

Annual Report

2017-18



31 October 2018

The Hon. Dominic Perrottet MP
Treasurer and Minister for Industrial Relations
GPO Box 5341
Sydney NSW 2001

The Hon. Victor Dominello MP
Minister for Finance, Services and Property
GPO Box 5341
Sydney NSW 2001

Dear Shareholders

WaterNSW Annual Report 2017-18

We are pleased to submit the WaterNSW Annual Report 2017-18 for presentation to the Parliament of New South Wales.

The report has been prepared in accordance with the *Annual Report (Statutory Bodies) Act 1984*, the *State Owned Corporations Act 1989*, the *Government Sector Employment Act 2013*, the *Public Finance and Audit Act 1983* and the *Public Finance and Audit Regulation 2010*.

Yours sincerely

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

Anne McDonald
Chair

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

David Harris
Chief Executive Officer

Table of Contents

Message from Our Chair and Chief Executive Officer	4
About WaterNSW	6
Our Achievements	10
Water Sales	16
Water Storage Levels	16
Key Performance Indicators	18
Financial Performance Summary	19
Audited Financial Statements	20
Appendix 1 Management and Structure	86
Appendix 2 People and Culture	92
Appendix 3 Legislative Change and Compliance	96
Appendix 4 Access to Information	103
Appendix 5 Customer Response	108
Appendix 6 Financial Performance	109
Appendix 7 Risk Management	113
Compliance Checklist	114
Access	118

Message from Our Chair and Chief Executive Officer

WaterNSW is only a young organisation, created in 2015 with the objective of improving the availability of water resources that are essential for the people of NSW. Given the critical importance of water to our communities, economy and environment, this is a huge responsibility – and one that we take very seriously. Water is Australia's most critical resource. We are highly aware of the trust placed in us to support the state's quality of life and economic wellbeing.

This year the NSW Ombudsman reviewed our performance in executing compliance functions, for which we were responsible from 1 July 2016 to 30 April 2018. The Ombudsman identified a number of areas where we should improve our policies and practices, and we have already started delivering on these, including through the implementation of a more rigorous information verification process.

During 2017-18 the NSW Government established the Natural Resource Access Regulator (NRAR) to provide greater independence of water regulation and give the community greater confidence in the enforcement of water management rules. WaterNSW has supported this important reform that will, among other things, provide greater clarity of focus for the three Government water agencies and separate the making of water resource rules (by DOI Water) from the operation of the system and provision of customer services within the rules (WaterNSW) from the enforcement of the rules (NRAR). We are focused on working with these agencies to ensure that collectively we rebuild the community's trust in NSW water regulation.

WaterNSW has invested significant resources to ensure the security and reliability of water supplies. Construction of the 270km Wentworth to Broken Hill Pipeline continued in 2017-18. This project is designed to guarantee water security for the Broken Hill community and the social and economic benefits that come with a secure, dependable water supply. The pipeline will be completed and ready for water by December 2018 at a total project cost of \$467 million. The pipeline is just one component of the \$298 million [in](#) infrastructure investment undertaken by WaterNSW in 2017-18.

To supplement our current investments, we are planning for the future. This year we released our 20-year infrastructure options study for the state's major rural regulated river valleys to address future challenges in operating the regulated river systems. This analysis will provide a context for rational, long-term decision-making by all levels of Government and WaterNSW, helping to target and prioritise long-term bulk water supply infrastructure investments that meet broader Government policy objectives, regional growth strategies and future customer needs.

Customers are the heart of our business, and in 2017-18 we continued our focus on providing efficient services to customers for water trades, billing, trade and licensing approvals, in addition to meeting their growing needs for resource and market information for surface and groundwater quantity and quality. Service improvements delivered include an upgraded Customer Contact telephony service, expanding the capabilities our online billing calculator to include groundwater and unregulated water users, and improved access to water information.

We know that our customers are doing it tough, with 99 per cent of NSW now in drought. The NSW Government's Emergency Drought Relief Package will provide financial assistance of up to \$4,000 to all general security licenses (and supplementary water access licenses) in rural and regional NSW. This waiver will be applied automatically, relieving customers of the need to apply for this assistance.

WaterNSW also has plans to secure Sydney's water supply. There is currently two years' supply in Sydney's storages, which is an adaptable network with the ability for internal transfers to tackle pressure points, and a dependable, well-tested plan to ensure a highly secure water supply. WaterNSW is working with the NSW Government and Sydney Water to undertake precautionary planning but there is no cause for concern.

None of these achievements would be possible without our employees. Safety is our number one priority, and in 2017-18 we delivered programs designed to embed positive safety behaviour. The Investment in You program also focused on building the personal resilience, confidence and empowerment capability of our people. On behalf of the Board, we would like to thank our employees for their commitment to better serve our customers and uphold our responsibilities as the custodian of water in NSW.



Anne McDonald
Chair



David Harris
Chief Executive Officer

About WaterNSW

Who We Are

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

WaterNSW is responsible for supplying the State's bulk water needs, operating the State's river systems and the bulk water supply system for Greater Sydney and providing services to its customers with respect to licensing and approvals, water allocation trades ("temporary trades"), water licence trades ("permanent trades") and water resource information.

We supply two thirds of water used in NSW from our 42 dams, rivers and pipelines to regional towns, irrigators, Sydney Water Corporation and local water utilities.

We own and operate the largest surface and groundwater monitoring network in the southern hemisphere and build, maintain and operate essential infrastructure.

What We Do

WaterNSW plays a vital role in improving the availability of water that is essential for water users and the communities throughout NSW. WaterNSW does this through the delivery of its market functions:

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

Our Area of Operations



Our Strategic Plan

Our Purpose

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

Our Vision

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

Our Values

In every decision we make, consider the benefit to our customers.

We support each other and all work together as one team.

We do what we say we will do and we take ownership of our actions.



We are open to change and always improving the way we do things.

We take pride in individual and corporate excellence.

We keep people safe, treat them with respect and we are committed to growing our people.

Our Customer Service Principles

Customers are the heart of our business. Based on rigorous and independent customer research, we have adopted a set of Customer Service Principles to guide our interaction with customers and to promote continuous improvement in our focus, efficiency and service delivery.

Understand and Know Me	Develop a deep and consistent understanding of my business and my current and future needs.
Value for My Money	Provide me with products and services that offer better value for money that meet my current and future needs.
Make it Easy for Me	Make me feel valued through building a consistent customer experience and culture that is tailored and responsive to my current and future needs.
Be My Partner	Become a trusted partner with information and insights that meet my current and future needs.

Our Strategic Goals



Our People & Safety

Develop our people and live our commitment to zero harm



Our Performance

Consistently deliver and continuously improve core performance



Our Business

Evolve our business to be responsive, resilient and enduring



Our Relationships

Connect and collaborate with our customers, communities and stakeholders



Our Water Solutions

Demonstrate thought leadership in providing holistic solutions to the state's water supply and water market challenges

Our Strategic Priorities

Be Safe4Life



Achieve our safety-first commitment to zero harm (employees, contractors and the public) through decisions, behaviours and leadership actions that embed and continually improve our safety performance.

Be a Customer Centric Organisation



Focus on activities that prioritise our customers in our decisions and actions so that we improve the value customers receive along with the quality of their experience. Ensure by 2021 more than 70% of our customers rank our service delivery as seven or greater out of 10.

Deliver Reliable Performance in a Changing Environment



Achieve reliable and consistently improving performance and operational strength across all of our key functional areas by continuing to build our capability, flexibility and resilience.

Develop Our People and the Effectiveness of Our Team



Create the high-performance business we want to be by investing in and developing the competencies and leadership capabilities of our people, and by uniting them into one engaged and effective team that takes personal accountability for outcomes.

Improve Organisational Performance



Improve organisational performance by embedding a mindset of 'real-world' continuous improvement in all that we do, by embracing new ideas from national and global benchmarking research and by creating effective internal customer delivery chains that are commercial and meet evolving customer needs and shareholder requirements.

Support Performance Through Innovation and Adoption of New Technology and Scientific Advances



Through innovation and adoption of new technology and scientific advances ensure we do things safer, automate routine activity, reduce waste and costs, provide value adding information products to our customers and improve our performance.

Provide Strategic Solutions



Proactively collaborate and demonstrate thought leadership so that we anticipate, influence and strategically respond to our changing external environment and paradigms, including the water market and the implementation of the Murray-Darling Basin Plan, and develop innovative solutions that go beyond traditional thinking and span asset, operational, rule change and funding solutions.

Leverage our Water Quality and Water Information Expertise



Use our specialised knowledge, leverage our water quality and water information expertise to provide enhanced services for water quality causes and effects consistent with the aspiration of our communities to ensure water quality outcomes across the state; and water information applications and modelling to enable us to convert data into value added information applications for our customers and improve our performance in operating water supply systems.

Our Achievements

For Our Customers

Service Improvements

During 2017-18 we continued our focus on providing efficient services to customers for water trades, billing, trade and licensing approvals, in addition to meeting their growing needs for resource and market information for surface and groundwater quantity and quality.

We continued our system enhancements helping improve the overall customer experience and make it easier for our customers. The extensive upgrade of our contact centre telephony system now allows seamless transfer of customer enquiries. This is of special importance and value to our customers and community stakeholders as we continue to integrate water market functions transferred to WaterNSW.

We expanded the capabilities of our online billing calculator to include groundwater and unregulated water users, allowing all customers to compare water prices, and calculate their bill value at any time.

The culmination of these improvements and the tremendous efforts of our staff helped to ensure we achieved our 2017-18 Customer Service targets.

Creating a one stop place for all water information

We continued the revitalisation of our website, ensuring improved access to water information and services including:

- real time access to water quantity and quality data;
- the Water Register allows customers to check licences, works approval, water trades and allocations in one place;
- Water Applications Online, where customers can apply and pay for licensing transactions online; and
- The Harvestable Rights Calculator allowing landholders to calculate the total dam capacity they can build on their property.

Customer and Community Engagement

We ran a successful information campaign to help educate customers about how much water they can carryover at the end of the year, in accordance with their relevant Water Sharing Plan. We proactively alerted customers using email, SMS, outbound telephone calls, print and radio media so they could take other actions, such as trading water, to avoid unnecessary forfeiture of their water subject to the rules in their respective valleys.

Community open days were held at Burrendong Dam and Chaffey Dam celebrating the anniversaries of these dams, commemorating the people who built the dams, and allowing the local community to access areas that are normally secured from public access. WaterNSW employees also proudly participated in the Leeton Sunrice Festival, highlighting the importance of our services and the vibrancy and resilience of our communities.

For Our Shareholders

Wentworth to Broken Hill Pipeline

In late 2016 the NSW Government directed WaterNSW to build a single 270 km pipeline that will source water from the River Murray near Wentworth. The pipeline will supply up to 37.4 megalitres of raw water per day to Essential Water in Broken Hill as the local water provider. Essential Water will continue to retain responsibility for water treatment and water distribution to its customers.

The raw water will be sourced from the River Murray near Wentworth, with the pipeline being constructed underground and following the Silver City Highway corridor to Broken Hill.

WaterNSW appointed a consortium of John Holland, MPC Kinetic and TRILITY to design, build, operate and maintain the Wentworth to Broken Hill Pipeline. The project will secure long-term water supply for Broken Hill and enable growth and prosperity for local communities.

John Holland MPC Kinetic Joint Venture will design and construct the pipeline at a total project cost of \$467 million. Construction commenced in January 2018, and the pipeline is expected to be completed and ready for water by December 2018. The John Holland TRILITY Joint Venture will then undertake the operations and maintenance of the pipeline for a fixed price 20-year contract term. Additional works from the bulk water storage to Essential Water's filtration plant and grid connections are funded through Restart NSW.

WaterNSW is proud to be leading such a significant regional project and building on the organisation's successful reputation for project delivery.

The project guarantees water security for the Broken Hill community and the social and economic benefits that come with a secure, dependable water supply.

Project updates are regularly provided on our website.

Project Progress Report

June 2018



WORKFORCE

The Wentworth to Broken Hill Pipeline Project Team are fully committed to achieving positive social and economic outcomes through the delivery of this important water security initiative. This dashboard provides an update on progress against a number of targets to be achieved by December 2018.

