State Budget position.

2. OVERVIEW OF NSW BUDGET POSITION AND STATE FINANCES

The NSW State Government Budget result deteriorated in the early years of the O'Farrell Government. In 2010-11, the NSW Government reported a budget surplus of \$1,264 million, \$275 million (or 28 per cent) greater than in 2009-10. However, in 2011-12, the budget surplus declined by \$604 million and was reported at \$660 million for the financial year.

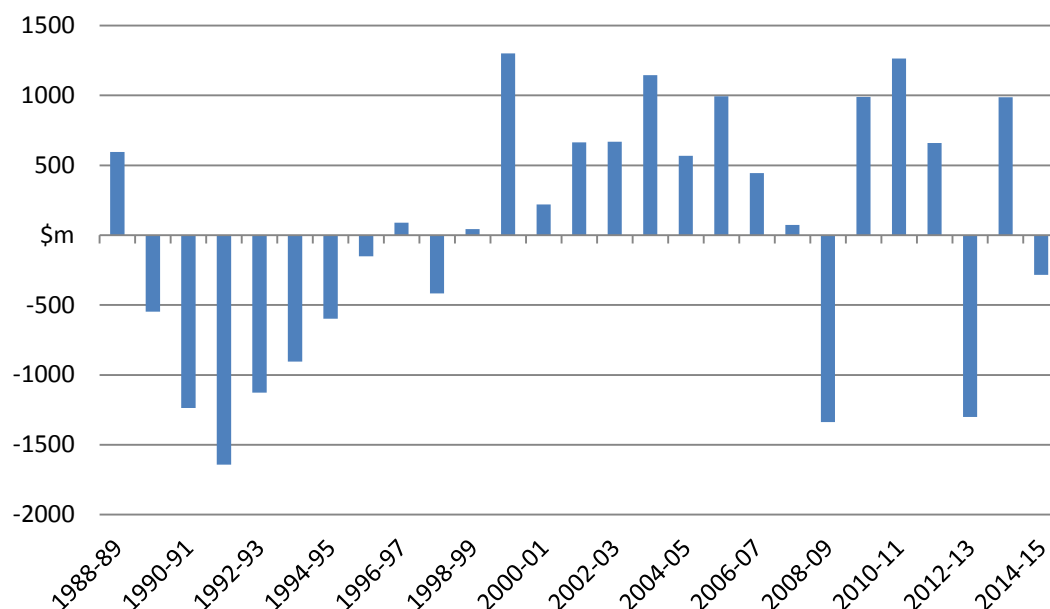
The budget position worsened in 2012-13, with the Government reporting a deficit of \$1,300 million; the worst result since the 2008-09 budget. This was revised from the reported deficit of \$374 million in the 2013-14 Budget Statement.

Estimates in the 2014-15 Budget Statement reveal that the budget position has improved with a revised surplus of \$988 million forecasted for the 2013-14 financial year. This is an improvement from the estimated \$1,890 million deficit reported in the 2013-14 Budget Statement.

The 2014-15 Budget Statement estimated a deficit of \$283 million for the 2014-

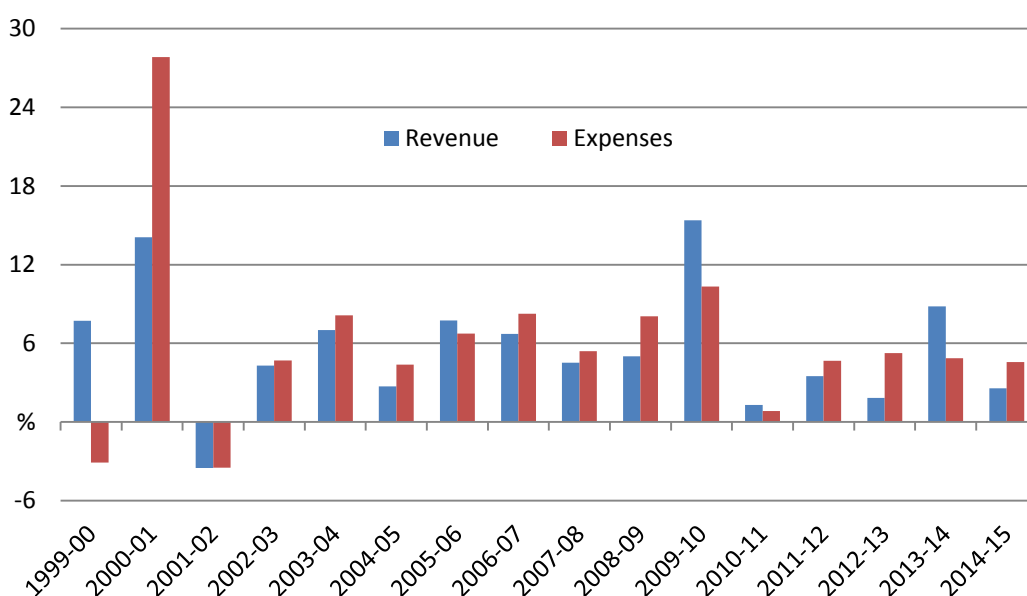
15 financial year (Figure 1).

Figure 1: NSW general government sector net operating balance (surplus/deficits)⁸



In summary, the deterioration in the budget position in the 2011-12 and 2012-13 financial years was caused by the sustained growth in State expenses coupled with a decline in the rate of growth in the revenue base (Figure 2).

Figure 2: Annual change in general government revenue and expenses⁹

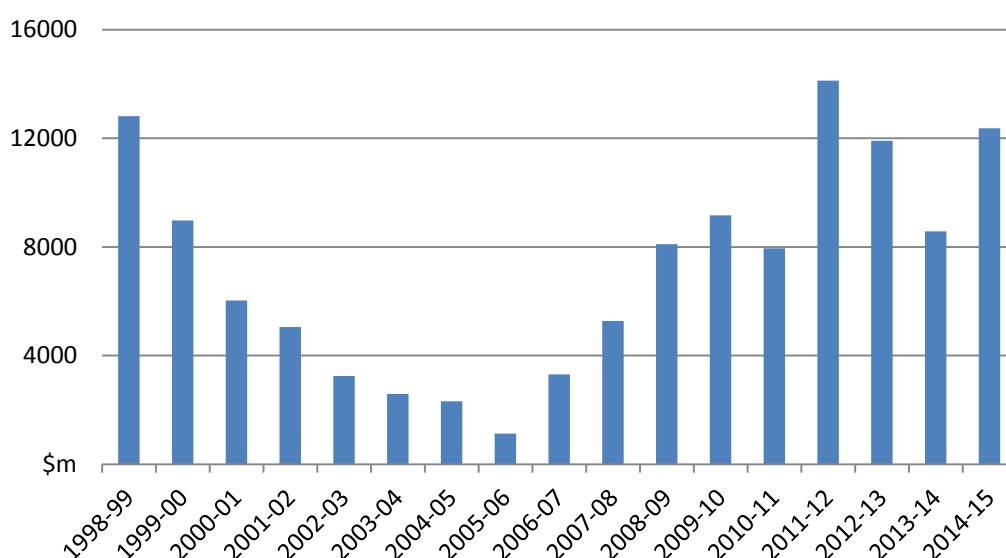


Specifically, in 2011-12, total general government revenues increased by 3.5 per cent compared with growth of 4.7 per cent in expenses. This discrepancy worsened in 2012-13, with total general government revenues only increasing

by 1.8 per cent, against expenses growth of 5.3 per cent.

The State's general government net debt has also trended higher since the mid-2000s (Figure 3). Between 2005-06 and 2011-12, net debt increased from \$1,131 million to \$14,127 million at an average annual rate of 52 per cent. Net debt has fluctuated in the last few years; with a decline of 39 per cent estimated between 2012-13 and 2013-14 and an increase to \$12,364 budgeted for the 2014-15 financial year.

Figure 3: General government sector net debt¹⁰



Net debt still remains relatively high on a historical basis for NSW and asset privatisation has been identified as the primary mechanism by the NSW Government to reduce it. Net debt will fall to \$8.6 billion at the end of this financial year compared with the \$14 billion estimated in December 2013. The \$1.8 billion Port of Newcastle privatisation has contributed significantly to this reduction.¹¹

3. NSW PUBLIC SECTOR ASSETS¹²

The NSW public sector is comprised of the general government sector, public trading enterprise sector ('public non-financial corporation sector' is the ABS term for this sector), and public financial corporations.

As defined in the NSW Budget Papers:¹³

The general government sector represents the scope of the Budget. Agencies in this sector generally operate under the Financial Management Framework and carry out policy, regulatory and service delivery functions. This sector includes agencies such as the Ministry of Health, Department of Education and Communities, NSW Police Force.

Agencies in the public trading enterprise sector are either commercial or non-commercial. Commercial enterprises generally operate under the Commercial

Policy Framework, which aims to replicate disciplines and incentives that drive the efficient commercial practices of private sector businesses. They deliver services to a customer base from which they receive their income (e.g. Sydney Water and Hunter Water Corporations).

Non-commercial enterprises address important social objectives and levy charges for services to client groups on a subsidised basis. These include Rail Corporation New South Wales and the New South Wales Land and Housing Corporation.

Public financial sector agencies are involved in financial services and generally operate under the Commercial Policy Framework. They include the New South Wales Treasury Corporation and Lifetime Care and Support Authority of New South Wales.

Table 1: Commercial and non-commercial public trading enterprises¹⁴

State Owned Corporations	Other Commercial PTEs	Non-Commercial PTE
Ausgrid	Cobbora Holding Company Pty Ltd	City West Housing Pty Ltd
Essential Energy	Sydney Catchment Authority	NSW Land and Housing Corporation
Endeavour Energy	Zoological Parks Board	Teacher Housing Authority
Transgrid	Waste Assets Management Corporation	Country Rail Infrastructure Authority
Delta Electricity	Forests NSW	Rail Corporation New South Wales
Eraring Energy	Parramatta Stadium Trust	Transport Construction Authority
Macquarie Generation	Sydney Cricket Ground and Sports Ground Trust	Sydney Ferries
Sydney Water Corporation	Sydney Opera House	Public Transport Ticketing Corporation
Hunter Water Corporation	Illawarra Venues Authority	
State Water Corporation	Sydney Harbour Foreshore Authority	
Sydney Ports Corporation	Hunter Region Sporting Venues Authority	
Newcastle Port Corporation	Venues NSW	
Port Kembla Port Corporation		
Landcom		

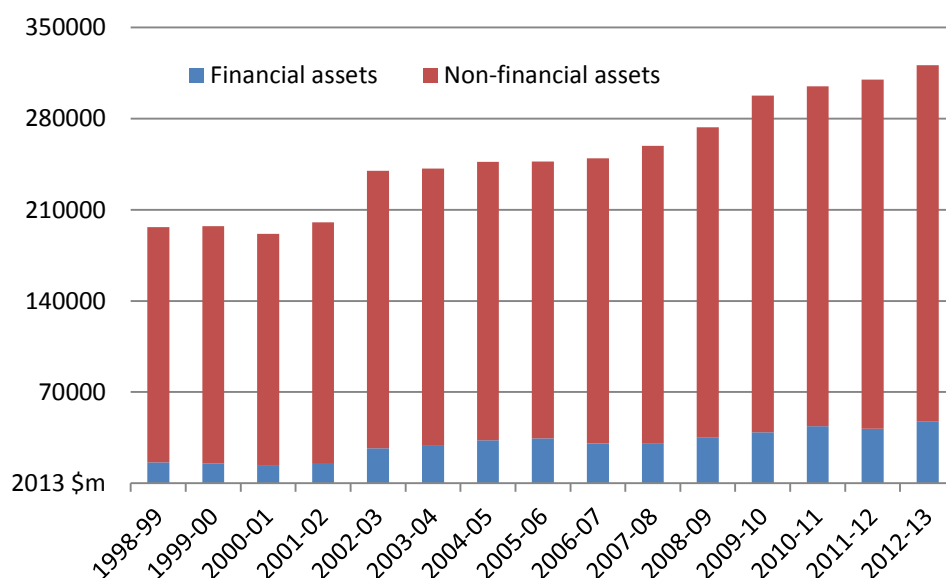
This section of the paper discusses the trends in asset ownership and asset acquisitions and sales, at an aggregated level for the total public sector, the general government sector and the public non-financial corporations. These assets values have been sourced from the ABS and have been expressed in 2013 dollars to account for the inflationary effect on asset values.¹⁵

3.1 Total public sector

The real value of NSW public sector assets (adjusted for inflation) across all sectors increased consistently over the last decade and was estimated at \$321 billion as at 30 June 2013. Between 1998-99 and 2012-13, the real value of NSW public sector assets increased by around 63 per cent (or \$124 billion), at an annual average rate of 3.6 per cent.

The majority of the growth in real asset values was accounted for by non-financial assets (e.g. physical assets such as land, property and infrastructure), which grew by 52 per cent (or \$93 billion) over this period. Non-financial assets were estimated by the ABS, at \$274 billion as at 30 June 2013 (Figure 4).

