

# Statement of Corporate Intent

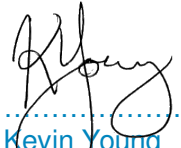
2018-19

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# 1. Agreement

This 2018-19 Statement of Corporate Intent for the Sydney Water Corporation has been agreed between:

  
.....  
Bruce Morgan  
Chairman  
Sydney Water Corporation

  
.....  
Kevin Young  
Managing Director  
Sydney Water Corporation

and

.....  
The Hon. Dominic Perrottet MP  
Shareholder

.....  
The Hon. Victor Dominello MP  
Shareholder

Date... 21/09/2018 .....

Sydney Water Corporation  
1 Smith Street  
Parramatta NSW 2124

Board of Directors

Mr Bruce Morgan (Chairman)  
Mr Kevin Young (Managing Director)  
Dr Abby Bloom  
Mr Trevor Bourne

Mr Greg Couttas  
Mr Richard Fisher  
Dr Marlene Kanga  
Mr Cameron Robertson

## 2. Objectives

The *Sydney Water Act 1994* (section 21) and the *State Owned Corporations Act 1989* (SOC Act) (section 20E) set out the principal objectives of the Corporation, namely to be a successful business, and to protect the environment and public health.

Sydney Water's mission is to be world class, delivering essential water that our customers love, in our great city.

Sydney Water achieves its principal objectives through the Corporate Strategy.



# 3. Business Overview



## Business Scope

- Sydney Water delivers essential water to over five million people in Sydney, the Illawarra and the Blue Mountains. These services include:
  - supplying drinking water to Australian Drinking Water Guidelines specified by the National Health and Medical Research Council
  - collecting and treating wastewater to regulated standards
  - recycling treated wastewater for non-drinking purposes, partially re-using treatment by-products and responsibly disposing of treated wastewater
  - managing stormwater in defined areas.

## Regulatory Operating Environment

- In addition to its principal Acts, Sydney Water operates within a statutory and regulatory framework established through other legislation such as the *Protection of the Environment Operations Act 1997* and various regulations.
- Another key source of regulation is the *Independent Pricing and Regulatory Tribunal Act 1992*. Under this Act, the Independent Pricing and Regulatory Tribunal (IPART) determines Sydney Water’s prices (for regulated services) and acts as the Operating Licence regulator.
- Sydney Water provides various reports to the Shareholders and NSW Treasury (detailed in section five).
- NSW Health primarily regulates Sydney Water under the *Public Health Act 1991* and advises the Government on drinking water quality standards. As required by section 35 of the *Sydney Water Act 1994*, there is a Memorandum of Understanding (MoU) between Sydney Water and NSW Health.
- The NSW Environment Protection Authority (EPA) is the primary environmental regulator for NSW. The NSW Government re-established the EPA as an independent statutory authority in February 2012. As required by section 35 of the *Sydney Water Act 1994*, there is a MoU between Sydney Water and EPA.

Principal statistics	
Service a population over 5,000,000 people	Provide drinking water to over 1,900,000 properties
Customer satisfaction rating of 7.9 out of 10	Water quality health compliance of 100%
Supply over 550,000 million litres of water per year	Collect over 560,000 million litres of wastewater per year
Around 22,000 km of water pipes	25,600 km of wastewater pipes
Annual revenue over \$2.8 billion	Economic (or regulatory) asset base with a value in excess of \$17 billion
Annual operating costs over \$1.3 billion	Annual capital expenditure averaging over \$700 million

## 4. Financial Summary

\$ million nominal	2018-19	2019-20	2020-21
Total income	2,809	2,910	2,899
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1,461	1,543	1,533
Earnings before interest, tax (EBIT)	1,163	1,226	1,198
Profit before tax	707	749	608
Profit after tax	497	523	426
Capital expenditure	822	719	932
Dividends declared	942	942	609
Dividend payout ratio (%)	190%	180%	143%

- Total income for 2018-19 is budgeted to be \$2,809 million, reflecting higher regulated charges resulting from higher-than-expected property growth and also higher developer charges in line with higher growth in Sydney. Income is then budgeted to decrease from the next price determination period commencing in 2021.
- EBITDA for 2018-19 is budgeted to be \$1,461 million and then budgeted to dip in 2020-21, with cost reductions more than offset by lower income from the next price determination.
- Profit before tax for 2018-19 is budgeted to be \$707 million, then decrease from 2020-21 on the back of reduced income and rising borrowing expenses, but partly offset by cost containment.
- Sydney Water has prepared this SCI consistent with the Government's policies on *Capital Structure Policy for Government Businesses* and *Financial Distribution Policy for Government Businesses*.
- The capital expenditure budget includes \$822 million in 2018-19 and \$2.5 billion over the next three years (excluding borrowing costs). The capital portfolio includes significant investment in water and wastewater network, wastewater treatment plant renewals, growth infrastructure in line with growth forecasts and investment in corporate programs including Information Technology.

# 5. Performance Targets Summary



Sydney Water has strategic success measures to guide out business through its strategy journey through to 2020. These measures focus on customer experience and our corporate reputation, supported by business sustainability, organisational culture and safety.

## 6. Representation and Commitment Statement

1. The Board of Sydney Water Corporation confirms that:
  - a) Key performance indicators within the SCI are based on and supported by Sydney Water's Corporate Strategy.
  - b) 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.
  - c) Asset maintenance policies and processes are adequate and appropriate to manage and control risks associated with physical assets.
  - d) All known 'key risks' and 'major emerging contingent liabilities' which could materially impact the current and future results of Sydney Water for the coming year have been disclosed.
  - e) Internal audit and risk management 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 TPP15-03 Internal Audit and Risk Management Policy for the NSW Policy Sector
  - f) The Managing Director has an employment contract and performance agreement. The employment contract is appraised annually.
2. Sydney Water Corporation adheres to *Commercial Policy Framework* policies, as listed in *State Owned Corporations: Applicable TPPs under the Commercial Policy Framework*.
3. Sydney Water Corporation complies with NSW Treasury accounting circulars and policies applicable to SOCs, as listed in the *State Owned Corporations Mandatory Accounting Policies – NSW Treasury Circulars and Treasury Policy Papers*.
4. Sydney Water agrees to provide information during the year to NSW Treasury, as the representative of the Voting Shareholders, as specified in the State Owned Corporation Reporting Obligation Requirements.
5. Sydney Water Corporation has agreed to comply with the requirements of Premier's Memoranda M2012-04 Application of NSW Public Sector Wages Policy 2011 to State Owned Corporations and further guidance contained in the Treasurer's January 2015 letter.
5. Sydney Water Corporation agrees to apply the principles of:
  - a) *Premier's Memoranda M2012-08, Application of Biofuels.*
  - b) *Premier's Memoranda M2013-04, Implementation guidelines for procurement of publicly funded construction services.*