100%

Local Workforce

Overall number of local workers versus 150 target



Trainees on Project

Total number of workers studying at a Certificate II, Certificate III or Diploma level

42 Trainees



Aboriginal Employees

Target of 5% of workforce



Hours Worked

Total hours worked

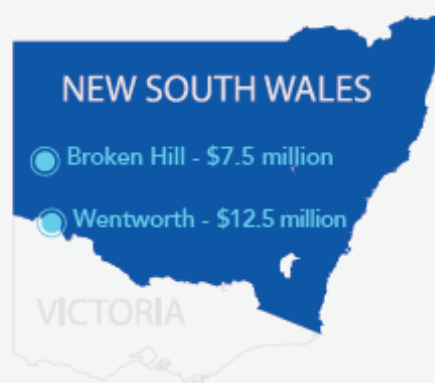


Figures correct as of 30 June 2018

PROJECT

Local Spend

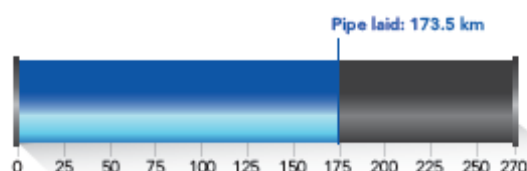
Total spent in Broken Hill, Wentworth and surrounding local economies to date.



Total Spend: \$20 million

Pipe Laid

Total length of pipe laid on project



Pipe Delivered

Total number of pipes delivered to site

17,917



Australian Steel

Total tonnes of steel used in pipe manufacture

23,803t



Wentworth to Broken Hill Pipeline

Warragamba Dam Raising Proposal

In May 2017 the NSW Government released Resilient Valley, Resilient Communities - the Hawkesbury-Nepean Valley Flood Risk Management Strategy (Flood Strategy). The Flood Strategy provides a comprehensive long-term framework for the NSW Government, local councils, businesses and the community working together to reduce and manage flood risk in the Hawkesbury-Nepean Valley.

The strategy found that raising the Warragamba Dam wall by around 14 metres is the infrastructure option with the highest benefit. This would reduce flood risk by creating airspace in the dam to temporarily hold back and slowly release flood waters coming from the Warragamba River catchment. The Flood Strategy also includes a range of other infrastructure and non-infrastructure outcomes that must be part of the solution for managing ongoing flood risk.

The NSW Government has committed around \$58 million to implement phase one of the Flood Strategy. Over \$30 million has been allocated to detailed planning, environmental assessments and community consultation for the Warragamba Dam Raising proposal. At the end of phase one, a business case for this proposal will be provided to the NSW Government by Infrastructure NSW for consideration.

WaterNSW, as the owner and operator of Warragamba Dam, has commenced the environmental impact assessment and detailed concept design for the proposal. The environmental impact statement is due to go out for public consultation in 2019.

Water Reform

The *Natural Resources Access Regulator Act 2017* created the Natural Resources Access Regulator, an independent NSW Government agency responsible for the compliance and enforcement functions in NSW water management outside of the Sydney Catchment. As a result, in regional areas WaterNSW continues to licence water and approve works and NRAR undertakes corresponding compliance monitoring. WaterNSW continues to perform compliance and enforcement functions in the Sydney Catchment.

Water Revenue Indemnity

During 2017-18 WaterNSW and Insurance and Care NSW (icare) executed a Water Revenue Indemnity covering eight of WaterNSW's rural valleys. This indemnity will provide partial revenue protection on water delivery volumes in valleys with a fixed-to-variable charge below 80:20. Where lost revenue from water delivery volumes in these valleys exceeds predetermined trigger limits, icare will provide a pay-out replicating an 80:20 revenue structure for all further losses.

This innovative new product was achieved following a two-year development period with icare. We consider it an important step in being able to provide customer choice in tariff selection in the future. This product is a first of its kind in the Australian water market.

For Our Organisation

Pricing Submission for the Wentworth to Broken Hill Pipeline

In June 2018 WaterNSW submitted its pricing proposal for the inaugural pricing determination for the Wentworth to Broken Hill Pipeline to the Independent Pricing and Regulatory Tribunal (IPART). WaterNSW's customers for the pipeline will be Essential Energy (trading as Essential Water) and a number of pastoral landholders along the route of the pipeline.

In the pricing proposal, which is publicly available on IPART's website, WaterNSW proposes an opening regulated asset base (RAB) of \$458 million (18-19 real dollars) and an indicative annual revenue requirement of \$30.8 million (18-19 real dollars). WaterNSW looks forward to working with IPART and interested stakeholders throughout the consultation process of our pricing proposal during the 2018-19. Final prices expected to be announced by IPART in May 2019.

Strategic Plan 2018 – 2021

Following an extensive internal and external engagement process, WaterNSW developed a new strategic plan for the coming three years. The Strategic Plan was developed by engaging shareholder, political, regulator and customer representatives as well as our Executive Leadership Team and Board to ensure greater focus and engagement of our strategic intent.

The three year Strategic Plan will help us to become:

- an organisation known for putting employee, contractor and public safety first;
- a water supplier and river operator that efficiently optimises the volume, timing and quality of water available to our customers and communities;
- a utility that provides excellent service, value for money and the things our customers want – and is easy for every customer to deal with;
- a trusted and insightful thought leader on water solutions for Government and regulators, helping NSW to manage the critical water issues facing our State;
- an employer of choice, where people are passionate about what we do, skilled to meet the challenges of the future and supported by technology to do a great job; and
- an efficient, agile, high-performance business capable of responding to changing customer needs and adopting new technologies.

Safety

Safety is the number one priority and there is a strong belief that all incidents are preventable with all employees encouraged to make safety choices that mean they go home safe each day from work and are confident to speak up to prevent unsafe behaviour.

In 2017 WaterNSW launched our Safe4Life program aimed at embedding positive safety behaviours. The program is a three year safety initiative focussed on entrenching the positive safety behaviours introduced to all our people through the Switch On Behavioural Safety program which occurs on their induction to our business. The Safe4Life initiative was informed by the outcomes of the inaugural annual safety culture survey.

The program commenced with a driver awareness package of on-line education and defensive driver sessions. Significant work was also undertaken to upgrade skills in incident investigation and safety observation. There was a decrease in lost time injuries for the year from five in 2016-17 to three in 2017-18.

Consolidation of ICT Systems

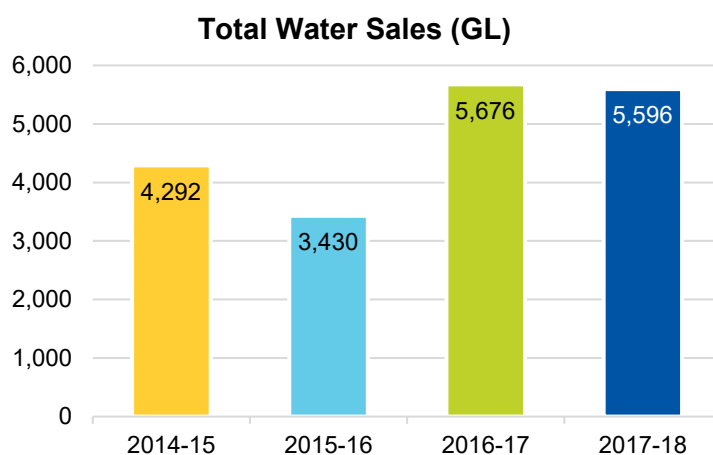
WaterNSW executes functions previously provided by three legacy organisations (State Water, the Sydney Catchment Authority and DPI Water). Substantial progress was made in 2017-18 towards harmonising Information and Communications Technology (ICT) systems used by employees, including the consolidation to a single login environment, updated website content, integration of water market systems and implementation of a unified Enterprise Resource Management system. This progress will continue into 2018-19.

Investing in Our People

At WaterNSW we believe in developing and growing our people. During the year a key focus area has been on building the personal resilience, confidence and empowerment capability of our people with a view to stretching people to think about their goals whether personal or career.

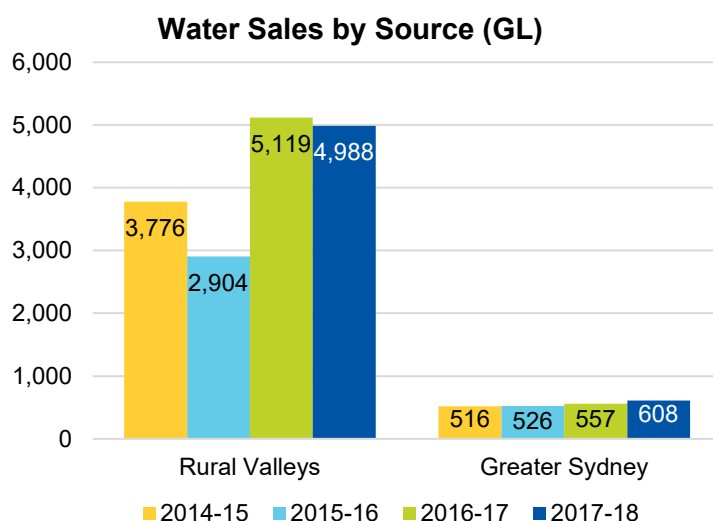
The Investment In You program commenced in 2017-18 to target these attributes. This program is accessible to all employees, with 223 employees attending up to the end of June. The program has received positive feedback on its ability to provide meaningful insights and tools and will continue into 2018-19.

Water Sales



Water sales have remained high in 2017-18.

Rural Valley demand has again been strong this year, with predominantly dry conditions across the state. Despite demand being high, annual volume delivered has been slightly below the prior year, predominately related to overall water availability.



In **Greater Sydney**, water demand has been at the upper level of our demand forecast throughout the year, persisting dry conditions have seen consistently strong demand.

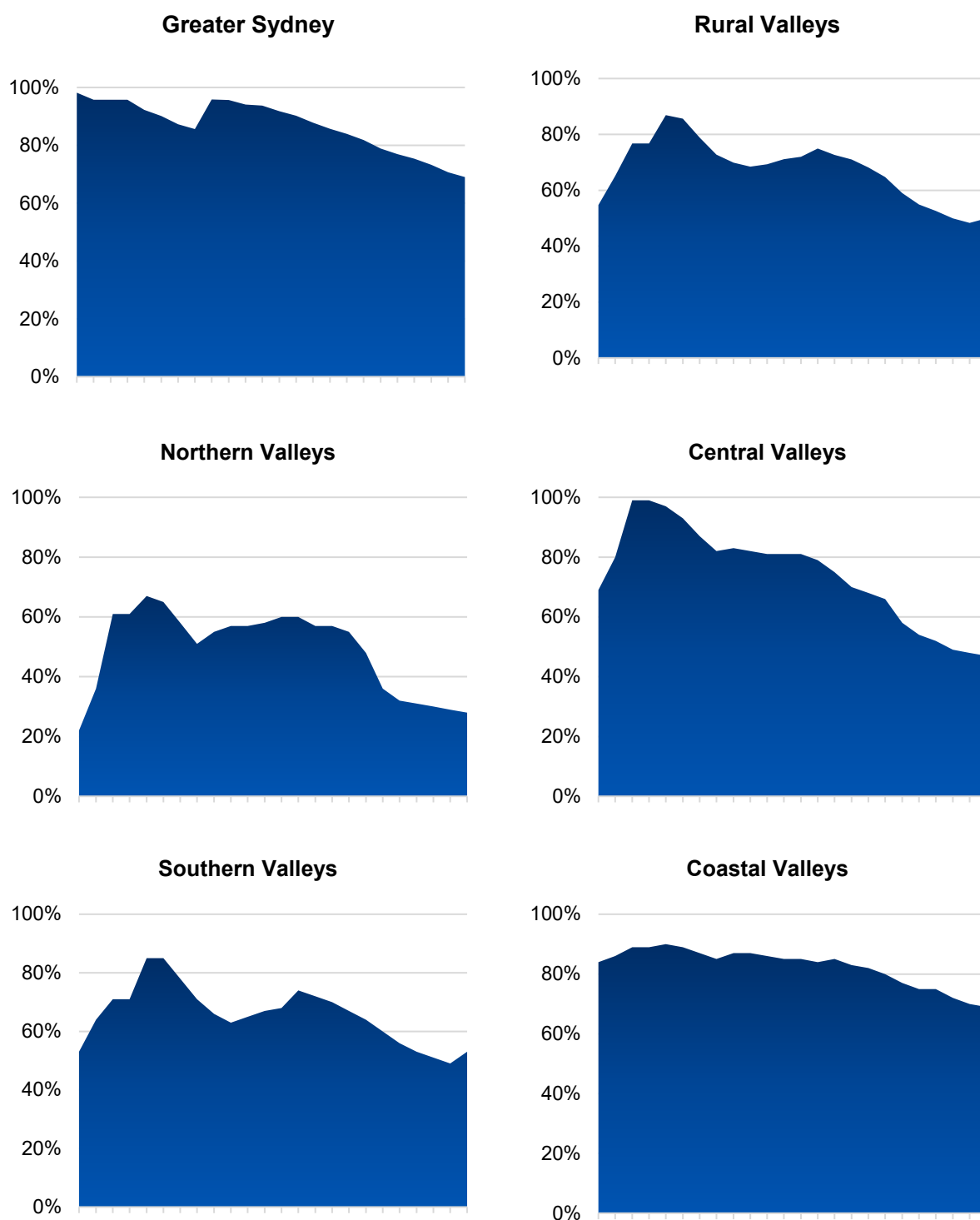
Water Storage Levels

WaterNSW has a statutory responsibility to undertake bulk water supply infrastructure planning and delivery to increase the security and reliability of water supplies to customers and the communities of NSW. We work closely with the NSW Government to perform this role and to deliver on our customers' needs.