Figure 4: Real value of NSW public sector financial and non-financial assets¹⁶

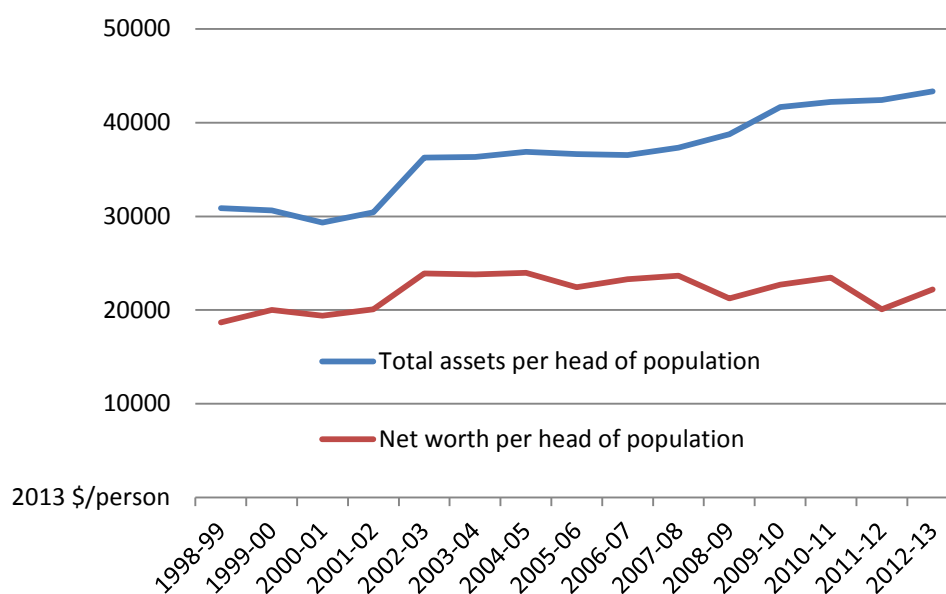


The real value of NSW public sector assets also increased when considered per head of population. Between 1998-99 and 2012-13, the real value of assets per person increased by 40 per cent from \$30,861 to \$43,340.

However, when the total value of the State's liabilities is considered, growth in the real value of GFS net worth per person (which is defined as total assets minus total liabilities) has remained relatively constant (Figure 5).

This illustrates that while the real value of the State's assets increased, the State's liabilities also increased at a similar rate; meaning that in real terms the State is in a similar financial position (with respect to its assets and liabilities) as it was a decade or so ago.

Figure 5: Real value of NSW public sector assets and net worth, per head of population¹⁷



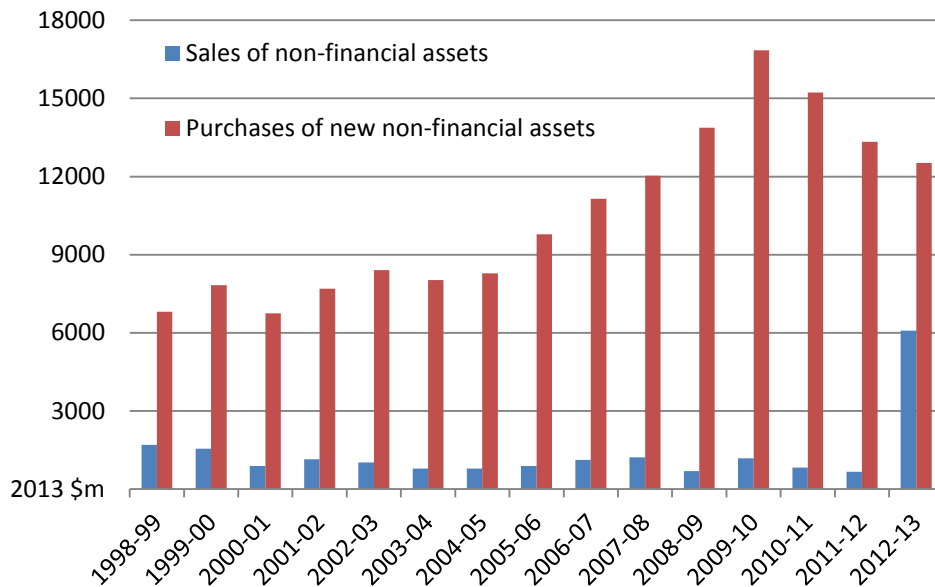
The increase in the real value of financial and non-financial assets does not necessarily imply that the quantity of assets held by the State has increased at the same rate. For example, a large proportion of the State's non-financial assets are held in the form of land or property, particularly for an organisation such as the Land and Housing Corporation (which held assets valued at \$34 billion as of June 2013). Asset revaluation, in the form of capital growth, consequently forms a large a component of the State's total asset value growth.

The value of NSW public sector assets also increased, in part, due to an increase in the real value of non-financial asset purchases (Figure 6).

For example, the real value of total public sector new non-financial asset purchases was 84 per cent higher at June 2013 than they were at the same point in 1999. In the 2009-10 financial year, NSW total public sector new non-financial asset purchases reached a high for the reporting period of \$16.8 billion.

Prior to 2012-13, the real value of the State's non-financial asset sales had remained relatively small and stagnant when compared to the growth in purchases. The real value of the non-financial asset sales was \$6.1 billion for the 2012-13 financial year, up from \$657 million in 2011-12. A significant share of the sales was accounted for by public non-financial corporations and specifically the privatisation of Port Botany (\$4.1 billion) and Port Kembla (\$760 million).¹⁸

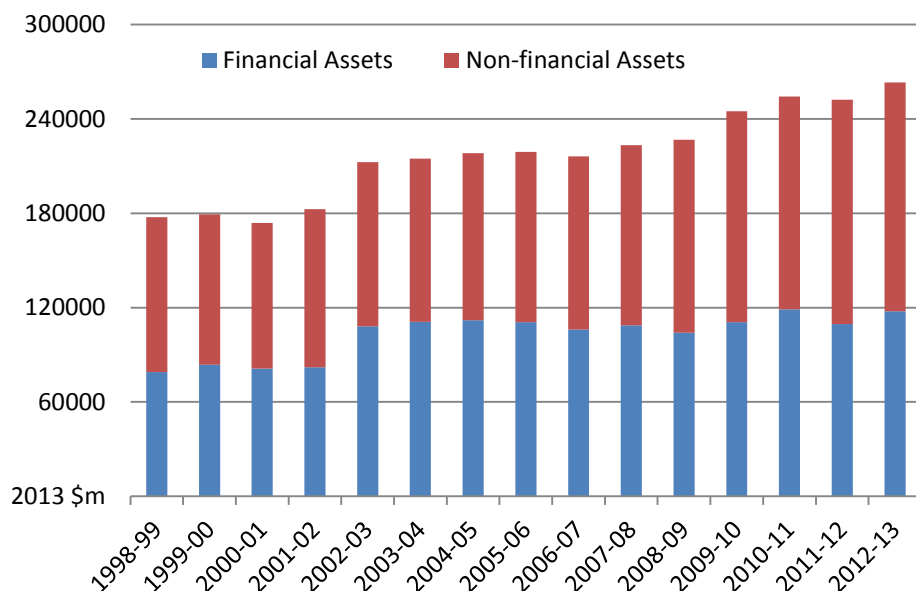
Figure 6: Real value of NSW public sector non-financial asset sales and purchases¹⁹



3.2 General government sector

The real value of NSW general government sector assets increased consistently (albeit at a lower annual rate of 2.9 per cent when compared to the total public sector) over the last decade; rising by 48 per cent between June 1999 and June 2013 (Figure 7).

Figure 7: Real value of NSW general government financial and non-financial assets²⁰

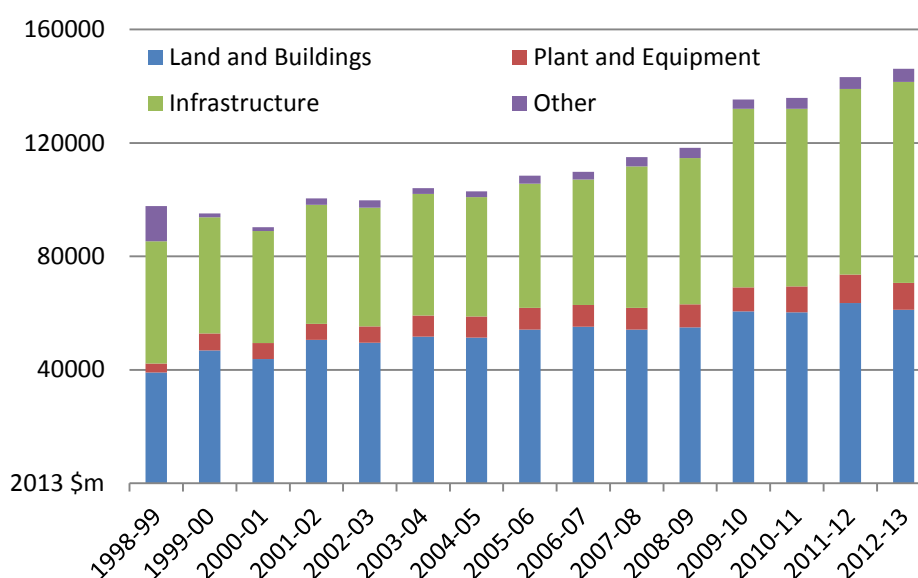


NSW general government sector assets were valued at \$263 billion as at 30 June 2013; non-financial assets were estimated at a value of \$145 billion, while

financial assets accounted for remaining the \$118 billion. Real non-financial and financial asset values grew by 48 and 49 per cent respectively over the reporting period.

Nearly half of the general government non-financial assets are held in the form of infrastructure (48 per cent as at June 2013). The remainder of the sector's non-financial assets are predominantly held in the form of land and buildings (42 per cent) and plant and equipment (6 per cent) (Figure 8).

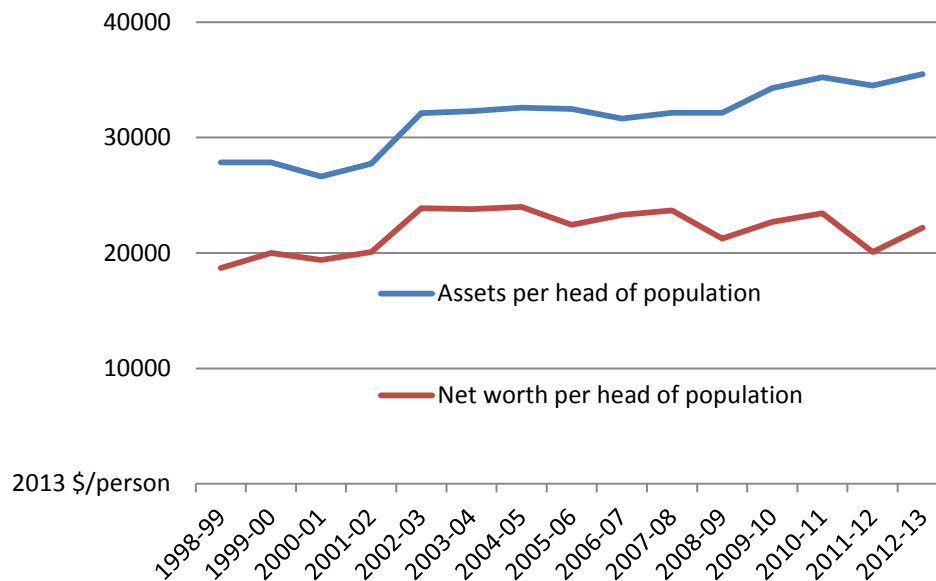
Figure 8: Real value of NSW general government non-financial assets, by type²¹



The real value of NSW general government sector assets also increased over the reporting period when considered on per head of population basis (Figure 9); again albeit at a lower annual rate of 1.8 per cent than the total public sector. Between June 1999 and June 2013, the real value of general government sector assets per person increased by 28 per cent from \$27,837 to \$35,518.

When the value of the State's liabilities is considered, growth in the real value of GFS net worth per person has remained relatively subdued, with it reported at a similar level in June 2013 as it was in June 2003. This again illustrates that, in real terms and by head of population, the general government sector is in a similar financial position (in terms of assets and liabilities) as it was a decade ago.

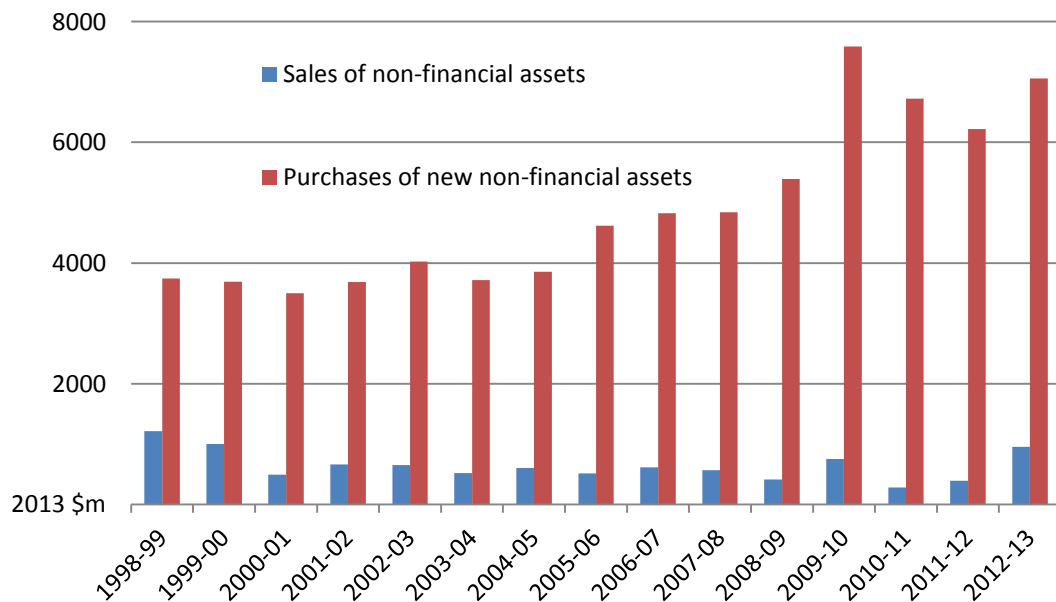
Figure 9: Real value of general government assets and net worth, per head of population²²



The real value of NSW general government assets has increased, in part, because of an increase in the real value of new non-financial asset purchases.