WaterNSW has developed a 20-year infrastructure options study for regional valleys, which fills a void in long-term strategic planning and provides us with exciting opportunities to address customer needs in rural areas and across town water supply, agriculture and environmental sectors. The study, which was released publicly in June, identifies infrastructure investment options across all major rural river valleys, with potential to enhance service levels and guide future investment.

In Greater Sydney, WaterNSW works closely with other NSW Government agencies including the Department of Planning and Environment and Sydney Water to manage and plan for Sydney's long-term supply and demand.

The charts below show storage levels between 1 July 2016 and 30 June 2018.



Information on individual storage levels is regularly updated on the WaterNSW website.

Key Performance Indicators

Financial Performance

Measure	Target	Actual
Total Shareholder Return	\$790.5 million	\$797.0 million ⁴
Regulated Operating Expenditure ¹	\$161.9 million	\$159.2 million
Regulated Capital Expenditure ¹	\$449.0 million	\$298.4 million ⁵
Capital Structure Efficiency	Baa2 credit rating	Baa2 credit rating
	60% net debt to RAB ²	57% net debt to RAB ⁶
Non-Regulated EBITDA ³	\$6.2 million	\$11.0 million

1. Expenditure subject to price determinations by IPART / ACCC – refer Appendix 3 for more information.
2. Regulated Asset Base
3. Earnings Before Interest, Tax, Depreciation and Amortisation
4. Higher revenue from water sales resulted in higher profits and therefore higher income tax expense returned to shareholders.
5. Efficiencies in procurement achieved savings of \$74.6 million, combined with delay or deferral of projects to ensure strategic objectives are addressed.
6. Lower regulated capital expenditure resulted in lower debt requirements.

Non-Financial Performance

Measure	Target	Actual
Safety Excellence	No more than four lost time injuries	Three lost time injuries
	Visible safety leadership activities:	Visible safety leadership activities:
	<ul style="list-style-type: none"> • 10 per annum by Executive Managers • 2 per annum by Level 3 Managers 	<ul style="list-style-type: none"> • 9 per annum by Executive Managers • 2 per annum by Level 3 Managers
Customer	Long term uplift in Customer Service from 60% in 2016-17 to 70% in 2020-21 (61.0% in FY18)	61.5% Customer Service Focus score
	Water supplied to Sydney Water meets standards under the Raw Water Supply Agreement more than 95% of the time	100% of water supplied to Sydney Water met standards under the Raw Water Supply Agreement
High Performing Culture	Customer Service focus improvement from 3.03 to 3.5 out of 5	Customer Service focus improved from 3.03 to 3.65 out of 5
	LSI and senior leadership training completed by 100% of leadership group	100% of LSI and senior leadership training completed
	7% improvement in values survey results	6% improvement in values survey results
Delivery of Asset Projects	Overall Measure of Delivery – 250 points	Overall Measure of Delivery – 219 points
	More than 90% of Maintaining Capability Program projects complete	31.5% of Maintaining Capability Program projects complete. The balance of projects is scheduled for completion by September 2018.
Delivery of Strategic Action Plan	Completion of the 2016 – 2018 Strategic Action Plan	96% of the 2016-2018 Strategic Action Plan completed. Outstanding items have been included in the 2018-2021 Strategic Plan.

Financial Performance Summary

	2017-18 Budget \$'000	2017-18 Actual \$'000	2017-18 Variance \$'000	2018-19 Budget \$'000
Revenue	369,527	395,232	25,705	388,035
Operating expenditure	(201,303)	(207,981)	(6,678)	(209,958)
Earnings before interest, tax, depreciation and amortisation	168,224	187,251	19,027	178,077
Depreciation and amortisation	(62,596)	(56,009)	6,587	(71,178)
Interest revenue	1,372	1,281	(91)	168
Interest expense	(56,707)	(47,553)	9,154	(80,017)
Tax	(15,088)	(28,931)	(13,843)	(7,703)
Revaluation gain from the reversal of previously recognised revaluation losses	0	27,297	27,297	0
Net profit after tax	35,205	83,336	48,131	19,347
Capital expenditure	(448,994)	(298,367)	150,627	318,696

Revenue was higher than budget due to:

- drier than anticipated conditions resulting in strong demand for water; and
- unbudgeted revenue for the Wentworth to Broken Hill Pipeline project which was offset by a corresponding amount of operating expenditure, resulting in no net impact on earnings before interest, tax, depreciation and amortisation.

Operating expenditure was higher than budget. Additional expenditure for the Wentworth to Broken Hill Pipeline project was offset by lower expenditure on contractors due to a combination of realised procurement savings and delays to projects beyond WaterNSW's control.

Interest expense was lower than budget as WaterNSW maintained an A3 credit rating between July 2017 and March 2018. The anticipated credit rating of Baa2 was awarded in March 2018.

Capital expenditure was lower than budget due to a combination of realised procurement savings and delay or deferral of projects to ensure strategic objectives are addressed.

Audited Financial Statements

Water NSW
Statement of comprehensive income
For the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Revenue			
Revenue from water supply and delivery	4	299,445	290,273
Grants and subsidies	4	45,572	49,229
Other revenue	4	51,496	44,814
Revaluation gain from the reversal of previously recognised revaluation losses	14	27,297	34,305
		423,810	418,621
Expenses			
Employee related expenses	5	(94,460)	(93,024)
Depreciation and amortisation	6	(56,008)	(58,537)
Other operating expenses	6	(113,245)	(91,106)
Finance costs	7	(47,553)	(32,871)
		(311,266)	(275,538)
Losses on disposal			
	8	(276)	(108)
Profit before income tax		112,268	142,975
Income tax equivalent expense			
	9	(28,931)	(42,913)
Profit after income tax		83,337	100,062
Other comprehensive income			
Items will not be reclassified to profit or loss			
Revaluation of property, plant and equipment	14	45,160	(28,583)
Remeasurement of defined benefit superannuation net liability	18	54,425	41,898
Income tax on other comprehensive income	9	(16,524)	8,167
Other comprehensive income		83,061	21,482
Total comprehensive income for the year		166,398	121,544
Attributable to equity holders of Water NSW			
		166,398	121,544

The statement of comprehensive income should be read in conjunction with the accompanying notes.

Water NSW
Statement of financial position
as at 30 June 2018

	Note	2018 \$'000	2017 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	10	20,752	189,218
Trade and other receivables	11	126,805	91,009
Other non-financial assets	12	220	1,435
		147,777	281,662
Non-current assets			
Other non-financial assets	12	204	238
Intangible assets	13	11,094	12,280
Property, plant and equipment	14	2,583,794	2,268,519
		2,595,092	2,281,037
TOTAL ASSETS		2,742,869	2,562,699
LIABILITIES			
Current liabilities			
Trade and other payables	15	111,319	51,531
Other liabilities	16	22,348	34,073
Borrowings	17	56,981	51,422
Current tax liabilities	9	4,412	12,697
Provisions	18	140,992	82,091
		336,052	231,814
Non-current liabilities			
Borrowings	17	1,312,653	614,384
Other liabilities	16	93,209	99,375
Provisions	18	79,016	129,595
Deferred tax liabilities	9	181,662	163,552
		1,666,540	1,006,906
TOTAL LIABILITIES		2,002,592	1,238,720
NET ASSETS		740,277	1,323,979
EQUITY			
Contributed equity		390,883	1,042,883
Retained earnings		159,550	122,861
Asset revaluation reserve		189,844	158,235
		740,277	1,323,979

The statement of financial position should be read in conjunction with the accompanying notes.

Water NSW

Statement of changes in equity

for the year ended 30 June 2018

	Note	Contributed equity \$'000	Retained earnings \$'000	Asset revaluation reserve \$'000	Total equity \$'000
Balance at 1 July 2017		1,042,883	122,861	158,235	1,323,979
Comprehensive income					
Profit for the year		-	83,337	-	83,337
Revaluation of property, plant and equipment	14	-	9	45,151	45,160
Remeasurement of defined benefit superannuation liability	18	-	54,425	-	54,425
Income tax on other comprehensive income	9		(2,982)	(13,542)	(16,524)
Total comprehensive income for the year		-	134,789	31,609	166,398
Transactions with owners in their capacity as owners					
Return of capital		(652,000)	-	-	(652,000)
Dividend paid or provided for	18	-	(98,100)	-	(98,100)
Transactions with owners in their capacity as owners		(652,000)	(98,100)	-	(750,100)
Balance at 30 June 2018		390,883	159,550	189,844	740,277
Balance at 1 July 2016		1,063,516	19,508	178,244	1,261,268
Comprehensive income					
Profit for the year		-	100,062	-	100,062
Revaluation of property, plant and equipment	14	-	-	(28,583)	(28,583)
Remeasurement of defined benefit superannuation liability	18	-	41,898	-	41,898
Income tax on other comprehensive income	9	-	(407)	8,574	8,167
Total comprehensive income for the year		-	141,553	(20,009)	121,544
Transactions with owners in their capacity as owners					
Decrease in net assets from equity transfers - NSW Department of Industry	20	(20,633)	-	-	(20,633)
Dividend paid or provided for	18	-	(38,200)	-	(38,200)
Transactions with owners in their capacity as owners		(20,633)	(38,200)	-	(58,833)
Balance at 30 June 2017		1,042,883	122,861	158,235	1,323,979

The contributed equity of the Corporation is divided into two equal shares. The Corporations's shareholders are: the Treasurer and the Minister for Finance, Services and Property.

The statement of changes in equity should be read in conjunction with the accompanying notes.

Water NSW
Statement of cash flows
For the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Receipts from customers and other		365,503	342,132
Interest received		2,494	2,789
Receipts from NSW Department of Industry for employee entitlements		14,979	-
Receipt of grants and subsidies from NSW Government		15,017	7,041
Payments to suppliers and employees		(250,885)	(203,686)
Interest and other finance costs paid		(22,079)	(28,587)
Income tax (paid)/refunds received		(35,630)	(6,753)
Net cash from operating activities	10	89,399	112,936
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		451	256
Payments for property, plant and equipment		(249,318)	(58,072)
Other investing		(982)	-
Net cash used in investing activities		(249,849)	(57,816)
Cash flows from financing activities			
Repayment of borrowings		(78,300)	-
Proceeds from borrowings		760,484	-
Return of capital		(652,000)	-
Dividends paid		(38,200)	(60,600)
Net cash used in financing activities		(8,016)	(60,600)
Net decrease in cash and cash equivalents		(168,466)	(5,480)
Cash and cash equivalents at beginning of the year	10	189,218	194,698
Cash and cash equivalents at end of the year	10	20,752	189,218

The statement of cash flows should be read in conjunction with the accompanying notes.

Water NSW

Notes to the financial statements

For the year ended 30 June 2018

1 General

Corporate information

Water NSW is a statutory State Owned Corporation domiciled in Australia and constituted under the *Water NSW Act 2014* (the Act). Water NSW's ultimate parent is the NSW Government. The financial results, financial position and cash flows are consolidated as part of the NSW Total State Sector Accounts.

The principal activities of Water NSW under its operating licence are to provide bulk water services, efficiently operate the state's river systems and to protect water catchment areas for its customers in its area of operations in NSW. Water NSW operates under the commercial disciplines of the NSW Government's Commercial Policy Framework and accordingly the directors have determined that Water NSW is a for-profit entity for financial reporting purposes.

Water NSW financial statements for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the board of directors on 26 September 2018.

Basis of Preparation

The financial statements are general purpose financial statements that have been prepared on a going concern basis in accordance with:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations);
- applicable International Financial Reporting Standards;
- Financial Reporting Directions mandated by the Treasurer; and
- the requirements of the Part 3 of the *Public Finance and Audit Act 1983*, the associated requirements of the *Public Finance and Audit Regulation 2015* and the *State Owned Corporations Act 1989*.

Reporting Period

The financial statements cover the financial performance and cash flows of Water NSW 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).

Key Judgements and Estimates

Property, plant and equipment and assets are measured at fair value. Other financial statement items are prepared in accordance with the historical cost convention except where specified otherwise.

Judgements and estimates made by management in the application of Australian Accounting Standards that have significant effect on the financial statements are included in the following notes:

- Note 9 – Deferred tax assets and deferred tax liabilities;
- Note 14 – Fair value of property, plant and equipment;
- Note 18 – Employee benefits and other provisions, including defined benefit superannuation obligations; and
- Note 20 – Department of Industry equity transfer at fair value following administrative restructure.

Comparatives Information

Where relevant, comparative amounts are restated to conform to the current reporting period's presentation. This could arise as a result of the requirements of new or revised Australian Accounting Standards and Australian Accounting Interpretations, a voluntary change in accounting policy or a reclassification of items presented. Where this occurs, the nature, amount and reason for the reclassification is included in the notes to the financial statements.

Notes to the financial statements

For the year ended 30 June 2018

2 Summary of significant accounting policies

In preparing these financial statements, the accounting policies described below are based on the requirements applicable to for-profit entities and have been consistently applied to all reporting periods.

Property, plant and equipment, and assets held for sale are measured at fair value. Other financial statement items are prepared in accordance with the historical cost convention except where specified otherwise

(a) Revenue

Water NSW recognises revenue from the rendering of water supply services when it is probable that economic benefits will flow to Water NSW and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

Water NSW receives NSW Government contributions to operations. The contributions are provided to meet the costs of certain activities that satisfy community expectations, public benefit or government requirements (e.g. flood operations, environmental flows, stock and domestic supply) and finance on a commercial basis the agreed share of past capital investment along with any further capital investment necessary to address pre-1997 dam safety non-compliance conditions and other mandated capital improvements (e.g. for environmental compliance or to provide fishways at regulatory structures).

The NSW Government transitional operating subsidy is provided to explicitly recognise the extent to which there is a shortfall between the agreed revenue requirements of Water NSW's operations and the revenues generated in an average water supply year from supplying customers and from the agreed government contribution to operations. The NSW Government also provides an additional subsidy for maintenance of unregulated weirs in river systems.

Water supply revenue

Water NSW provides water services to its customers under the conditions of their licences. Revenue from rendering of these services comprises both fixed and variable charges. The fixed component is charged according to each licence entitlement, whereas the variable component is charged according to actual consumption and use by the licence holder. The variable usage charges are recognised when the services are provided.

Government grants and subsidies revenue

Water NSW receives Government funding for agreed activities and for past and future capital investment.

Grants and subsidies that are receivable for expenses incurred or revenue foregone are recognised as revenue in profit or loss on a systematic basis over the periods for which the grant or subsidy is to apply.

Income for government funded projects is recognised once all attached conditions of the funding agreement have been satisfied. Funds received in advance or in excess of funding agreements are held as a liability.

For funding received relating to the construction of capital assets, the total grant amount received is treated as deferred revenue until the asset to which it relates is complete. Upon completion of the asset the deferred revenue is then recognised in profit or loss on a systematic basis over the useful life of the asset.

Interest revenue

Interest revenue is recognised on an accrual basis using the effective interest method.

Rental income

Rental income from leased properties is recognised on a straight line basis over the term of the lease. Incentives granted over leased properties are recognised as an integral part of the total rent income.

Rendering of other services

Service revenue is recognised on an accrual basis and in accordance with the substance of the agreement covering such transactions.

Notes to the financial statements

For the year ended 30 June 2018

Disposal of property, plant and equipment

Gains or losses on disposals are determined by comparing proceeds with the asset's carrying amount. The net gain or loss on the disposal of assets is included in profit or loss. Where an asset that has been previously revalued is disposed, any balance remaining in the asset revaluation reserve in respect of that asset is transferred to retained earnings.

(b) Expenses

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 disposal of property plant and equipment, impairment of assets or the re-measurement to fair value of some items as at reporting date that are required to be recognised in the profit or loss as per relevant applicable Australian Accounting Standards and Australian Accounting Interpretations.

Depreciation of property, plant and equipment

Depreciation is provided for on a straight-line basis for all depreciable assets so as to write off the depreciable amount of each asset as it is consumed over its useful life to the entity.

All material identifiable components of assets are separately depreciated over their shorter useful lives. The useful lives of assets by class are set out in the following table:

Asset class	Useful life (2017-18)	Useful life (2016-17)
Infrastructure systems	5 to 150 years	5 to 150 years
Buildings	1 to 100 years	1 to 100 years
Plant and equipment	2 to 32 years	2 to 32 years
Vehicles	5 to 15 years	5 to 15 years
Furniture and fittings	3 to 15 years	3 to 15 years
Information systems	2 to 10 years	2 to 10 years
Water meters	20 years	20 years
Computer software	3 to 25 years	3 to 25 years

Borrowing Cost

Interest and other borrowing costs, such as government guarantee fees payable in respect of the Water NSW borrowings, are expensed as incurred within finance expenses in profit or loss unless they relate to qualifying assets, in which case they are capitalised as part of the cost of those assets.

Qualifying assets are assets that take 12 months or more to be ready for their intended use. Capitalisation of borrowing costs is undertaken where a direct relationship can be established between the borrowings and the projects giving rise to the qualifying assets.

Operating lease expenses

Payments made under operating leases are representative of the pattern of benefits derived from the leased assets and accordingly they are recognised as an expense in profit or loss in the periods in which they are incurred. Expense is recognised on a straight-line basis over the term of the lease. Lease incentives received are recognised as an asset and amortised over the term of lease.

Notes to the financial statements

For the year ended 30 June 2018

(c) Taxation

Income tax

Water NSW is subject to the National Tax Equivalent Regime (NTER) which is based on the *Income Tax Assessment Act 1936 and 1997 (as amended)*. Tax equivalents are payable to Revenue NSW. Income tax on profit or loss comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same authority on the same taxable entity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

During the year, WaterNSW recognised a deferred tax asset (DTA) for the opening balance of the transferred employee entitlements (including the leave provisions and superannuation liabilities) for the former Sydney Catchment Authority staff. Payments to employees by Water NSW in respect of leave (including long service leave, annual leave and superannuation) constitute an allowable deduction when the leave payment is made to the employee. AASB 112 *Income Taxes* requires an entity to account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. \$18.1 million in deferred tax assets were recognised as follows: \$13.3 million related to the defined benefit superannuation balances in other comprehensive income and \$4.8 million related to other employee entitlements in profit and loss. This DTA was recognised as a change in estimate after Water NSW obtained certainty over the deductibility of these employee entitlements.

Goods and services tax

Revenue, expenses and assets are recognised net of the amount of associated Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (the ATO). In these circumstances, the GST is recognised as part of the cost of acquisition or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from or payable to the ATO is included as a current asset or current liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows from investing and financing activities recoverable from or payable to the ATO are classified as cash flows from operating activities.

Where applicable, commitments are disclosed inclusive of GST.

Notes to the financial statements

For the year ended 30 June 2018

(d) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits at call and other short-term, highly liquid investments which are readily convertible to known amounts of cash and which are subject to insignificant risk associated with changes in value.

(e) Trade and other receivables

Trade and other receivables represent amounts that are receivable by Water NSW for providing services to customers prior to the end of the reporting period and that are yet to be collected.

Trade and other receivables due within 12 months of the reporting date are recognised initially and subsequently carried at original invoice amount, which is their fair value, less any impairment losses recognised by way of an allowance for impairment that represents specific amounts considered to be either doubtful or uncollectible. Subsequent measurement is at amortised cost using the effective interest method, less an allowance for any impairment of receivables.

The recoverability of trade receivables is regularly reviewed throughout the reporting period. The allowance for impairment is recognised when collection of the full amount invoiced is considered to be no longer probable after due consideration of factors such as the length of time in excess of the due date, financial difficulties of the debtor, past recoverability experience and prevailing economic conditions. All of these factors are considered to be objective evidence of impairment. Known bad debts are written off against the allowance as and when identified.

(f) Property, plant and equipment

Asset classes

Water NSW has the following asset classes comprising property, plant and equipment:

System assets

These are infrastructure assets that deliver, store and provide bulk water 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.

Market land and buildings

These are properties held and owned by Water NSW and that have potential for alternative use.

Plant and equipment

These assets include office equipment and operating plant and machinery.

Motor vehicles

These assets include motor vehicles and marine craft.

Furniture and fitout

These assets include furniture and fitout assets.

Information systems

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

Notes to the financial statements

For the year ended 30 June 2018

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 \$1,000 or more for information systems and \$5,000 or more for plant and equipment individually and having a minimum expected working life of more than one year are capitalised.

In the case of system asset categories that work together to form an entire network ('system assets'), all expenditures are capitalised regardless of cost. For system assets constructed by Water NSW 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 where applicable. These costs are capitalised initially as work in progress and then reclassified as completed assets when the asset becomes operational.

Subsequent expenditure on property, plant and equipment

Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Water NSW and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. Repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Major inspection costs

The cost of the inspection is capitalised as part of the cost of the asset if it is probable that future economic benefits will flow to Water NSW and the cost can be measured reliably. Any inspection cost so capitalised is recognised as a component asset and depreciated over the period of time until the next inspection. When each major inspection cost is capitalised, any remaining cost or estimated cost of the previous inspection is derecognised.

Restoration costs

The present value of the expected cost for the restoration or cost of dismantling of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Maintenance

Day-to-day servicing costs or maintenance are charged as expenses as incurred, except where they relate to the replacement of a part or component of an asset, which will extend the asset's economic life in which case the costs are capitalised and depreciated.

Asset valuations

Following initial recognition, each class of property, plant and equipment is stated in the statement of financial position at fair value less any subsequent accumulated depreciation and accumulated impairment losses.

Fair value of property, plant and equipment is based on a market participants' perspective, using valuation techniques (market approach, cost approach, income approach) that maximises relevant observable inputs and minimises unobservable inputs.

In determining the most appropriate measure of fair value for its assets, Water NSW considers a number of factors such as the principal (or most advantageous) market in which an orderly transaction would take place for the asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis, and the assumptions that a market participant would use when pricing the asset.

Notes to the financial statements

For the year ended 30 June 2018

When transactions are not directly observable in a market, which is the case with the vast majority of Water NSW property, plant and equipment assets, fair value is determined for each asset class using one of three valuation techniques permitted under Australian Accounting Standard AASB 13 '*Fair Value Measurement*':

- **Market** approach - fair value is determined using prices and other relevant information generated by market transactions involving identical or comparable assets or groups of assets;
- **Income** approach - fair value is determined by converting future cash flows to a single current (i.e. discounted) amount; or
- **Cost** approach - 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.

For some classes of assets, re-measurement to fair value is undertaken by way of an asset revaluation. Valuations are performed with sufficient regularity to ensure that the carrying amount prior to any impairment adjustments does not differ materially from the asset's fair value at the reporting date.

Treasury Policy Paper TPP 14-01 '*Valuation of Physical Non-Current Assets*' requires comprehensive revaluation of all classes of property, plant and equipment at least every five years and at least every three years for land and buildings and interim revaluations to be conducted between comprehensive revaluations, where cumulative changes to indicators/indices suggest fair value may differ materially from carrying value. Comprehensive revaluations and interim formal revaluations must be conducted using external professionally qualified valuers to either to conduct the revaluation or to review the revaluation.

For each class of property, plant and equipment subject to valuation, revaluation increments are recognised in other comprehensive income and credited to an asset revaluation reserve within equity in the statement of financial position.

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. However, to the extent that an impairment loss on the same revalued asset was previously recognised in profit or loss, a reversal of that impairment loss is also recognised in profit or loss. Revaluation increments and decrements are offset against one another on an 'individual asset' basis.