The real value of general government new non-financial asset purchases was 88 per cent higher as at June 2013 than at June 1999. In 2009-10, NSW general government sector new non-financial asset purchases reached a high for the reporting period of \$7.6 billion.

Figure 10: Purchase and sale of general government non-financial assets²³



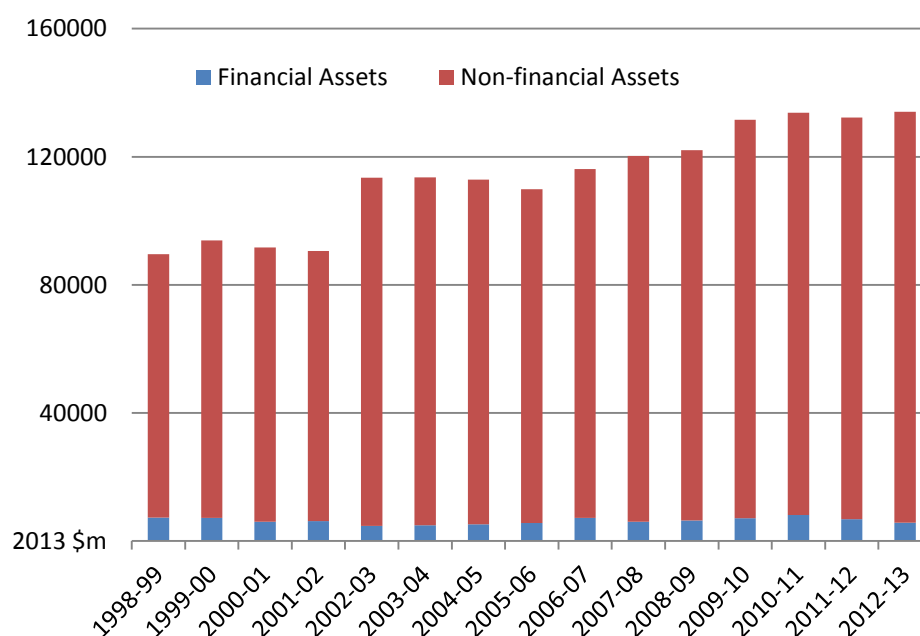
The value of the State's general government non-financial asset sales has trended lower when compared to the growth in purchases. At the end of the 1998-99 financial year, asset sales for the general government sector were recorded at \$1.2 billion. During the 2012-13 financial year asset sales were recorded at \$954 million, up from \$388 million in 2011-12 (Figure 10).

3.3 Public non-financial corporations

The real value of public non-financial corporation assets has increased consistently over the last decade; 50 per cent higher between 1998-99 and 2012-13. The majority of this growth was accounted for by the sector's non-financial assets, which grew by 56 per cent (or \$46 billion) over the reporting period.

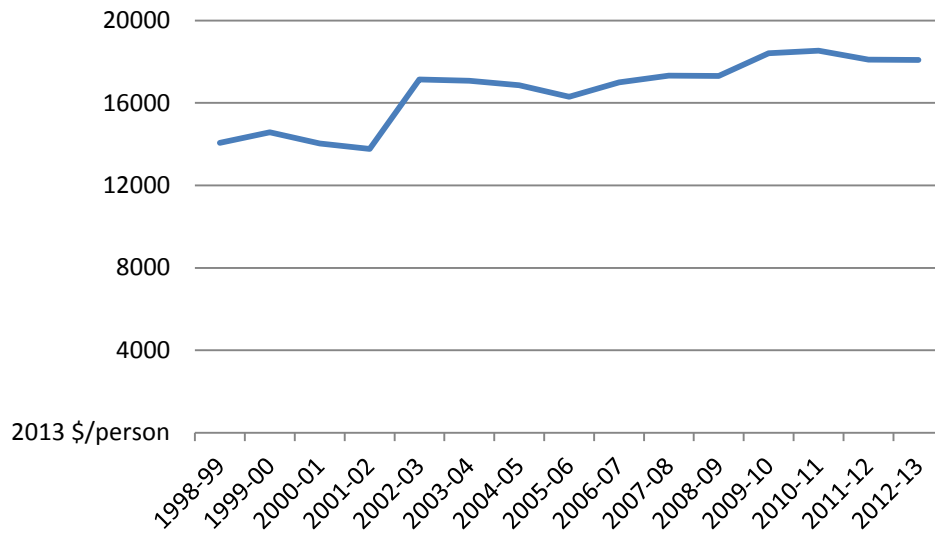
Public non-financial corporation assets were valued, in real terms, at \$134 billion as at 30 June 2013; non-financial assets and financial assets were estimated at \$128 billion and \$6 billion respectively (Figure 11).

Figure 11: Real value of public non-financial corporation assets²⁴



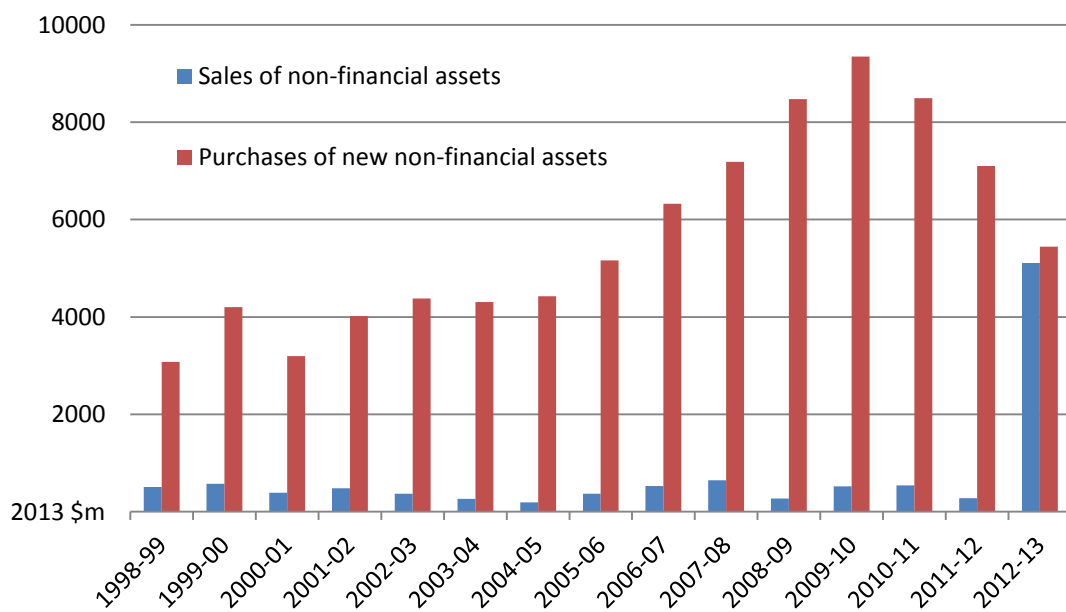
The real value of NSW public non-financial corporation assets also increased when considered on per head of population basis. Between June 1999 and June 2013, the real value of public non-financial corporation assets per person increased by 29 per cent from \$14,058 to \$18,090 (Figure 12).

Figure 12: Real value of public non-financial corporation assets, per head of population²⁵



The real value of NSW public non-financial corporation assets has also increased, in part, because of an increase in the real value of new non-financial asset purchases. For example, the real value of non-financial asset purchases for the sector was 77 per cent higher at the end of June 2013 than they were at the same point in 1999. Non-financial asset purchases reached a high for the reporting period in 2008-09 of \$9.3 billion (Figure 13).

Figure 13: Purchase and sale of non-financial assets²⁶



The real value of NSW public non-financial corporation asset sales generally declined over the reporting period. At the end of the 1998-99 financial year, non-financial asset sales for the sector were recorded at \$504 million; during

the 2011-12 financial year non-financial asset sales were recorded at \$272 million. Non-financial asset sales were significantly higher in the 2012-13 financial year and were valued at \$5.1 billion; accounted predominantly by the privatisation of Port Botany (\$4.1 billion) and Port Kembla (\$760 million).

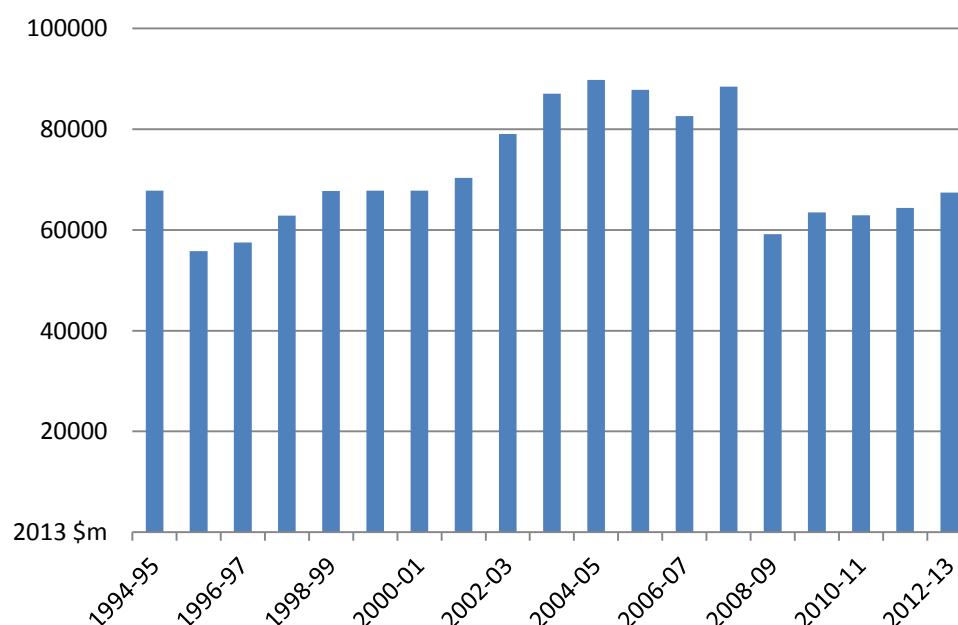
4. ROADS AND MARITIME SERVICES

With real assets valued at \$71 billion as at 30 June 2013, Roads and Maritime Services (RMS), formerly known as the Roads and Traffic Authority, had the largest asset base of all the general government organisations and public non-financial corporations.

The real net value of RMS assets (total assets minus total liabilities and adjusted for inflation) increased significantly between 1995-96 and 2004-05; up by \$34 billion (or 61 per cent) over that period. Between 2004-05 and 2007-08, however, growth in the real net value of RMS assets remained relatively subdued (Figure 14).

In 2008-09, the real net asset value of RMS assets fell by 33 per cent to \$59.1 billion because of a change in accounting standards. In accordance with NSW Treasury Circular 10/07 – Land under Roads, the RTA changed its accounting policy in regards to the valuation of Land under Roads which valued all Land under Roads and in Road Reserves at unimproved and pre-subdivision value. The change in accounting policy decreased the RTA's 30 June 2009 Land under Roads asset balance, in nominal terms, from \$37.34 billion to \$4.08 billion.²⁷

Figure 14: Real net value (total assets less total liabilities) of Roads and Maritime Services assets²⁸



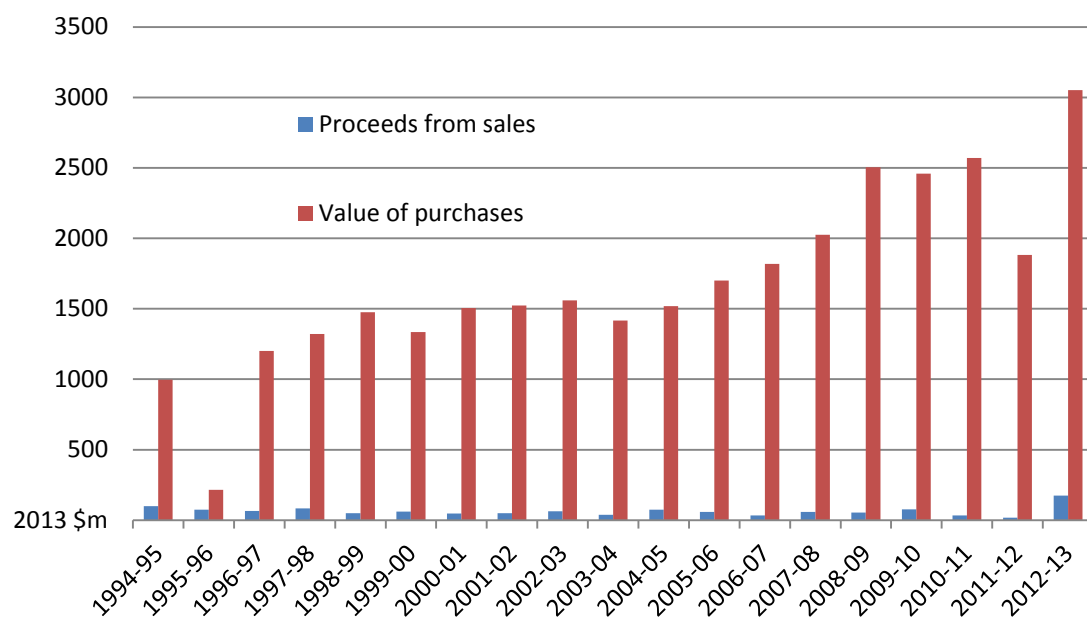
Between 2008-09 and 2012-13, the real value of RMS assets increased by \$8.3

billion (or 14 per cent). As at 30 June 2013, property, plant and equipment assets accounted for 97 per cent of the total RMS asset base.