Revaluation increments and decrements are offset against one another on an 'individual asset' basis for revaluation purposes as follows:

- In respect of the class of **system assets** Water NSW considers the unit of measure for an 'individual asset' in its single cash generating unit to be the entire system asset network.
- In respect of Water NSW market **land and buildings**, the 'individual asset' is considered to be each individual land parcel together with any building improvements on the land parcel.

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

System assets

System assets are those infrastructure assets that deliver water distribution services to customers and end users. Due to the specialised nature of this class of assets where there is generally no active market, the fair value is determined using the income approach by discounting the future cash flows expected to be generated from the use of these assets under the price-regulated environment in which Water NSW operates as a for-profit entity (Note 14). The future cash flows generated from the use of the assets under this price-regulated environment are considered to be the primary factor that a market participant would consider when pricing these assets. Water NSW 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, Water NSW's fair value calculations also include estimated cash flows from non-regulated assets, which are not included in IPART's methodology.

Notes to the financial statements

For the year ended 30 June 2018

System assets are assessed as an integrated network because of the interdependent nature of their operations, and they are grouped at a cash generating unit 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.

As IPART's methodology assesses the total fair value of all the Water NSW regulated assets, the asset values of non-regulated assets are added in order to determine the total fair value of all assets. The fair value of system assets is then derived by deducting the fair value of other classes of assets (that are shown separately) from the total fair value of all assets.

Land and buildings

Land and buildings (other than system assets) are valued by independent registered valuers on a three yearly cycle, unless market conditions necessitate an earlier valuation to be undertaken, using the market approach to determine fair value under Australian Accounting Standard AASB 13 '*Fair Value Measurement*'. Land is stated in the statement of financial position at market value and buildings are stated at market value less accumulated depreciation. Leasehold properties are stated at market value less accumulated amortisation. When these assets are revalued, any accumulated depreciation or amortisation is netted against the gross carrying amount and the resulting balance is then increased or decreased by the revaluation increments or decrements.

Other asset classes forming property, plant and equipment

Property, plant and equipment asset classes other than system assets, market land and buildings and leasehold properties, such as plant and equipment and computer equipment, are recognised initially at the cost of acquisition. These assets are not revalued as it is considered that their depreciated historical cost is an acceptable surrogate for their fair value if a market approach was applied under Australian Accounting Standard AASB 13 '*Fair Value Measurement*'.

(g) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance. Intangible assets are only recognised if it is probable that future economic benefits will flow to Water NSW and the cost of the asset can be reliably measured. Intangible assets are capitalised initially at cost. Costs incurred on incomplete intangible assets that are being progressively acquired, such as software, 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.

Following initial recognition the cost approach is applied as it is considered that there is no active market that can be referenced for performing revaluations to a market-based fair value.

All research costs are expensed. Development costs are only capitalised when certain criteria are met.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Where intangible assets are determined to have finite lives, they are amortised on a straight-line basis and the expense is recognised as part of the depreciation and amortisation line item in profit or loss. These assets are recognised in the statement of financial position at cost less accumulated amortisation and accumulated impairment losses, where applicable.

Where intangible assets are determined to have indefinite lives they are not amortised. These assets are recognised in the statement of financial position at cost less accumulated impairment, where applicable. Easements over property and the Instrument of Delegation for foreshore lands are typical assets that come under this category.

Notes to the financial statements

For the year ended 30 June 2018

(h) Impairment of assets

At the end of each reporting period Water NSW assesses impairment by evaluation of conditions and events that may be indicative of impairment triggers. The assessment will include considering external and internal sources of information. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use to the asset's carrying amount.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised as an expense in profit or loss, unless an asset has previously been revalued through the asset revaluation reserve, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation through the statement of other comprehensive income, with any excess recognised in profit or loss. Impairment losses recognised in respect of a cash generating unit are allocated to reduce the carrying amount of the assets in the unit on a pro rata basis.

Intangible assets are tested for impairment where an indicator of impairment exists. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to recoverable amount and the reduction is recognised as an impairment loss.

Property plant and equipment fair value is defined consistently with AASB 13 '*Fair Value Measurement*'. The only difference between an asset's fair value and its fair value less costs of disposal are the direct incremental costs attributable to the disposal of the asset.

(i) Financial assets

All financial assets, except those measured at fair value through profit and loss, are subject to an annual review for impairment. An allowance for impairment is established when there is objective evidence that the entity will not be able to collect all amounts due.

Previous impairment losses are reversed through profit or loss during the year if there is objective evidence supporting the reversal.

(j) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to Water NSW and other amounts that remain unpaid at reporting date. They are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

(k) Borrowings

Interest-bearing borrowings obtained by Water NSW from the NSW Treasury Corporation (TCorp) are recognised initially at the fair value of the consideration received, which incorporates any transaction costs associated with the borrowing. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

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

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. Where there is an unconditional right to defer settlement of the borrowings for at least 12 months after the reporting date and

Notes to the financial statements

For the year ended 30 June 2018

management intends to defer the settlement, the borrowings are recognised as a non-current liability. All other borrowings that are to be settled in within 12 months are recognised as a current liability.

Under the Debt Management Facility, Water NSW is able to rollover its maturing debt to any term offered by its lender (TCorp), provided the total capital value of the debt remains within limits approved under the *Public Authorities (Financial Arrangements) Act 1987* (Refer Note 24 c). Water NSW also pays a Government Guarantee Fee to NSW Treasury to have its loans guaranteed by the State.

(I) Provisions

Provisions are liabilities of uncertain timing or amount. A provision exists when there is a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources 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, the estimate of the provision is discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. 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 by 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 Water NSW does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Provisions recognised in the statement of financial position comprise some employee benefits and other provisions. These are described below.

Employee benefits

Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service.

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. 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.

Long term employee benefits

Long term employee benefits are all employee benefits other than short term employee benefits, post-employment benefits and termination benefits. In the case of the Water NSW, this refers specifically to employee benefits for long service leave and annual leave.

The liabilities for long service leave and annual leave at the reporting date represent the present value of the future benefits that employees have earned in return for their service in the current and prior reporting periods, less the fair value of any related assets (where applicable) at that date. The liability is required to be measured at present value in accordance with AASB 119 *'Employee Benefits'*.

Notes to the financial statements

For the year ended 30 June 2018

Annual leave

The liability for annual leave benefits is actuarially calculated to determine the present value of the future benefit that employees have earned in return for their service up to the reporting date. Annual leave, which is not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service is required to be measured at present value in accordance with AASB 119 'Employee Benefits'. The discount rate used is the yield at the reporting date on high quality corporate bond rates that have maturity dates approximating to the terms of the annual leave obligations.

If benefits are expected to be settled wholly within 12 months of the end of the reporting period, then they are measured at the undiscounted amount of the benefit.

Long service leave

The present value of the future benefit related to long service leave is calculated using an actuarial valuation method called the projected unit credit method. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Consideration is given 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 bond rates that have maturity dates approximating to the terms of the long service leave obligations.

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 they do not fall due for settlement at the reporting date.

During the year, the discount rate applied to employee benefits was changed from Commonwealth government bond rate (2.75%) to the yield on high quality corporate bonds (4.0%) (rounded). The impact of the change was a reduction in the long service leave provision of \$2.6 million, which was recognised in the profit and loss.

Termination benefits

Termination benefits are employee benefits payable as a result of an employee's decision to accept voluntary redundancy in exchange for those benefits. The liability for redundancy benefits for specific employees is measured at the non-discounted calculated entitlement that will be paid to those employees. The liability for redundancy benefits for employees that are subject to a restructuring program is recognised when a detailed formal plan for the restructuring exists and when a valid expectation in those affected has been raised.

Other provisions

Unused non-vesting sick leave does not give rise to a liability as it is considered improbable that sick leave taken in the future will be greater than the benefits accrued in the future.

The outstanding amounts of payroll tax, workers compensation insurance premium and fringe benefit tax, which are consequential to employment, are recognised as liabilities and expenses where the employee benefits to which they relate have also been recognised.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment. In the case of the Water NSW, this refers specifically to benefits provided to employees and former employees through superannuation schemes. Superannuation schemes are classified as either defined contribution or defined benefit.

Defined contribution superannuation schemes

Water NSW contributes to the First State Superannuation Scheme, a defined contribution scheme in the NSW public sector, as well as other private schemes to a lesser extent. 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.

Notes to the financial statements

For the year ended 30 June 2018

Defined benefit superannuation schemes

Water NSW contributes to three defined benefit superannuation schemes in the NSW Public Sector Pooled Fund. These are: State Superannuation Scheme (SSS), State Authorities Superannuation Scheme (SASS) and State Authorities Non-contributory Superannuation Scheme (SANCS).

The net obligation in respect of defined benefits plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The benefit is also adjusted for any asset ceiling i.e. the present value of economic benefits available as refunds from the plan or reductions in future contributions to the plan.

The calculation of defined benefit obligations is performed by a qualified actuary using the projected unit cost method.

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).

When the benefits of the plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The gains and losses on the settlement of a defined benefit plan are recognised when the settlement occurs.

AASB 119 '*Employee Benefits*' does not specify whether the current and non-current portions of the liability be disclosed because at times the distinction can be arbitrary. Management has determined that the liability be disclosed as non-current as this best reflects when the liability will most likely be settled.

At 30 June 2018, the discount rate applied to employee benefits was changed from Commonwealth government bond rate to the yield on high quality corporate bonds (4.23%) resulting in a reduction in defined benefit superannuation liabilities of \$50.3 million, which was recognised in other comprehensive income. The change in the discount rate is expected to increase the interest cost on the defined benefit superannuation obligations in the next reporting period. The impacts on service cost and interest cost in subsequent periods are impracticable to quantify due to the nature of defined benefit accounting.

Assumptions underlying defined benefit superannuation expenses and liabilities are disclosed in Note 18(a).

(m) Restorations

Restoration costs in respect of leased premises are those costs that Water NSW must incur under the terms of the lease to restore the relevant leased premises back to their original state at the end of the lease term.

Provisions are recognised at the inception of a lease when such restoration is a condition of the lease. Unwinding of the discount is recognised as a finance cost in profit or loss. The restoration provisions are separately capitalised against assets that have been acquired as part of leasing the premises, such as fitouts.

(n) Deferred Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are initially recognised as deferred income at fair value and are then recognised as income over the expected useful life of the asset on a straight line basis. That portion of deferred government grants received in relation to capital expenditure that relates to useful life in excess of 12 months is treated as a non-current liability.

Notes to the financial statements

For the year ended 30 June 2018

(o) Finance Leases

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased assets, and operating leases under which the lessor does not transfer substantially all the risks and benefits.

Where a non-current asset is acquired by means of a finance lease, at the commencement of the lease term, the asset is recognised at its fair value or, if lower, the present value of the minimum lease payments, at the inception of the lease. The corresponding liability is established at the same amount. Lease payments are subsequently allocated between the principal component and the interest expense.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(p) Financial guarantees

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are recognised as a liability at the time the guarantee is issued and initially recognised at fair value plus, in the case of financial guarantees not at fair value through profit or loss, directly attributable transaction costs, where material. After initial recognition, the liability is measured at the higher of the amount determined in accordance with AASB 137 '*Provisions, Contingent Liabilities and Contingent Assets*' and the amount initially recognised, less accumulated amortisation, where appropriate.

Water NSW has reviewed its financial guarantees and determined that there is no material liability to be recognised for financial guarantee contracts as at 30 June 2018 and as at 30 June 2017. Refer to Note 21 regarding disclosures on contingent liabilities.

(q) Administered activities

Water NSW administers, but does not control, certain activities on behalf of the New South Wales Department of Industry. Water NSW is accountable for the transactions relating to those administered activities but does not have the discretion to deploy the resources for the achievement of Water NSW own objectives.

Transactions and balances relating to the administered activities are not recognised as Water NSW income, expenses, assets and liabilities, but are disclosed in the accompanying schedules as 'Administered Income', 'Administered Expenses', 'Administered Assets' and 'Administered Liabilities'. The accrual basis of accounting and applicable accounting standards have been adopted.

(r) Dividend

The dividend payable is agreed by the Board of Water NSW and the relevant Ministers in May of each financial year. This process establishes a present obligation for the future payment of a dividend. Accordingly, a provision for the full amount of the dividend is recognised in the statement of financial position.

The provision for dividend is calculated in accordance with requirements of TPP 14-04 *Financial Distribution Policy for Government Businesses*. The dividend payable in relation to the 2017-18 financial year has been calculated based on a fixed dollar amount agreed with shareholders.