The real value of RMS proceeds from asset sales (including Land and Buildings, Plant and Equipment and Infrastructure Systems) trended lower from the mid-1990s and accounted for a small proportion of the organisation's total asset base.

RMS reported sales proceeds of \$175 million in 2012-13, which was significantly higher than what was reported in preceding years. This was largely accounted for by the Maritime Trade Towers transaction reported in 2012 (Figure 15).

Figure 15: Real value of land and building, plant and equipment and infrastructure sales and purchases²⁹



RMS non-financial asset purchases, on the other hand, increased significantly and were \$2.1 billion higher (in real terms) in 2012-13 than in 1994-95. Assets purchases were also higher as a proportion of the total asset base; accounting for 1.4 per cent in 1994-95 and 4.3 per cent in 2012-13.

5. NSW LAND AND HOUSING CORPORATION

NSW Land and Housing Corporation owns and manages the Government's social housing assets which includes constructing, divesting, leasing and maintaining properties to meet social housing needs. It is also tasked with addressing the social and housing issues associated with concentrated social housing estates.

The NSW Land and Housing Corporation primarily sources its funding through rental income, asset sales and funding support from the Department of Family

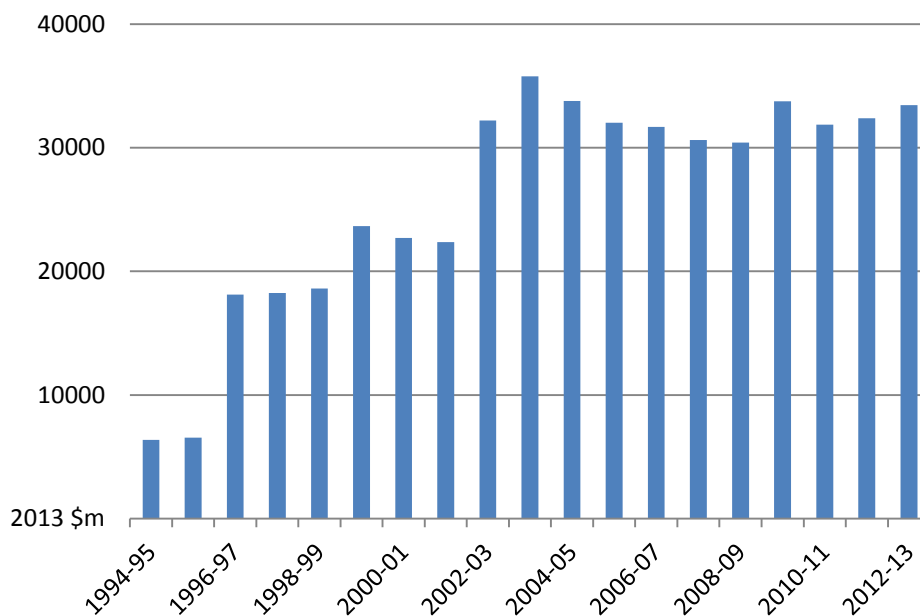
and Community Services to meet operating and capital expenditure requirements.³⁰

With assets valued at \$34 billion at 30 June 2013, NSW Land and Housing Corporation had the second largest asset base of all the general government organisations and public non-financial corporations.

The real net value of NSW Land and Housing Corporation assets increased by \$29.4 billion between 1994-95 and 2003-04. Given that a large proportion of the organisation's assets are held in the form of land and buildings, revaluation forms a large component of existing asset value increases. The strong growth in NSW property and land values through the 1990s and early 2000s was consequently an underlying factor behind the asset value growth.

Asset revaluation only occurs periodically (every 3 years), which explains the jump in asset values in 1996-97, 1999-00 and 2002-03 (Figure 16). Subsequent real estate and property price movements in the mid to late 2000s were far more subdued and hence the shift from revaluation is less evident.

Figure 16: Real net value of NSW Land and Housing Corporation assets³¹



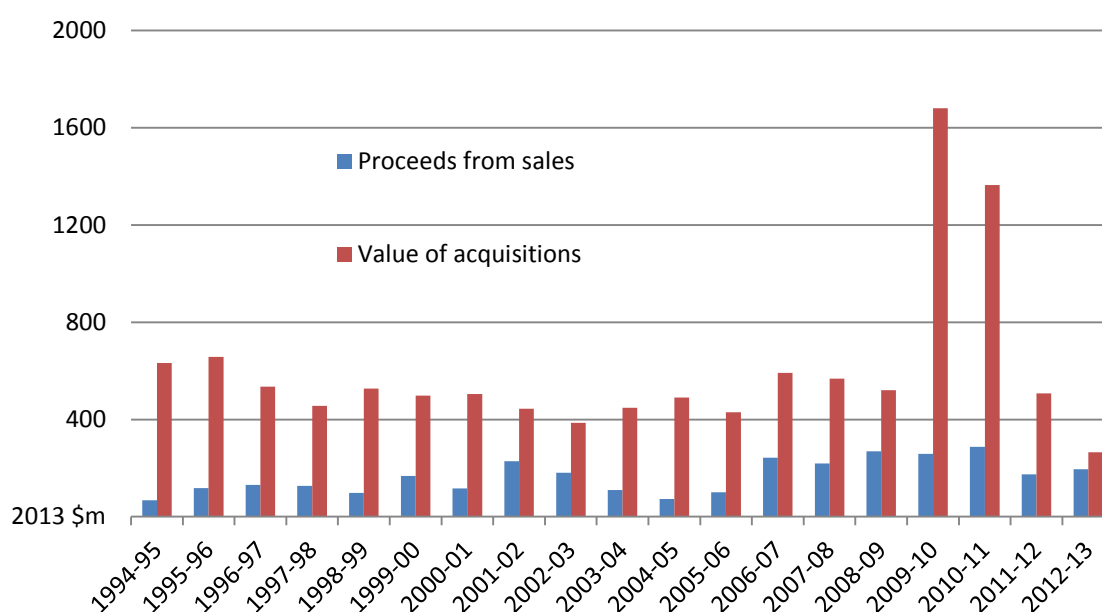
Real net asset values declined through the mid to late 2000s (falling by 11 per cent between 2003-04 and 2010-11). This decline corresponded with the generally flat growth in NSW property and land values during that period.

The real value of proceeds from asset sales (of property, plant and equipment) fluctuated over the last decade or so. For example, the real value of proceeds from asset sales in 2004-05 was 68 per cent (or \$155 million) lower than in 2001-02. Asset sales then increased in the mid to late 2000s; up by \$213 million in 2010-11 when compared to 2004-05. Asset sales have since declined and at the end of 2012-13 were valued, in real terms, at \$195 million.

The majority of the proceeds from asset sales have historically come from the sale of residential real estate assets (\$152 million in 2012-13) and land (\$44 million in 2012-13).

Asset acquisitions have, over the reporting period, been much greater in value than sales. For example, in 2009-10 and 2010-11, asset acquisitions by the NSW Land and Housing Corporation were reported, in real terms, at \$1.7 and \$1.4 billion respectively. Asset acquisitions have since declined and were reported at \$265 million in 2012-13; although they were still 35 per cent more than the value of sales reported for that year (Figure 17).

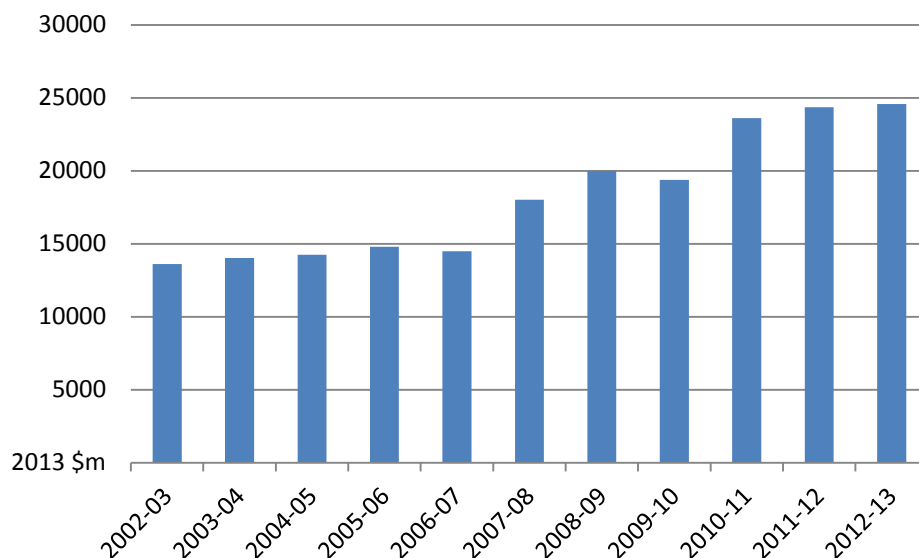
Figure 17: Real value of NSW Land and Housing Corporation property, plant and equipment sales and acquisitions³²



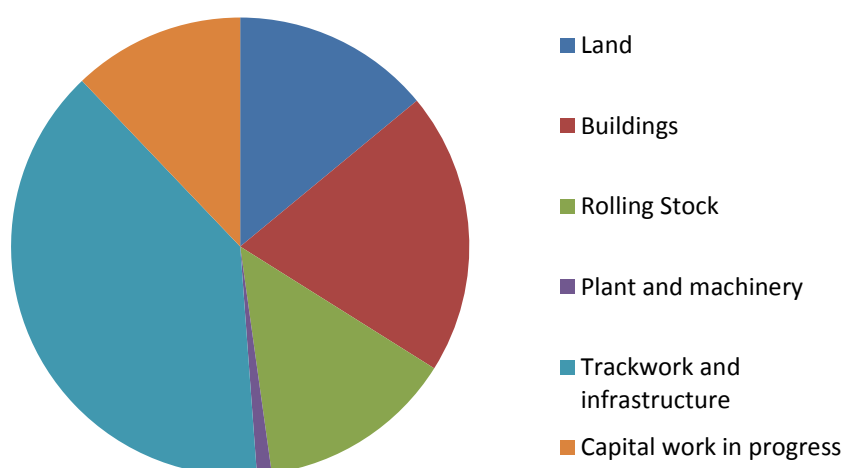
6. RAILCORP

Prior to 2005, Rail Corporation NSW (RailCorp) was known as Rail Infrastructure Corporation; before the establishment of the Rail Infrastructure Corporation in 2000, State rail assets were administered by the Department of Transport. As such, trends in RailCorp assets are only comparable from the 2002-03 financial year onward.

With assets valued at \$28.3 billion at 30 June 2013, RailCorp had the third largest asset base of the general government and public non-financial corporations. The real net value of RailCorp assets trended higher between 2002-03 and 2012-13; up by \$11 billion (or 81 per cent) over that period. A large proportion of this growth was reported during the 2007-08 (\$3.5 billion) and 2010-11 (\$4.2 billion) financial years (Figure 18).

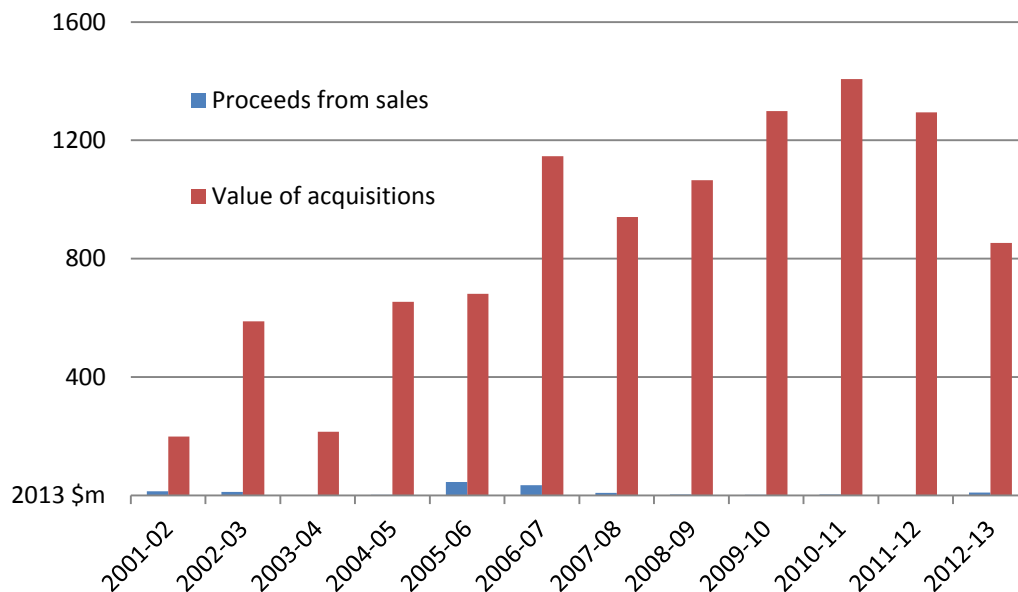
Figure 18: Real net value of RailCorp assets³³

A significant proportion (39 per cent in 2012-13) of RailCorp physical assets are held in the form of trackwork and infrastructure assets. Buildings (20 per cent), rolling stock (14 per cent), land (14 per cent), capital works (12 per cent) and plant and machinery (1 per cent) account for the remainder of RailCorp physical assets (Figure 19).

Figure 19: Distribution of RailCorp physical assets by type, 2012-13³⁴

The proceeds from RailCorp property, plant and equipment disposals account for a particularly small proportion of its total non-financial assets. There are also no discernible trends in these proceeds for RailCorp; although there were increases in the value of proceeds from property, plant and equipment disposals in the 2005-06 (\$45 million) and 2006-07 (\$35 million) financial years (Figure 20).

Figure 20: Real value of RailCorp property, plant and equipment sales and acquisitions³⁵



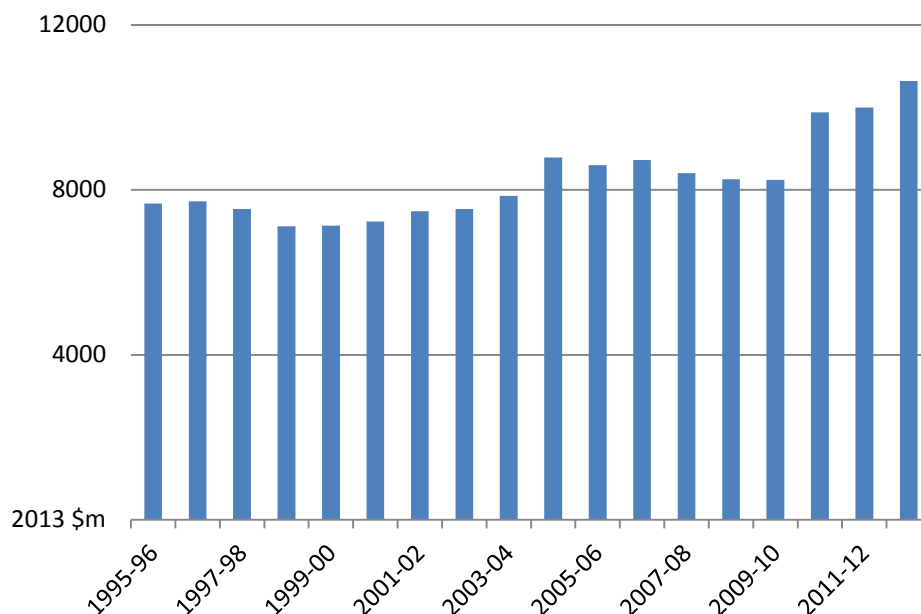
Asset acquisitions, on the other hand, have grown relatively strongly and, in real terms, are more than four times higher in 2012-13 than in 2001-02. In 2012-13, RailCorp reported the value of property, plant and equipment acquisitions at \$853.7 million; down from a high for the reporting period of \$1.4 billion in 2010-11.

7. NSW MINISTRY OF HEALTH

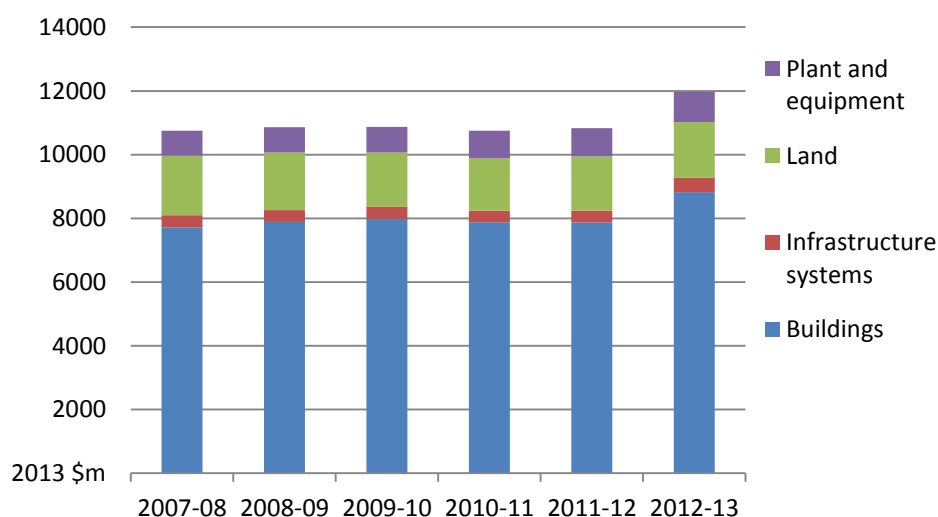
While the real net value of NSW Ministry of Health assets is substantial (valued at \$10.6 billion in 2012-13), the organisation has not experienced the same rate of real net asset value growth as that of other organisations, such as RailCorp and the NSW Land and Housing Corporation. Between 1995-96 and 2012-13, the real net value of Ministry of Health assets increased by 39 per cent (or \$3 billion), at an average annual rate of 1.9 per cent (Figure 21).

Net asset value growth typically occurs because of: growth in the net value of acquisitions; a decline in the value of liabilities; and/or asset revaluation.

With respect to the latter cause, the composition of the asset base can explain contrasting changes in real asset values from revaluation. For example, because a considerable share of NSW Land and Housing Corporation assets are tied up in land and property, it experienced considerable growth in asset values through the 1990s and 2000s, driven by strong growth in residential real estate prices.

Figure 21: Real net value of NSW Ministry of Health assets³⁶

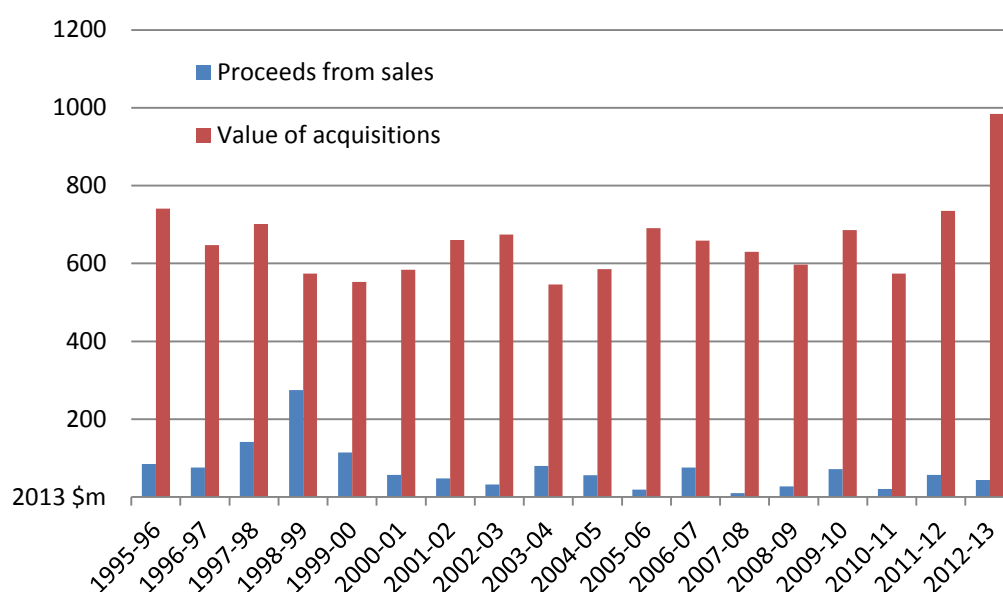
As at 30 June 2013, and according to NSW Treasury statistics, the majority of NSW Ministry of Health physical assets (which account for the majority of non-financial assets) were accounted for by buildings (74 per cent); with the remainder accounted for by land (14 per cent), plant and equipment (8 per cent), and infrastructure systems (4 per cent) (Figure 22).

Figure 22: Real value of NSW Ministry of Health physical assets, by type³⁷

While land and property assets are usually subject to relatively strong capital growth, other categories of assets above are used for operational purposes which may be subject to depreciation when revaluation occurs. Because of this, the Ministry of Health has not experienced the same high rate of growth as other public sector organisations.

Asset sales for the NSW Ministry of Health have remained relatively subdued, particularly when considered as a proportion of the total value of its assets. For example, with the exception of the sales that occurred between 1997-98 and 1999-00, asset sales have fluctuated well below \$100 million (or less than 1 per cent of total asset values).

Figure 23: Real value of NSW Ministry of Health asset disposals and acquisitions³⁸

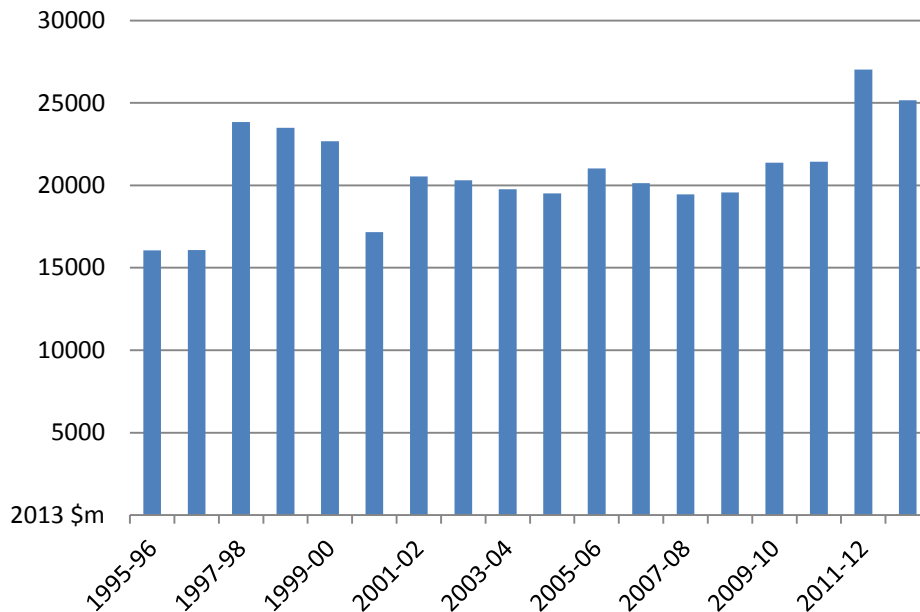


On the other hand, the real value of asset acquisitions, while not increasing substantially over the reporting period, is considerably higher in real terms. Asset acquisitions for the NSW Ministry of Health reached a high for the reporting period of \$984 million in 2012-13, up 34 per cent from the previous year (Figure 23).

8. NSW DEPARTMENT OF EDUCATION AND COMMUNITIES

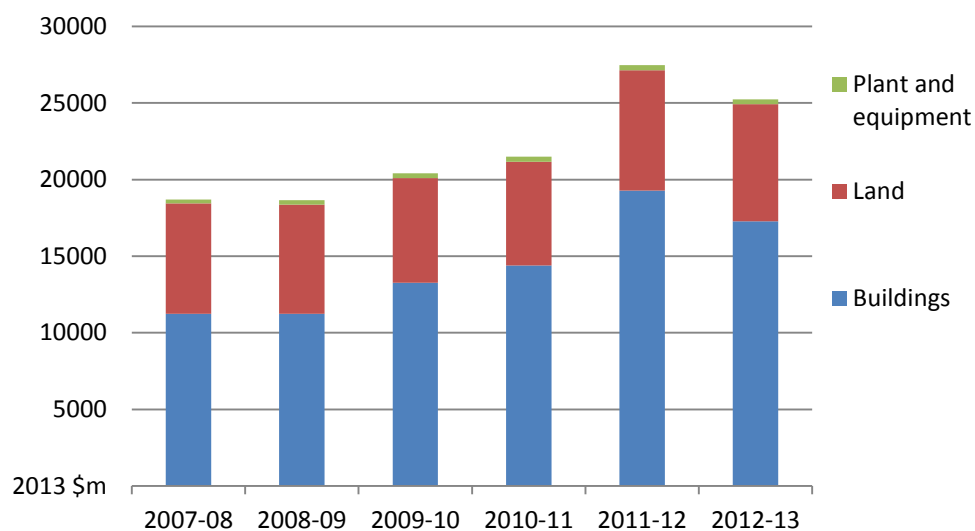
The NSW Department of Education and Communities has a relatively large asset base (valued at \$27 billion in 2012-13); although it has experienced relatively subdued real net asset value growth over the last decade or so. For example, the real net value of Department of Education and Communities assets was only 6 per cent (or \$1.3 billion) higher in 2012-13 than it was in 1997-98. Significant growth occurred in 2011-12, when the real net value of its assets was 26 per cent (or \$5.6 billion) higher compared to the previous year (Figure 24).

Figure 24: Real net value of NSW Department of Education and Communities assets³⁹



As with the NSW Ministry of Health, asset composition has underpinned the relatively modest growth in the real net value of assets for the Department. As at 2012-13, and according to NSW Treasury statistics, the majority (69 per cent) of the Department of Education and Communities physical assets were accounted for by buildings; with the remainder accounted for by land (30 per cent), as well as plant and equipment (1 per cent) (Figure 25).