(s) Equity transfers

The transfer of net assets between NSW public sector entities as a result of an administrative restructure is designated as contributions by owners and recognised as an adjustment to contributed equity. This treatment

Notes to the financial statements

For the year ended 30 June 2018

is consistent with the requirements set out in AASB 1004 'Contributions' and Australian Accounting Interpretation 1038 'Contributions by Owners Made to Wholly-Owned Public Sector Entities'.

Transfers involving statutory bodies are specifically addressed by TPP 09-3 'Contributions by owners made to wholly-owned Public Sector Entities', which requires that transferred assets be recognised at fair value to the transferee.

On 30 April 2018 certain employees of Water NSW were transferred to the Natural Resources Access Regulator. The impact of this restructure is immaterial and disclosed in Note 20.

3 New standards and interpretations not yet adopted

The Australian Accounting Standards Board (AASB) has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to Water NSW. Water NSW has decided against early adoption of these Standards which is also in accordance with NSW Treasury requirements. WaterNSW's assessment of the impact of those relevant new standards and interpretations is set out below.

The following standards are applicable to periods beginning on or after 1 January 2018	
Standard/ Interpretation	AASB 9 and AASB 2014-7 and 2014-8 regarding financial instruments
Summary	Amendments include the simplified requirements for the classification and measurement of financial assets, a new hedge accounting model and a revised impairment loss model to recognise impairment losses earlier.
Impact on Water NSW financial report	These amendments and the initial application of this standard will have no significant impact on the financial results of Water NSW.
Standard/ Interpretation	AASB 15, AASB 2014-5, AASB 2015-8 and 2016-3 regarding revenue from contracts with customers
Summary	The core principles of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer and includes disclosure requirements for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.
Impact on Water NSW financial report	Water NSW has assessed that the standard will not have a material impact on the financial statements.
Standard/ Interpretation	AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions
Summary	This standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions.
Impact on Water NSW financial report	Water NSW at this stage has assessed that this standard will not have a material impact on the financial statements.
Standard/ Interpretation	AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments
Summary	This Standard amends: <ul style="list-style-type: none"> ➤ Transfers into, and out of, investment property are only permitted when there is evidence of a change in use. ➤ A change in management's intention for the use of the property by itself does not provide evidence of a 'change in use'.
Impact on Water NSW financial report	Changes are minor and will not have material effect on the financial statements of Water NSW.
Standard/ Interpretation	Interpretation 22 Foreign Currency Transactions and Advance Consideration
Summary	IFRIC Interpretation 22 'Foreign Currency Transactions and Advance Consideration', addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency
Impact on Water NSW financial report	Water NSW has at this stage assessed that this standard will not have a material impact on the financial statements.

Notes to the financial statements

For the year ended 30 June 2018

The following standards are applicable to periods beginning on or after 1 January 2019	
Standard/ Interpretation	AASB 16 Accounting for Leases
Summary	The key changes introduced by AASB 16 include the recognition of most operating leases on statement of financial position. It requires all leases to be accounted for on the statement of financial position by lessees, other than short term and low value asset leases. It also provides new guidance on the application of the definition of lease and on sale and lease back accounting and largely retains the existing lessor accounting requirements in AASB 117.
Impact on Water NSW financial report	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. Assessing impact on current operating leases existing at the reporting date, assets and liabilities of approximately \$22 million would be recognised in the statement of financial position for the first time when the standard becomes operative. The standard also requires new and different disclosures about leases for the lessees. A lessee shall disclose information about its leases in a single note or separate section in its financial statements.
Standard/ Interpretation	AASB 1059 regarding Service Concession Arrangements: Grantors
Summary	<p>This Standard addresses the accounting for a service concession arrangement by a grantor that is a public-sector entity.</p> <p>The Standard requires a grantor to:</p> <ul style="list-style-type: none"> ➤ recognise a service concession asset constructed, developed or acquired from a third party by the operator, including an upgrade to an existing asset of the grantor, when the grantor controls the asset. ➤ reclassify an existing asset (including recognising previously unrecognised identifiable intangible assets and land under roads) as a service concession asset when it meets the criteria for recognition as a service concession asset ➤ initially measure a service concession asset at current replacement cost in accordance with the cost approach to fair value in AASB 13 <i>Fair Value Measurement</i>. After the initial recognition or reclassification of the asset, the service concession asset is accounted for in accordance with AASB 116 <i>Property, Plant and Equipment</i> or AASB 138 <i>Intangible Assets</i>, as appropriate, except as specified ➤ recognise a corresponding liability measured initially at the fair value (current replacement cost) of the service concession asset, adjusted for any other consideration between the grantor and the operator, using either (or both) the financial liability model or the grant of a right to the operator model.
Impact on Water NSW financial report	Water NSW has assessed that the standard will not have a material impact on the financial statements.
Standard/ Interpretation	AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements Cycle 2015 – 2017 Cycle
Summary	Minor changes to clarify wording, minor oversights or minor conflicts in AASB 13 Business Combinations, AASB 11 Joint Arrangements, AASB 112 income Taxes and AASB 123 Borrowing Costs.
Impact on Water NSW financial report	Changes are minor and will not have material effect on the financial statements of Water NSW.
Standard/ Interpretation	AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation
Summary	Amends AASB 9 Financial Instruments to permit entities to measure at amortised cost or fair value through other comprehensive income of particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature.
Impact on Water NSW financial report	Water NSW at this stage assessed that this standard will not have a material impact on the financial statements of Water NSW.
Standard/ Interpretation	AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures
Summary	Amends AASB 128 <i>Investments in Associates and Joint Ventures</i> to clarify that an entity is required to account for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture but to which the equity method is not applied
Impact on Water NSW financial report	Water NSW has at this stage assessed that this standard will not have a material impact on the financial statements of Water NSW.

Notes to the financial statements

For the year ended 30 June 2018

Standard/ Interpretation	Interpretation 23 Uncertainty over Income Tax Treatments AASB 2017-4
Summary	<p>The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 <i>Income Taxes</i> when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following</p> <ul style="list-style-type: none"> a) Whether an entity considers uncertain tax treatments separately b) The assumptions an entity makes about the examination of tax treatments by taxation authorities c) How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates d) How an entity considers changes in facts and circumstances.
Impact on Water NSW financial report	Water NSW at this stage assessed that this standard will not have a material impact on the financial statements of Water NSW
The following standards are applicable to periods beginning on or after 1 January 2021	
Standard/ Interpretation	AASB 17 Insurance Contracts
Summary	AASB 17 replaces IAASB 4 Insurance Contracts and applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.
Impact on Water NSW financial report	Water NSW at this stage assessed that this standard will not have a material impact on the financial statements of Water NSW.
The following standards are applicable to periods beginning on or after 1 January 2022	
Standard/ Interpretation	AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture AASB 2017-5 AASB2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections
Summary	The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.
Impact on Water NSW financial report	Water NSW has at this stage assessed that this standard will not have a material impact on the financial statements of Water NSW.

Notes to the financial statements

For the year ended 30 June 2018

4. Revenue	2018 \$'000	2017 \$'000
Revenue from water supply and delivery		
Regulated - Sydney Water	207,693	198,188
Regulated - Rural	58,313	57,232
Regulated and Unregulated - other	33,439	33,277
Other	-	1,576
	299,445	290,273
Grants and subsidies		
NSW Government contributions to operations	29,838	36,078
NSW Government transitional operating subsidy	1,470	1,200
NSW Government community service subsidy	33	118
Other Government grants	14,231	11,833
	45,572	49,229
Other revenue		
Murray-Darling Basin Authority	6,594	18,453
External engagements	35,893	7,352
Revenue from operating leases	2,635	2,711
Interest revenue	1,281	3,378
Other services	5,093	5,673
Contributed assets	-	7,247
	51,496	44,814
	396,513	384,316

Notes to the financial statements

For the year ended 30 June 2018

5. Employee related expenses	2018 \$'000	2017 \$'000
Employee related expenses		
Employee related expenses (excluding post employee benefits)	97,690	89,424
Post employee benefits	12,297	12,177
	109,987	101,601
Capitalisation of employee related expenses	(15,527)	(8,577)
Employee related expenses	94,460	93,024
Post employment expenses		
Defined benefit plans	5,398	6,049
Defined contribution plans	6,899	6,128
	12,297	12,177
Capitalisation of employee related expenses	(1,347)	(744)
Post employment expenses	10,950	11,433

Notes to the financial statements

For the year ended 30 June 2018

6. Operating expenses	2018 \$'000	2017 \$'000
Operating expenses		
Contractors and consultancies	39,199	37,063
Contribution to MDBA expenses	-	12,100
Electricity and other energy expenses	1,990	1,708
Operating lease expenses	5,554	6,084
Data management expenses	4,372	3,223
Licence fees	3,380	3,366
Materials, plant and equipment	4,427	4,730
Property	3,866	3,305
Transport and travel	6,393	5,767
Insurance	3,897	4,297
Construction/Installation Works for third parties	22,839	-
Other expenses	17,339	9,448
Impairment - Receivables	(11)	16
Operating expenses	113,245	91,106
Depreciation and amortisation		
Depreciation	53,840	55,782
Amortisation	2,168	2,755
Depreciation and amortisation	56,008	58,537
Operating expenses	169,253	149,643
Reconciliation of total maintenance expenses		
Employee-related maintenance expenses	10,103	8,408
Contracted labour and other (non-employee related) expenses	16,911	18,581
Total maintenance expenses	27,014	26,989

NSW Treasury Policy TPP06-6 'Capitalisation of Expenditure on Property, Plant and Equipment' requires the total maintenance expense to be dissected into employee related maintenance and other maintenance.

Notes to the financial statements

For the year ended 30 June 2018

7. Finance costs	2018 \$'000	2017 \$'000
Finance costs		
Interest expense on loans	9,492	18,366
Government guarantee fee	17,931	13,282
Other borrowing costs	581	503
Amortisation of deferred discounts (premiums) on loans	21,461	2,446
Unwinding of discounts on provisions	38	40
	49,503	34,637
Borrowing costs capitalised	(1,950)	(1,766)
Finance costs	47,553	32,871

8. Gains/ (losses) on disposal	2018 \$'000	2017 \$'000
Gains/ (losses) on disposal of capital works		
Proceeds from disposal	-	14,967
Carrying amount of assets disposed	-	(14,967)
Gains/ (losses) on disposal of property, plant and equipment		
Proceeds from sale of assets	451	256
Loss on disposal of property, plant and equipment	(727)	(364)
Net loss on disposal	(276)	(108)

Notes to the financial statements

For the year ended 30 June 2018

9. Income tax

	2018 \$'000	2017 \$'000
<i>Income tax expense recognised in the statement of comprehensive income</i>		
Current tax expense		
Current tax expense relating to current financial year	27,345	19,450
Deferred tax expense		
Origination and reversal of temporary differences	1,586	23,463
Income tax equivalent (benefit) expense	28,931	42,913

Prima facie income tax equivalent expense on pre-tax profit reconciles to tax expense in the financial statements as follows:

Profit (loss) before tax	112,268	142,974
Income tax expense using statutory rate of 30%	33,680	42,893
Effect of:		
Non-deductible expenses	66	20
Other temporary differences	(4,815)	-
Income tax equivalent (benefit) expense	28,931	42,913

Income tax recognised in other comprehensive income

Income tax recognised directly to other comprehensive income		
Asset revaluation reserve	(13,542)	8,574
Defined benefit super actuarial gain/(loss) recognised in retained earnings	(2,982)	(12,569)
Income tax recognised on equity transfer:		
Superannuation	-	7,668
Employee entitlements	-	4,494
	(16,524)	8,167
Current tax liabilities		
Current tax liabilities	4,412	12,697
	4,412	12,697

Notes to the financial statements

For the year ended 30 June 2018

9. Income tax

Deferred tax balances	Opening balance \$'000	Recognised in income \$'000	Recognised in other comprehensive income \$'000	Closing balance \$'000
30 June 2018				
Temporary differences				
Property, plant and equipment	(223,472)	(5,937)	(13,542)	(242,951)
Other creditors	1,531	(499)	-	1,032
Employee benefits	12,202	(446)	-	11,756
Leased premises	393	233	-	626
Defined benefit super	19,638	5,952	(2,982)	22,608
Allowance for impairment of receivables	113	(8)	-	105
Deferred government grants	30,956	(1,527)	-	29,429
Prior year SD40F	(6,359)	-	-	(6,359)
Other - Provisions and accruals	1,446	646	-	2,092
	(163,552)	(1,586)	(16,524)	(181,662)
Unused tax losses and credits				
	(163,552)	(1,586)	(16,524)	(181,662)

Deferred tax balances	Opening balance \$'000	Recognised in income \$'000	Recognised in other comprehensive income	Closing balance \$'000
30 June 2017				
Temporary differences				
Property, plant and equipment	(218,410)	(13,636)	8,574	(223,472)
Other creditors	(4,815)	6,346	-	1,531
Employee benefits	7,159	549	4,494	12,202
Leased premises	357	36	-	393
Defined benefit super	28,042	(3,503)	(4,901)	19,638
Allowance for impairment of receivables	108	5	-	113
Deferred government grants	35,927	(4,971)	-	30,956
Prior year SD40F	(6,359)	-	-	(6,359)
Other - Provisions and accruals	2,611	(1,165)	-	1,446
	(155,380)	(16,339)	8,167	(163,552)
Unused tax losses and credits				
Tax losses	7,124	(7,124)	-	-
	(148,256)	(23,463)	8,167	(163,552)

There were no deferred tax assets that were unrecognised during the current reporting period.