Figure 25: Real value of NSW Department of Education and Communities physical assets, by type⁴⁰

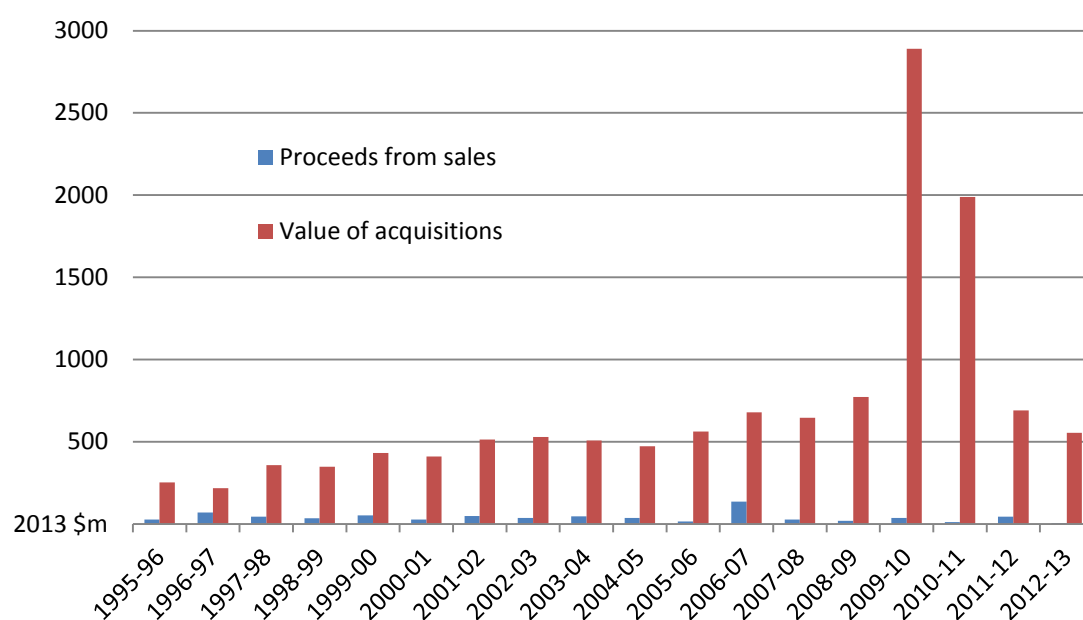


Land assets are typically subject to stronger capital growth than the other asset categories above which are used for operational purposes and can be subject

to depreciation when revaluation occurs; thus capital growth for these asset classes is more subdued than land and real estate assets.

Asset sales for the Department of Education and Communities have been relatively small when considered as a proportion of the total asset base. With the exception of the 2006-07 financial year, asset sales have fluctuated below \$100 million (less than 1 per cent of total asset values) (Figure 26).

Figure 26: Real value of NSW Department of Education and Communities land, property, plant and equipment sales and acquisitions⁴¹



The real value of asset acquisitions is considerably higher and accounted for a much larger proportion of the asset base than disposals. Asset acquisitions for the Department of Education reached a high for the reporting period of \$2.9 billion in 2009-10 and were reported at \$554 million in 2012-13.

9. WATER CORPORATIONS

The State owns four commercial water businesses: Sydney Water Corporation; Hunter Water Corporation; Sydney Catchment Authority; and State Water Corporation.

Sydney Water and Hunter Water are State owned corporations that provide urban water services in Sydney, the Blue Mountains, the Illawarra and the Lower Hunter.

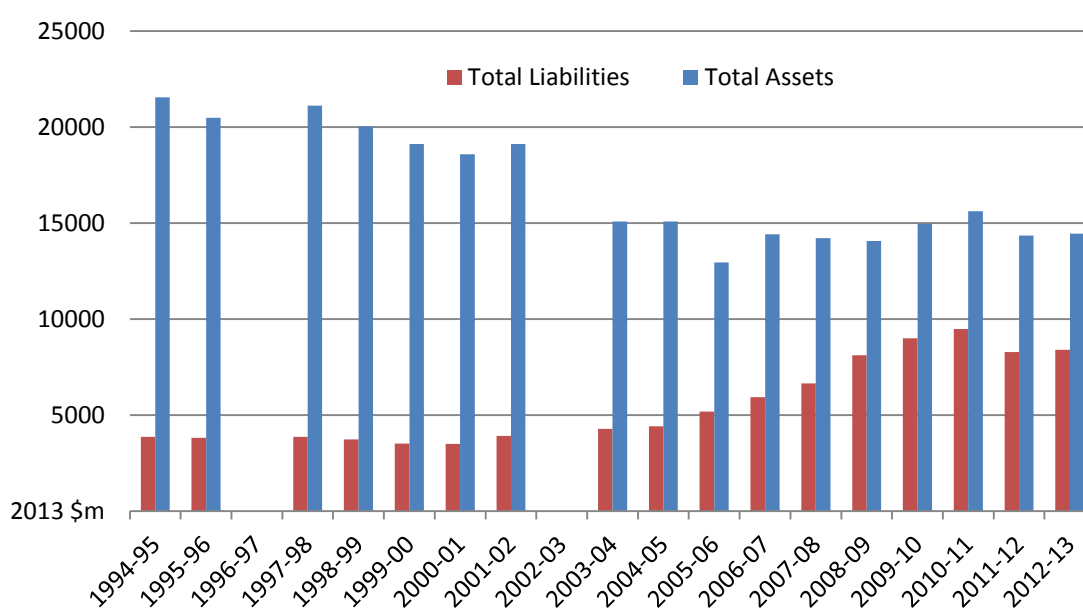
Sydney Catchment Authority is a commercial public trading enterprise that supplies stored bulk water to Sydney Water. State Water Corporation provides bulk rural water services, predominantly to irrigators.

9.1 Sydney Water Corporation

Sydney Water Corporation (Sydney Water) real net assets were valued at \$6 billion as at 30 June 2013, considerably lower than the valuation of its assets in the mid to late 1990s. In 1994-95, for example, Sydney Water real net assets were valued at \$17.7 billion. Between 1994-95 and 2012-13, the real net value of Sydney Water assets declined by 66 per cent (or \$11.7 billion).

This decline occurred because of the considerable growth in Sydney Water's liabilities from the mid to late 2000s, as well as a relatively sharp decline in the asset base in the early 2000s (Figure 27).

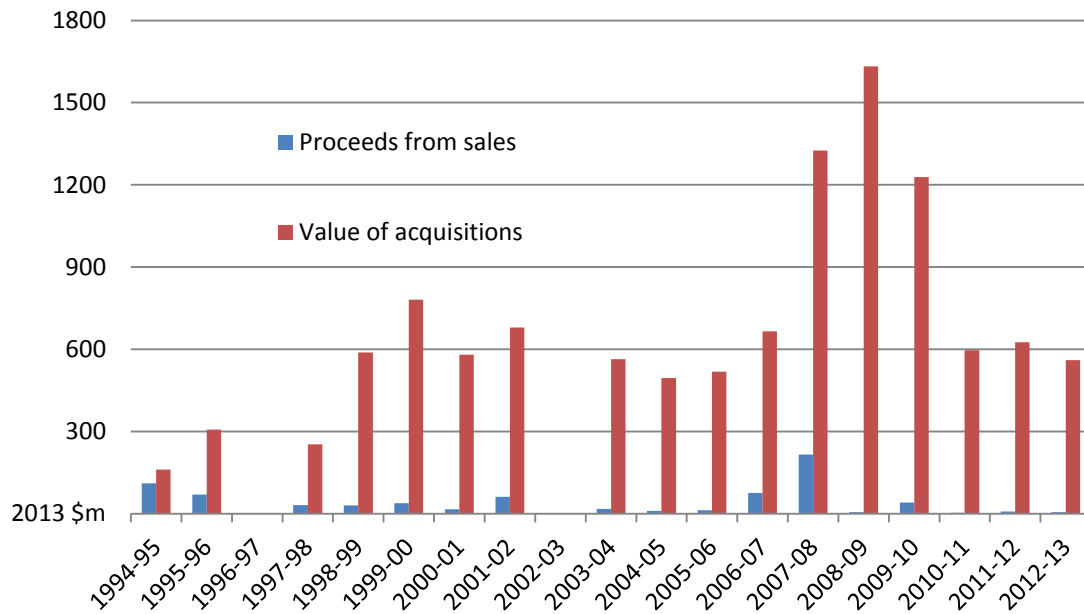
Figure 27: Real value of Sydney Water Corporation assets and liabilities⁴²



Growth in the value of asset sales for Sydney Water has remained relatively subdued particularly when considered as a proportion of the organisations total asset base. With the exception of the 2007-08 financial year (in which real asset sales were reported at \$216 million), asset sales have fluctuated below \$100 million (or less than 1 per cent of total asset values).

The real value of Sydney Water asset acquisitions has been considerably higher, reported at a high of \$1.6 billion in 2008-09. In 2012-13, asset acquisitions were reported at \$561 million (Figure 28).

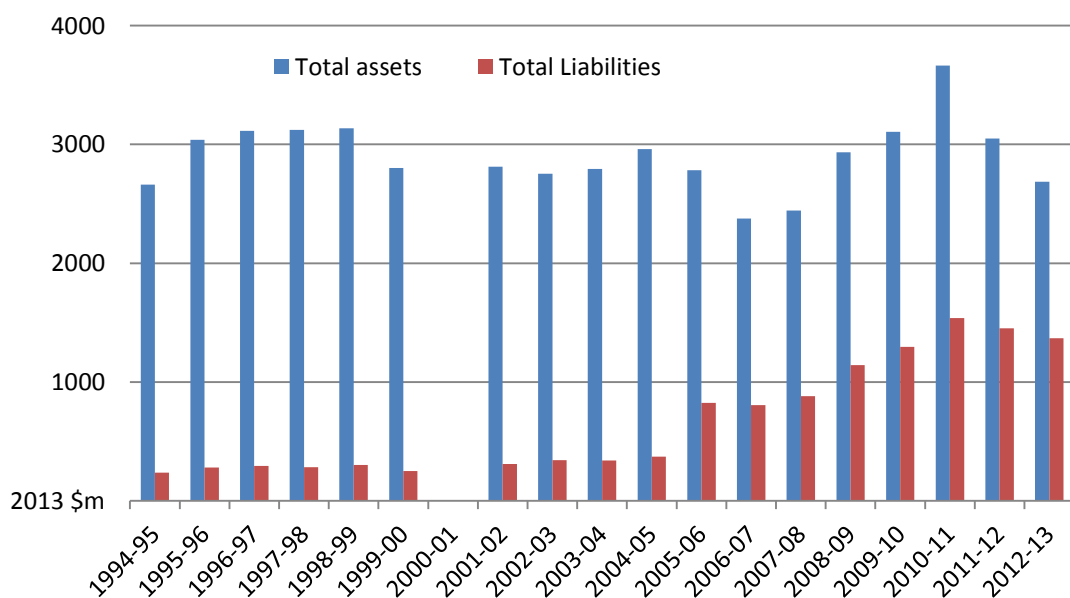
Figure 28: Real value of Sydney Water Corporation land, property, plant and equipment sales and acquisitions⁴³



9.2 Hunter Water Corporation

Hunter Water Corporation (Hunter Water) net assets were valued at \$1.3 billion as at 30 June 2013. This is considerably lower than the valuation of Hunter Water assets in the mid-1990s (Figure 29). In 1997-98, for example, its net assets were valued in real terms at \$2.8 billion; this represents a real decline in Hunter Water's net assets of 54 per cent to 2012-13 (or \$1.5 billion).

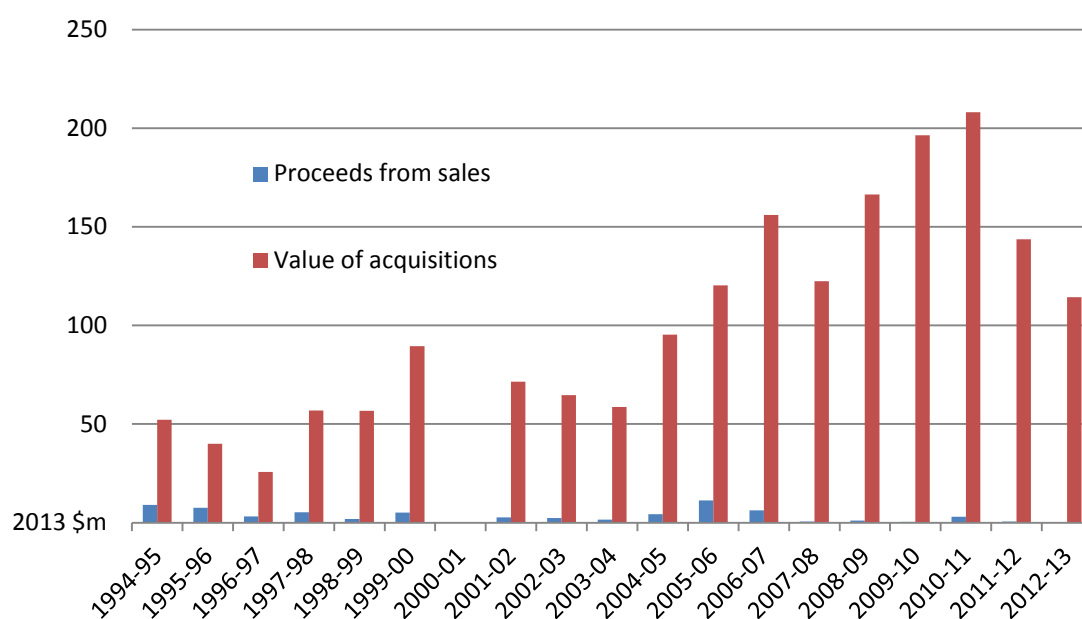
Figure 29: Real net value of Hunter Water Corporation assets⁴⁴



This has occurred because of the considerable growth in Hunter Water's liabilities from the mid to late 2000s, as well as a relatively subdued growth in the asset base in the over the last couple of decades.