Deferred tax liabilities are recognised in the statement of financial position as follows:

Deferred tax liabilities

2018 \$'000	2017 \$'000
(181,662)	(163,552)
(181,662)	(163,552)

Notes to the financial statements

For the year ended 30 June 2018

10. Cash and cash equivalents	2018 \$'000	2017 \$'000
Cash and cash equivalents		
Cash at bank and on hand	2,715	47,209
Short-term deposits	-	115,000
NSW Treasury Corporation Hour Glass (Cash) Facility	18,037	27,009
Cash and cash equivalents	20,752	189,218

Cash and cash equivalents recognised within the statement of financial position is reconciled to cash in the statement of cash flows as follows:

Closing cash per statement of cash flows	20,752	189,218
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Reconciliation of profit after tax to net cash from operating activities in the statement of cash flows

Profit (loss) after tax	83,337	100,062
Depreciation	53,840	55,782
Amortisation	2,168	2,755
Fair value adjustment through profit and loss	(27,297)	(34,305)
Contributed assets	-	(7,247)
Loss on disposal of property, plant and equipment	276	108
Superannuation movements direct to equity	54,425	41,898
Income tax movements direct to equity	(16,524)	8,167
Capitalised borrowing costs disclosed as operating cash flow	(1,950)	(1,766)
Trade and other receivables	(35,798)	(28,536)
Other assets	1,856	(6,110)
Trade and other payables	14,100	5,755
Other costs of finance	21,942	2,799
Other liabilities	(17,931)	(18,236)
Provisions	(52,870)	(36,183)
Income tax assets and liabilities	9,825	27,993
Net cash from operating activities	89,399	112,936

Notes to the financial statements

For the year ended 30 June 2018

11. Trade and other receivables	2018 \$'000	2017 \$'000
Trade and other receivables		
Trade receivables	70,608	49,161
Allowance for impairment	(348)	(375)
	70,260	48,786
Accrued revenue	41,599	31,533
Other receivables	9,303	3,120
Prepaid expenses	5,643	7,570
	126,805	91,009
Movements in the allowance for impaired receivables		
Allowance for impairment in trade receivables		
Carrying amount at the beginning of the year	375	359
Allowance for impairment recognised during the year	(11)	16
Amount used	(16)	-
Carrying amount at the end of the year	348	375

Details regarding credit risk, liquidity risk and market risk, including financial assets that are either past due or impaired are disclosed in Note 24.

12. Other non-financial assets	2018 \$'000	2017 \$'000
Other current non-financial assets		
Lease incentives	220	1,435
	220	1,435
Other non-current non-financial assets		
Lease incentives	204	238
	204	238

Notes to the financial statements

For the year ended 30 June 2018

13. Intangible assets	2018 \$'000	2017 \$'000
Cost (gross carrying amount)	31,797	31,005
Accumulated amortisation and impairment	(20,703)	(18,725)
Net carrying amount	11,094	12,280
Software		
Net carrying amount at the beginning of the year	8,234	9,806
Additions	982	1,065
Transfers	14	(38)
Amortisation	(1,998)	(2,599)
Net carrying amount at the end of the year	7,232	8,234
Easements, development costs and other rights of access		
Net carrying amount at the beginning of the year	4,046	4,164
Transfers	(14)	38
Amortisation	(170)	(156)
Net carrying amount at the end of the year	3,862	4,046

Notes to the financial statements

For the year ended 30 June 2018

14. Property, plant and equipment

	SYSTEM ASSETS										Total
	Work in progress	Infrastructure	Water meters	Buildings	System land	Market land	Plant & equipment	Motor vehicles	Furniture & fitouts	Information systems	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2018											
At 1 July 2017											
Gross carrying amount	103,005	1,867,674	36,218	39,829	157,406	31,361	37,753	11,930	6,007	12,873	2,304,056
Accumulated depreciation and impairment	-	-	-	-	-	-	(18,582)	(4,707)	(2,545)	(9,703)	(35,537)
Carrying amount at the beginning of the period	103,005	1,867,674	36,218	39,829	157,406	31,361	19,171	7,224	3,462	3,170	2,268,519
At 30 June 2018											
Gross carrying amount	363,018	1,915,740	34,629	39,427	157,406	31,361	40,210	12,228	15,638	16,931	2,626,588
Accumulated depreciation and impairment	-	(835)	(6)	(98)	-	-	(21,000)	(5,791)	(3,464)	(11,600)	(42,794)
Carrying amount at the end of the period	363,018	1,914,905	34,623	39,329	157,406	31,361	19,210	6,437	12,174	5,331	2,583,794
At 30 June 2018											
Carrying amount at the beginning of the year	103,005	1,867,674	36,218	39,829	157,406	31,361	19,171	7,224	3,462	3,170	2,268,520
Assets recognised on equity transfer	-	-	-	-	-	-	-	-	-	-	-
Additions to work in progress *	298,367	-	-	-	-	-	-	-	-	-	298,367
Transfers from work in progress	(37,372)	19,240	-	-	-	-	2,941	900	9,900	4,391	-
Disposals	-	(107)	-	-	-	-	(97)	(327)	(195)	(2)	(728)
Depreciation	-	(41,468)	(3,194)	(1,792)	-	-	(2,805)	(1,360)	(993)	(2,228)	(53,840)
Revaluation gain recognised in other comprehensive income	-	43,619	307	1,213	-	-	-	-	-	-	45,139
Revaluation gain in profit or loss	-	25,947	1,292	79	-	-	-	-	-	-	27,318
Transfers and reclassifications	(982)	-	-	-	-	-	-	-	-	-	(982)
Carrying amount at the end of the period	363,018	1,914,905	34,623	39,329	157,406	31,361	19,210	6,437	12,174	5,331	2,583,794

* Additions to work in progress include \$219 Million in capital expenditure for the construction of 270km Wentworth to Broken Hill (W2BH) Pipeline that will provide a long-term secure water supply for Broken Hill. This expenditure does not form part of a cash generating unit.

Notes to the financial statements

For the year ended 30 June 2018

14. Property, plant and equipment

	SYSTEM ASSETS										
30 June 2017	Work in progress	Infrastructure	Water meters	Buildings	System land	Market land	Plant & equipment	Motor vehicles	Furniture & fitouts	Information systems	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2016											
Gross carrying amount	123,351	1,854,762	18,330	42,686	-	184,096	36,917	11,665	4,871	11,344	2,288,022
Accumulated depreciation and impairment	-	-	-	-	-	-	(15,662)	(3,560)	(2,004)	(8,371)	(29,597)
Carrying amount at the end of the year	123,351	1,854,762	18,330	42,686	-	184,096	21,255	8,105	2,867	2,973	2,258,425
At 30 June 2017											
Gross carrying amount	103,005	1,867,674	36,218	39,829	157,406	31,361	37,753	11,930	6,007	12,873	2,304,056
Accumulated depreciation and impairment	-	-	-	-	-	-	(18,582)	(4,707)	(2,545)	(9,703)	(35,537)
Carrying amount at the end of the year	103,005	1,867,674	36,218	39,829	157,406	31,361	19,171	7,223	3,462	3,170	2,268,519
At 30 June 2017											
Carrying amount at the beginning of the year	123,351	1,854,762	18,330	42,686	-	184,096	21,255	8,105	2,867	2,973	2,258,425
Assets recognised on equity transfer	-	3,453	1,258	-	-	-	199	17	-	-	4,927
Additions to work in progress	63,252	-	-	-	-	-	-	-	-	-	63,252
Transfers from work in progress	(67,566)	54,247	9,254	179	812	-	684	686	-	1,705	-
Disposals	-	(92)	-	-	-	-	(4)	(264)	-	(5)	(365)
Depreciation	-	(44,681)	(2,898)	(1,887)	-	-	(2,963)	(1,321)	(529)	(1,503)	(55,782)
Revaluation gain recognised in other comprehensive income	-	(45,445)	568	(1,307)	6,793	10,808	-	-	-	-	(28,583)
Revaluation gain in profit or loss	-	45,430	2,459	158	(5,013)	(8,729)	-	-	-	-	34,305
WIP written off	(14,967)	-	-	-	-	-	-	-	-	-	(14,967)
Transfers and reclassifications	(1,065)	-	7,247	-	154,814	(154,814)	-	-	1,124	-	7,306
Carrying amount at the end of the period	103,005	1,867,674	36,218	39,829	157,406	31,361	19,171	7,223	3,462	3,170	2,268,519

The presentation of work in progress transfers was changed to provide comparative to the current year presentation format.

Notes to the financial statements

For the year ended 30 June 2018

14. Property, plant and equipment

a) Fair value measurement of non-financial assets

Fair value hierarchy

This note explains the judgements and estimates made in determining the fair value of property, plant and equipment. To provide an indication about the reliability of the inputs used in determining the fair value, Water NSW has divided property, plant and equipment into the three separate levels prescribed under Australian Accounting Standards.

At 30 June 2018

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Land	-	31,361	157,406	188,767
Infrastructure systems	-	-	1,988,857	1,988,857
Other property, plant and equipment (including intangibles)	-	-	417,263	417,263
Total assets	-	31,361	2,563,526	2,594,887

At 30 June 2017

Land	-	31,361	157,406	188,767
Infrastructure systems	-	-	1,943,722	1,943,722
Other property, plant and equipment (including intangibles)	-	-	148,309	148,309
Total assets	-	31,361	2,249,437	2,280,798

The following table presents the changes in Level 3 items for the year ending 30 June 2018 for recurring fair value measurements:

Level 3 measurement

Opening balance at 1 July 2017

	Infrastructure systems \$'000	Land \$'000	Other PP&E \$'000	Total \$'000
Opening balance at 1 July 2017	1,943,721	157,406	148,311	2,249,438
Additions	19,240	-	317,481	336,721
Disposals	(107)	-	(621)	(728)
Depreciation/Amortisation	(46,454)	-	(9,554)	(56,008)
Gains (losses) recognised in comprehensive income	45,139	-	-	45,139
Gains (losses) recognised in profit and loss	27,318	-	-	27,318
Other reclassifications and transfers	-	-	(38,354)	(38,354)
Closing balance at 30 June 2018	1,988,857	157,406	417,263	2,563,526

Opening balance at 1 July 2016

Opening balance at 1 July 2016	1,915,778	-	172,521	2,088,299
Recognised on equity transfer	4,711	-	216	4,927
Additions	63,680	812	67,392	131,884
Disposals	(92)	-	(273)	(365)
Depreciation/Amortisation	(49,466)	-	(9,071)	(58,537)
Gains (losses) recognised in comprehensive income	(46,184)	6,793	-	(39,391)
Gains (losses) recognised in profit and loss	48,047	(5,013)	-	43,034
WIP written off	-	-	(14,967)	(14,967)
Other reclassifications and transfers	7,247	154,814	(67,507)	94,554
Closing balance at 30 June 2017	1,943,721	157,406	148,311	2,249,438

Notes to the financial statements

For the year ended 30 June 2018

14. Property, plant and equipment

Valuation techniques and inputs used to determine the fair value of infrastructure systems and buildings

Buildings, system land and water meters are considered an integral part of system assets and are revalued using the income approach.