Hunter Water asset sales have been relatively negligible over the last two decades. Since 1994-95, the real value of proceeds from land, property, plant and equipment disposals have not reached more than \$10 million, or less than 1 per cent of the Corporation's asset base.

Figure 30: Real value of Hunter Water Corporation land, property, plant and equipment sales and acquisitions⁴⁵



The real value of asset acquisitions has, however, been considerably higher. Asset acquisitions for Hunter Water reached a high for the reporting period of \$208 million in 2010-11 (Figure 30).

10. ELECTRICITY GENERATORS AND DISTRIBUTORS

The majority of the power consumed in NSW is generated by State-owned generators, Macquarie Generation, Delta Electricity and Eraring Energy.

The generation output of Eraring and Delta's western facilities was contracted to private retailers in 2010.⁴⁶ The retail components of the NSW electricity sector were also sold off in the first round of privatisation initiated by the Keneally Labor Government in 2008.

Proceeds from these transactions were estimated at \$5.3 billion resulting in a profit of \$1.2 billion. This included a loss on the sale of the electricity generation output, primarily due to write-downs in the values of the power stations to reflect their sale price, and a profit on the sale of the electricity retail businesses.⁴⁷

Table 2: Details of retail and generation electricity transactions

Sale component	Sale proceeds \$m	Net assets sold \$m	Profit/ (Loss) \$m
Generation (Delta West and Eraring)	1,506.9	3,355.9	-1,849.0
Retail (EnergyAustralia, Integral Energy and Country Energy)	3,786.4	703.5	3,082.9
Totals	5,293.3	4,059.4	1,233.9

Poles and wires services across the State are provided by Government owned businesses. Ausgrid and Endeavour Energy distribute electricity to urban households and businesses; while Essential Energy serves rural areas. The long-distance, high-voltage transmission network is managed by TransGrid.

On the 11 June 2014, the NSW Government announced that it will unlock \$20 billion in infrastructure funding, including \$6 billion for regional NSW, by undertaking a long-term lease of 49 per cent of the poles and wires network businesses.⁴⁸

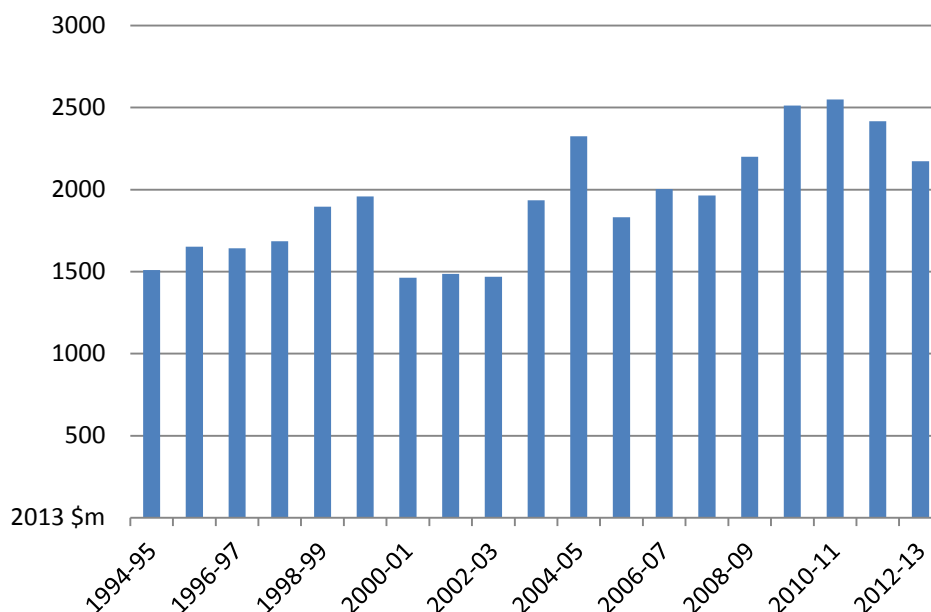
Strict conditions on the lease would include:⁴⁹

- All net proceeds will be invested in new productive infrastructure;
- Electricity network prices will be discounted by 1 per cent off the forecast regulated prices until 2019;
- The jobs of permanent award employees will be protected and treated consistently with previous transactions;
- The transaction will have no adverse impact on electricity reliability; and
- The regional presence of the network businesses will be maintained.

10.1 Transgrid

The real net value of Transgrid assets trended higher over the last couple of decades and was reported at \$2.2 billion at the end of the 2012-13 financial year. The strongest periods of net asset value growth for Transgrid occurred between 2002-03 and 2004-05 (\$855 million higher); and between 2007-08 and 2009-10 (\$547 million higher).

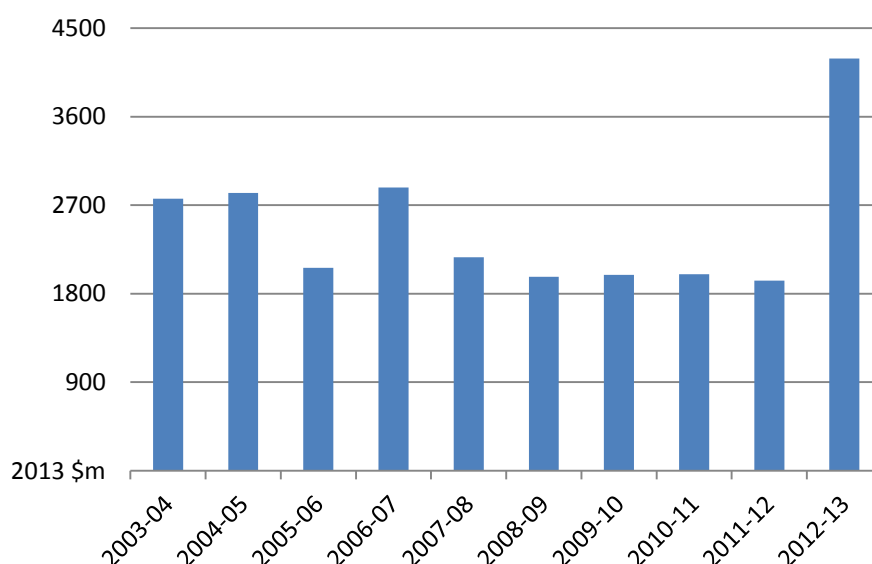
However, between 2010-11 and 2012-13, the real net value of Transgrid assets declined by 15 per cent (or \$375 million) (Figure 31). Flat growth in total asset values combined with growth in the value of Transgrid liabilities is responsible for this trend.

Figure 31: Real net value of Transgrid assets⁵⁰

As at June 30 2013, Transgrid total assets were valued at \$6.23 billion; while its total liabilities were valued at \$4.06 billion.

10.2 Ausgrid

The real net value of Ausgrid assets trended lower for most of the last decade and was reported at \$1.9 billion at the end of the 2011-12 financial year; this represented a decline of 30 per cent between 2003-04 and 2011-12 (Figure 32).

Figure 32: Real net value of Ausgrid assets⁵¹

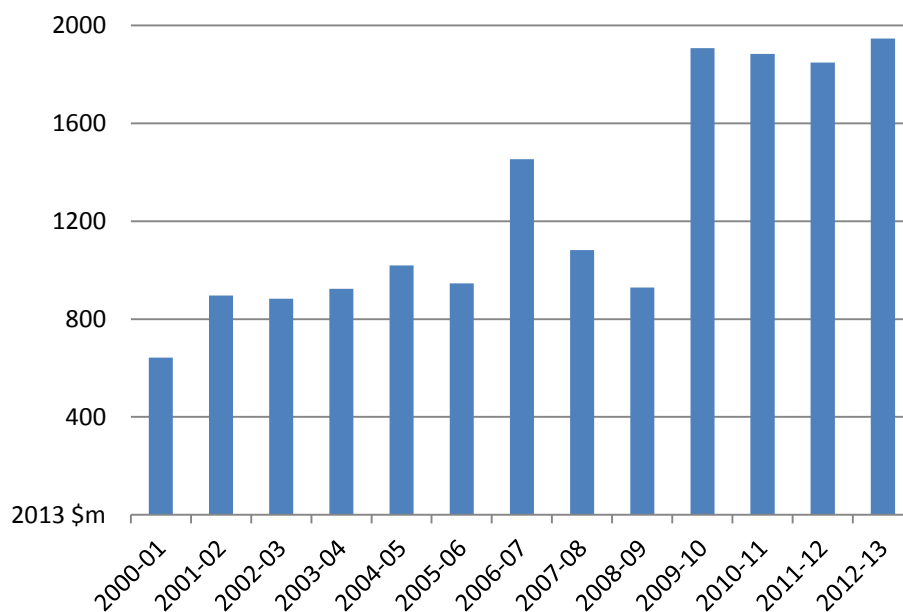
However, the real net value of Ausgrid assets more than doubled in the 2012-13

financial year and was estimated at \$4.2 billion at June 30 2013; total assets were valued at \$16.1 billion, while total liabilities were valued at \$11.9 billion.

10.3 Essential Energy

The real net value of Essential Energy assets trended higher over the decade and was reported at \$1.9 billion at the end of the 2012-13 financial year. The strongest period of net asset value growth for Essential Energy occurred between 2008-09 and 2009-10 in which it increased by \$979 million (Figure 33).

Figure 33: Real net value of Essential Energy assets⁵²



Since 2009-10, growth in Essential Energy real net asset values has remained relatively subdued, increasing by around 2 per cent. While the real total assets increased by \$736 billion (or 10 per cent) over this period, total liabilities also increased by \$697 million (or 14 per cent).

As at June 30 2013, Essential Energy's total assets were valued at \$7.78 billion; while its total liabilities were valued at \$5.8 billion.

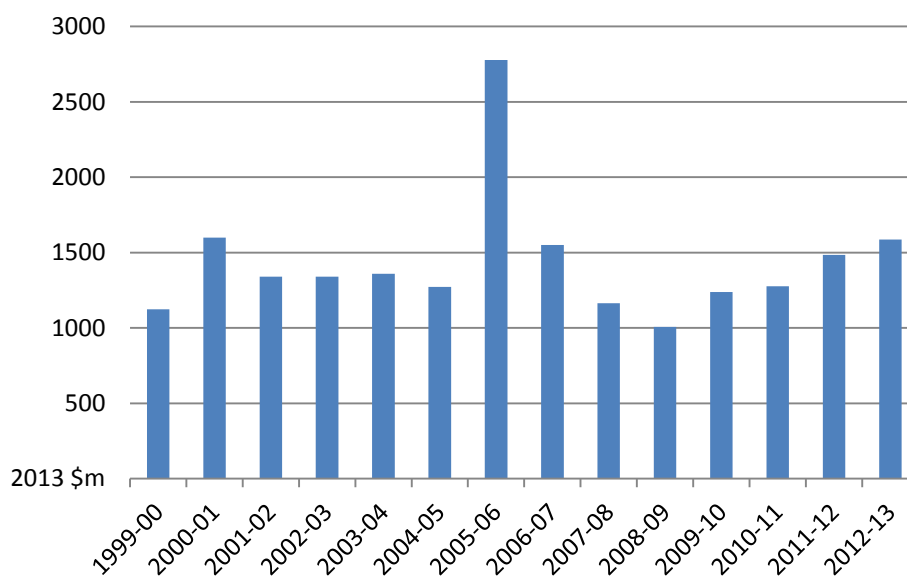
10.4 Endeavour Energy

Growth in the real net value of Endeavour Energy assets remained relatively subdued over the last decade and was reported at \$1.6 billion at the end of the 2012-13 financial year. Real net asset value growth for Endeavour Energy was particularly strong in the 2005-06 financial year in which it more than doubled to \$2.8 billion.

In the immediate years following, however, the real net value of Endeavour Energy's assets declined, reaching a low for the reporting period of \$1 billion in 2008-09 (Figure 34). Between 2008-09 and 2012-13, the real net value of Endeavour Energy assets increased by 57 per cent (or \$578 million) because

the real total value of assets increased (by \$1.64 billion) by a greater amount than the real total value of Endeavour Energy liabilities (\$1.06 billion).

Figure 34: Real net value of Endeavour Energy assets⁵³



As at June 30 2013, Endeavour Energy's total assets were valued at \$6.4 billion; while its total liabilities were valued at \$4.8 billion.

10.5 Macquarie Generation

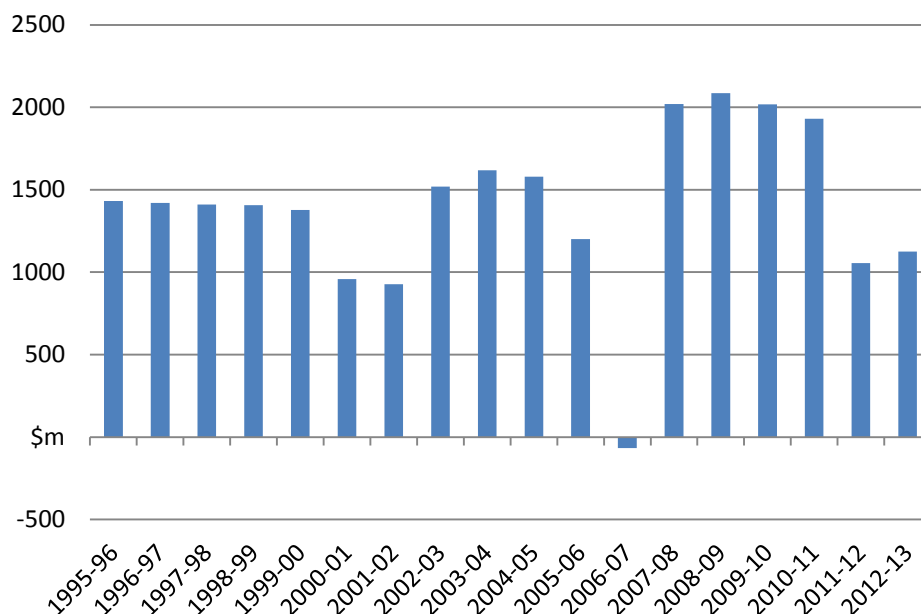
Growth in the real net value of Macquarie Generation assets fluctuated over the last decade and was reported at \$1.1 billion at the end of the 2012-13 financial year.

Macquarie Generation's net assets position at 30 June 2007 shows a deficiency of \$57 million compared with a surplus of \$1.03 billion for the previous financial year. According to the 2006-07 Annual Report:⁵⁴

The change in financial position is a consequence of movements in the fair value of the Corporation's Electricity Derivative Financial Instruments in accordance with AASB 139 Financial Instruments: Recognition and Measurement.

The electricity forward price curve increased significantly in the period April to June 2007 due to the considerable uncertainty caused by drought conditions in Eastern Australia, a large number of generator outages and record demand. This resulted in significant fair value movements of the Electricity Derivative Financial Instruments Assets, Electricity Derivative Financial Instrument Liabilities and Equity – Hedge Accounting Reserve during the period as disclosed in the Financial Report.

Real net asset value growth for Macquarie Generation was substantial between the 2006-07 and 2007-08 financial years in which it increased by \$2.1 billion (Figure 35).

Figure 35: Real net value of Macquarie Generation assets⁵⁵

In the years following, however, the real net value Macquarie Generation's assets declined, reaching a low for the reporting period of \$1.05 billion in 2011-12. Between 2007-08 and 2012-13, the real total value of assets decreased (by \$2.1 billion) by a much greater amount than the total value of Macquarie Generation's liabilities (\$1.2 million).

As at June 30 2013, Macquarie Generation's total assets were valued at \$2.9 billion; while its total liabilities were valued at \$1.8 billion.

11. PORTS

Following a six-month competitive bidding process, 99-year leases of State-owned Port Botany and Port Kembla were awarded to the NSW Ports Consortium for \$5.07 billion, \$4.31 billion for Port Botany and \$760 million for Port Kembla. Since 31 May 2013, both ports have been privately operated.

The long-term lease of Port Kembla and Port Botany realised considerable value for the State. Gross proceeds represented a multiple of 25 times earnings before interest tax and appreciation and amortisation – the highest value multiple attributed globally to a Port asset in recent times. According to the NSW Treasury, the successful result highlights the current high level of investor demand for high quality infrastructure assets.⁵⁶

The net proceeds of around \$4.3 billion were invested in the NSW Government's infrastructure fund – Restart NSW – with 30 per cent of funds reserved for projects in regional areas and \$100 million dedicated for infrastructure projects in the Illawarra.⁵⁷

Sydney Ports Corporation and Port Kembla Port Corporation continue to have

responsibility for marine operational and safety functions. In addition, Sydney Ports has retained responsibility for Eden and Yamba Ports, as well as cruise passenger facilities, and operation and leasing of facilities at Glebe Island and White Bay in Sydney Harbour. The NSW Government has retained regulatory oversight of the ports, while pricing at Port Botany and Port Kembla is now monitored under a light handed regime that encourages flexible outcomes between port operators and users.⁵⁸

As part of the 2013-14 Budget, the Government decided to undertake a long term lease of Newcastle Port, subject to a scoping study, to fund priority infrastructure projects, including the rejuvenation of Newcastle city. On 30 April 2014, the NSW Government announced that it would enter into a 98-year lease for the Port of Newcastle for a benefit to the State of \$1.75 billion.⁵⁹

In an April 2014 media release, Premier Mike Baird acknowledged that the long-term lease of the Port of Newcastle will free up capital to assist the NSW Government fund the revitalisation of the Newcastle CBD, and a backlog of other critical public infrastructure across the State, including hospitals, schools and roads.⁶⁰

12. CONCLUSION

The real value of NSW public sector assets has increased consistently in the last decade or so; driven predominantly by the revaluation of assets such as land and property and non-financial asset purchases.

This growth has not been consistent across all NSW public sector organisations. Of those presented in this paper, it is evident that public trading enterprises with a high composition of land and property assets (such as the NSW Land and Housing Corporation) have experienced considerably higher real net asset value growth than other general government organisations (which are comprised of a higher proportion of operational assets subject to depreciation).

While the value of NSW public sector assets has increased, so too has the value of the State's liabilities; and when assessing the State's net worth, in real terms and by per head of population, the NSW public sector is in a similar financial position to what it was a decade ago.

¹ Infrastructure NSW, *The State Infrastructure Strategy 2012 - 2032*, October 2012, p.10

² NSW Treasury, [Budget Paper No. 1 2013-14](#), June 2013, New South Wales Budget Speech

³ NSW Treasury, [Budget Paper No. 2 2013-14](#), June 2013, Chapter 1: Fiscal Strategy and Budget Priorities

⁴ NSW Government, [Rebuilding NSW](#), June 2014

⁵ NSW Government, [Rebuilding NSW - \\$20 billion plan to turbocharge infrastructure](#), 11 June 2014

⁶ Asset sale data is sourced from the cash flow statements in the ABS Government Finance Statistics catalogue and other individual Department/Corporation annual reports; it also relates specifically to the sale of physical assets such as land, property and equipment and may not incorporate the sale other financial investments and assets.

⁷ Figures for departments and corporations presented have been sourced from individual annual reports. Accounting standards and reporting requirements may vary between individual departments and public

trading organisations. Accounting standards and reporting requirements may also vary between years; consequently variations in the value of assets and sales reported may have resulted because of such adjustments. It is beyond the scope of the paper to assess all of these adjustments for individual departments; details of such changes can be found in the notes to the financial statements in each of the annual reports.

⁸ NSW Treasury, [NSW Budget Papers](#), 1988-89-2014-15

⁹ NSW Treasury, [NSW Budget Papers](#), 1998-99-2014-15

¹⁰ Ibid

¹¹ Australian Financial Review, [NSW budget banks on power sale](#), 17 June 2014

¹² Prior to 1998-99, the government finance statistics statistics were compiled on a cash basis and are not directly comparable with data for 1998-99 onwards.

¹³ NSW Treasury, [Budget Paper No. 2 2014-15](#), Appendix B, p. B-1

¹⁴ NSW Treasury, [Budget Paper No. 1 2013-14](#), Chapter 9: Public Trading Enterprises, p.9-2

¹⁵ To compile statistics about the financial activities of a particular public sector group, or any other grouping of public sector units, transactions and debtor/creditor relationships between units within the chosen grouping (sector or subsector) have to be matched and eliminated to avoid double counting. The process of matching and eliminating these items within the chosen group is known as 'consolidation'. Because of this consolidation process asset values presented across the different levels of state government (e.g. general government and public non-financial corporations) will not add to a total public sector value.

¹⁶ Author estimates using data from: ABS, [Government Finance Statistics, Australia](#), Cat. No. 5512.0, 2012-13, Table 291; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1

¹⁷ Author estimates using data from: ABS, [Australian Demographic Statistics](#), Cat. No. 3101.0, December 2013, Table 4; ABS, [Government Finance Statistics, Australia](#), Cat. No. 5512.0, 2012-13, Table 291; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1

¹⁸ Sydney Ports Corporation, [Annual Report 2012-13](#), October 2013; Port Kembla Ports Corporation, [Annual Report 2012-13](#), October 2013.

¹⁹ Author estimates using data from: ABS, [Government Finance Statistics, Australia](#), Cat. No. 5512.0, 2012-13, Table 291; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1

²⁰ Author estimates using data from: ABS, [Government Finance Statistics, Australia](#), Cat. No. 5512.0, 2012-13, Table 231; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1

²¹ Author estimates using data from: NSW Treasury, [NSW Budget Papers](#), 1998-99-2013-14; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1

²² Author estimates using data from: ABS, [Australian Demographic Statistics](#), Cat. No. 3101.0, December 2013, Table 4; ABS, [Government Finance Statistics, Australia](#), Cat. No. 5512.0, 2012-13, Table 231; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1

²³ Author estimates using data from: ABS, [Government Finance Statistics, Australia](#), Cat. No. 5512.0, 2012-13, Table 231; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1

²⁴ Author estimates using data from: ABS, [Government Finance Statistics, Australia](#), Cat. No. 5512.0, 2012-13, Table 211; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1

²⁵ Author estimates using data from: ABS, [Australian Demographic Statistics](#), Cat. No. 3101.0, December 2013, Table 4; ABS, [Government Finance Statistics, Australia](#), Cat. No. 5512.0, 2012-13, Table 211; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1

²⁶ Author estimates using data from: ABS, [Government Finance Statistics, Australia](#), Cat. No. 5512.0, 2012-13, Table 211; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1

²⁷ Roads and Maritime Services, [Annual Report 2009-10](#), Financial Statements, p.135

²⁸ Author estimates using data from: Roads and Maritime Services, [Annual Reports](#), 2011-12-2012-13; Roads and Traffic Authority, [Annual Reports](#), 1994-95-2010-11; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1

²⁹ Ibid

³⁰ NSW Treasury, [Budget Paper 2 2013-14](#), Chapter 9, p.9-19

³¹ Author estimates using data from: NSW Land and Housing Corporation, [Annual Reports](#), 1994-95-2012-13; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1

³² Ibid

³³ Author Estimates using data from: RailCorp, [Annual Reports](#), 2005-06-2012-13; Rail Infrastructure Corporation, [Annual Reports](#), 2000-01-2004-05; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1

³⁴ RailCorp, [Annual Report 2012-13](#), Financial Statement, Note 9, p. 53

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- 35 Author Estimates using data from: RailCorp, [Annual Reports](#), 2005-06-2012-13; Rail Infrastructure Corporation, [Annual Reports](#), 2000-01-2004-05; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1
- 36 Author estimates using data from: NSW Ministry of Health, [Annual Reports](#), 1995-96-2012-13; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1
- 37 NSW Treasury, [NSW Budget Papers](#), Infrastructure Statement, 2007-08-2013-14
- 38 Author estimates using data from: NSW Ministry of Health, [Annual Reports](#), 1996-97-2012-13; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1
- 39 Author estimate using data from: NSW Department of Education and Communities, [Annual Reports](#), 1995-96-2012-13; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1
- 40 NSW Treasury, [NSW Budget Papers](#), Infrastructure Statement, 2007-08-2013-14
- 41 Author estimate using data from: NSW Department of Education and Communities, [Annual Reports](#), 1995-96-2012-13; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1
- 42 Author estimates using data from: Sydney Water Corporation, [Annual Reports](#), 1995-96-2012-13; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1
- 43 Ibid
- 44 Author estimates using data from: Hunter Water Corporation, [Annual Reports](#), 1995-96 -2012-13; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1
- 45 Ibid
- 46 NSW Treasury, [Budget Paper No. 2 2013-14](#), Chapter 9, p.9-8
- 47 NSW Auditor-General, New South Wales Auditor-General's Report: Financial Audit focusing on Electricity, 2011, Vol 4, p.7
- 48 NSW Government, [Rebuilding NSW - \\$20 billion plan to turbocharge infrastructure](#), 11 June 2014
- 49 Ibid
- 50 Author estimates: Transgrid, [Annual Reports](#), 1995-96-2012-13; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1
- 51 Author estimates using data from: Ausgrid, [Annual Reports](#), 2004-05-2012-13; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1
- 52 Author estimates using data from: Essential Energy, Annual Reports, 2001-02-2012-13; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1
- 53 Author estimates using data from: Endeavour Energy, [Annual Reports](#), 2000-01-2012-13; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1
- 54 Macquarie Generation, [Annual Report 2006-07](#), 2007, Financial Statements, Note 1(a)(v), p.37
- 55 Author estimates using data from: Macquarie Generation, [Annual Reports](#), 1995-96-2012-13; ABS, [Consumer Price Index, Australia](#), Cat. No. 6401.0, March 2014, Table 1
- 56 NSW Treasury, [Budget Paper No. 2 2013-14](#), Chapter 1, p.1-14
- 57 Ibid
- 58 NSW Treasury, [Budget Paper No. 2 2013-14](#), Chapter 9
- 59 NSW Treasury, [Transforming Newcastle: Port Lease secures funds for revitalisation](#), Media Release, 30 April 2014
- 60 Ibid