The fair value measurement of system assets has been categorised as Level 3 in the fair value hierarchy based on the unobservable inputs to the measurement calculation. Determining fair value is highly dependent on the inputs or assumptions used to estimate the future net cash flows that are able to be derived from the relevant assets. The forecast which is approved by the Board is developed by management through a comprehensive annual business planning and budgeting process. The approved budget takes into consideration limits set in Water NSW's Price Determinations.

System assets, including infrastructure, buildings and meters, are revalued on an annual basis using the income approach.

Cash Generating Units (CGUs)

Water NSW considers it has two CGUs, reflecting the segmented asset bases, customers and pricing determinations (revenue streams) of the Water NSW - Greater Sydney and Rural business segments.

Income Approach

Water NSW uses the income approach methodology. The model uses a discounted cash flow methodology over a five year period with a terminal value of the regulated asset base (RAB) for year five. The following key methods and assumptions have been used to arrive at fair value:

- Application of two separate CGUs. Each CGU used the same income approach model with differing inputs based on their respective regulator.
- Discount rate – nominal pre-tax weighted average cost of capital (WACC) consistent with the formula and parameters as most recently published by the economic regulator(s).
- Future cash flows:
 - determined on a nominal basis (including indexation);
 - estimated over 5 years based on SCI operating and capital expenditure budgets;
 - based upon maintaining specialised assets in their current condition, consequently new capital expenditure increasing service potential were excluded; and
 - future revenue estimates were based on SCI operating expenditure budgets and water supply volumes, with prices adjusted to reflect adjusted capital expenditure program (per above), and the consequential forecast roll-forward regulatory asset base (RAB) and new regulated revenue requirements.
- Terminal value - at the end of the 5th year being the RAB (based on adjusted capital expenditure per above).
- Expectations about possible variations in the amount and timing of future cash flows which reflect the most likely outcome as determined by management.

In determining the future cash flows to include in the valuation model, management also deducts expenditure that increases the service potential of assets existing at reporting date.

Notes to the financial statements

For the year ended 30 June 2018

14. Property, plant and equipment

The following cash flows were used in the revaluation model of each CGU at the time of undertaking the revaluation:

	Year 1 \$'000	Year 2 \$'000	Year 3 \$'000	Year 4 \$'000	Year 5 \$'000
Undiscounted cash flows					
Greater Sydney CGU	69,900	44,200	43,200	58,600	58,800
Rural CGU	(8,300)	(3,200)	18,500	14,100	(5,300)

Changes to the cash flow estimates in the revaluation model will result in a higher or lower fair value measurement. Where the change is an increase (decrease) in estimated cash flows, the fair value of assets will increase (decrease). As the cash flow estimates are discounted by the WACC, the significance of the change in cash flows is largest in Year 1 when the effect of the discounting is smallest. The significance of the change reduces each year and is smallest in Year 5 when the effect of discounting is largest.

A change in the WACC will also change the measurement of fair value for a given set of estimated future cash flows. The following table presents the impact of a change to the WACC on the cash flows disclosed above.

	Actual revaluation \$'000	Scenario A: + 1% \$'000	Scenario B: - 1% \$'000
Greater Sydney CGU			
Weighted average cost of capital (WACC)	8.39%	9.39%	7.39%
Fair value	1,590,000	1,530,100	1,653,000
Rural CGU			
Weighted average cost of capital (WACC)	8.39%	9.39%	7.39%
Fair value	786,100	754,200	819,500

A change in cash flow estimates will also change the measurement of fair value. The following table presents the impact of a change to the cash flow estimates above, assuming no change to WACC:

	Actual revaluation \$'000	Scenario A: + 5% \$'000	Scenario B: - 5% \$'000
Greater Sydney CGU			
Fair value	1,590,000	1,601,300	1,578,700
Rural CGU			
Fair value	786,100	786,600	785,500

In revaluing system assets, the asset's current use is considered their highest and best use.

Valuation techniques and inputs used to determine the fair value of land

Following initial recognition at cost, market land is carried at fair value in accordance with TPP 14-1 'Valuation of Physical Non-Current Assets at Fair Value'. Land is subject to an independent revaluation at least every three years. However, the carrying amount of land is reviewed each year to ensure that it does not differ materially from fair value.

The most recent revaluation of land was undertaken at 30 June 2017. Market land has been valued by the valuer on the basis that it is not contaminated. Refer to note 21 Contingent liabilities.

Notes to the financial statements

For the year ended 30 June 2018

14. Property, plant and equipment

The market approach has been utilised to determine fair value. The market approach provides an indication of value by comparing the subject asset with similar assets for which price information is available. Price information for asset transactions is adjusted to reflect any differences in the legal, economic or physical characteristics of the transacted asset and the asset being valued.

There were no changes to the approach undertaken to revalue system land during the year.

The significant unobservable inputs used in the fair value measurement of the system land assets relate to the professional judgement utilised to adjust market prices and other relevant information generated by market transactions to arrive at fair value. The use of a significantly higher (lower) transaction would result in a significantly higher (lower) fair value measurement.

The impact on total land assets caused by movements in the value the system land are as follows:

	Scenario B: \$'000	Scenario C: \$'000	Scenario D: \$'000	Scenario E: \$'000
% change	1%	-1%	5%	-5%
Increase(decrease in fair value)	158,980	155,832	165,276	149,536
% of Total fair value of property, plant and equipment	6%	6%	6%	6%

The sensitivity analysis indicates that movements up or down in value per hectare would have an immaterial impact on the overall valuation of the land. The valuation indicates that any movement of this magnitude is unlikely.

Valuation techniques and inputs used to determine other property, plant and equipment

Other property, plant and equipment is valued at fair value in accordance with Australian Accounting Standards and guidance within TPP 14-1 'Valuation of Physical Non-Current Assets at Fair Value'. For non-specialised assets, TPP 14-1 'Valuation of Physical Non-Current Assets at Fair Value' allows for recognition at depreciated historical cost as an acceptable surrogate for fair value. Depreciated historical cost is considered an appropriate surrogate because any difference between fair value and depreciated historical cost is unlikely to be material. Further, the benefit of ascertaining a more accurate estimate of fair value does not justify the additional costs of obtaining it.

In revaluing other property, plant and equipment, the assets current use is considered their highest and best use.

There were no changes to the valuation technique adopted for other property, plant and equipment during the year.

b) Asset values measured at historical cost

	2018		2017	
	Historical Cost \$'000	Fair Value \$'000	Historical Cost \$'000	Fair Value \$'000
Work in progress	363,018	363,018	103,005	103,005
Infrastructure systems	1,323,783	1,914,905	1,346,698	1,867,674
Water meters	50,623	34,623	55,425	36,218
Buildings	25,831	39,329	26,457	39,829
Land	118,384	188,767	118,384	188,767
Plant and equipment	19,210	19,210	19,171	19,171
Motor vehicles	6,437	6,437	7,223	7,223
Furniture and fit outs	12,174	12,174	3,462	3,462
Information systems	5,331	5,331	3,170	3,170
Carrying value at historical cost	1,924,791	2,583,794	1,682,995	2,268,519

Notes to the financial statements

For the year ended 30 June 2018

15. Trade and other payables	2018 \$'000	2017 \$'000
Current		
Trade payables	8,467	6,341
Non-Trade payables and accrued expenses	81,920	30,637
Accrued interest on loans	20,932	14,554
Trade and other payables	111,319	51,531

Financial risk management policies in relation credit risk, liquidity risk and market risk are disclosed in Note 24.

16. Other liabilities	2018 \$'000	2017 \$'000
Current		
Deferred Government grants	21,328	33,121
Lease inducement release	604	604
Income received in advance	416	348
Current other liabilities	22,348	34,073
Non-current		
Deferred Government grants	90,703	96,398
Lease inducement release	1,704	2,142
Income received in advance	769	802
Other	33	33
Non-current other liabilities	93,209	99,375

Notes to the financial statements

For the year ended 30 June 2018

17. Borrowings	2018 \$'000	2017 \$'000
Current borrowings		
NSW Treasury Corporation	56,981	51,422
Current borrowings	56,981	51,422
Non-current borrowings		
NSW Treasury Corporation	1,312,653	614,384
Non-current borrowings	1,312,653	614,384

Water NSW has loans with NSW Treasury Corporation totalling \$57 million (2017: \$51 million) that fall due within 12 months of the reporting period. Water NSW will continue to roll these loans at its discretion under an existing loan facility. The loans are classified as current or non-current based on their maturity dates. The debt portfolio face value was \$1,468 million (2017: \$730 million).

Financial risk management policies in relation credit risk, liquidity risk and market risk as well as approved financing facilities are disclosed in Note 24.

18. Provisions

	2018 \$'000	2017 \$'000
Current provisions		
Employee benefits	37,612	39,042
Fringe benefit tax	95	207
Land tax	3,916	2,666
Remediation	454	570
Restructuring/redundancy	-	446
Dividend ¹	98,100	38,200
Restoration ²	815	960
Current provisions	140,992	82,091
Non-current provisions		
Employee benefits	1,992	1,983
Restoration ²	1,666	1,624
Defined benefit superannuation scheme deficit	75,358	125,988
Non-current provisions	79,016	129,595

¹Under the National Taxation Equivalent Regime, the entity is not required to operate a dividend franking account. Dividend payable for financial year 2017/18 is \$98.1 million (2016/17: \$38.2 million).

²The provision for restoration is based on long term estimates to restore leased premises discounted to their present value. There is some uncertainty in relation to whether the actual restoration costs will ultimately be incurred and whether there will be a material change to the discount rate applied to estimate the liability. The restoration costs are separately capitalised against assets that have been acquired as part of leasing the premises, such as fit outs. Where Water NSW has not incurred expenditure to acquire assets as part of leasing the premises, the restoration costs are expensed in profit or loss.

Movement in provisions other than defined benefit superannuation scheme and employee benefits

	Carrying amount 1/7/2017 \$'000	Amount used \$'000	Additional provision \$'000	Unwinding of discount \$'000	Carrying amount 30/6/2018 \$'000
At 30 June 2018					
Fringe benefit tax	207	(383)	271	-	95
Restructuring/redundancy	446	(446)	-	-	-
Land tax	2,666	-	1,250	-	3,916
Restoration	2,584	(135)	-	32	2,481
Remediation	570	(116)	-	-	454
Dividend	38,200	(38,200)	98,100	-	98,100

The table below shows a comparison of the long service leave liabilities as at 30 June 2018 using a discount rate based on corporate bond yields and the deficit/(surplus) that would have been calculated had a discount rate based on Government bond yields been used.

	Total \$'000
As at 30 June 2018	
Present value of long service leave obligations using Government bond yield	31,335
Present value of long service leave obligations using Corporate bond yield	28,743
Difference in present value	2,592

18. Provisions

(a) Defined benefit superannuation schemes

Nature of the benefits provided by the fund – Para 139(a)(i)

The Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:

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

These schemes are all 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. All the Schemes are closed to new members.

Description of the regulatory framework – Para 139(a)(ii)

The 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 New South Wales 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 New South Wales 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 most recent 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.

Description of other entities' responsibilities for the governance of the fund – Para 139(a)(iii)

The 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.

Description of risks – Para 139(b)

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

- Investment risk - the risk that investment returns will be lower than assumed and the employer 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 financial contributions.
- Legislative risk - the risk that legislative changes could be made which increase the cost of providing the defined benefits;

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

Description of significant events – Para 139(c)

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

18. Provisions

Reconciliation of the net defined benefit liability/(asset)

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
At 30 June 2018				
Net defined benefit liability/(asset) at beginning of the year	14,953	2,513	108,522	125,988
Current service cost	811	279	949	2,039
Net interest on net defined benefit liability/(asset)	391	66	2,833	3,290
Actual return on fund assets less interest income	(2,073)	(272)	(5,716)	(8,061)
Actuarial (gain)/loss from changes in demographic assumptions	617	(126)	631	1,122
Actuarial (gain)/loss from change in financial assumptions	(5,352)	(513)	(45,391)	(51,256)
Actuarial (gain)/loss arising from liability experience	1,072	612	2,086	3,770
Employer contributions	(904)	(236)	(394)	(1,534)
Net defined benefit liability at end of the year	9,515	2,323	63,520	75,358
At 30 June 2017				
Net defined benefit liability/(asset) at beginning of the year	15,429	3,074	119,457	137,960
Current service cost	1,046	332	1,494	2,872
Net interest on net defined benefit liability/(asset)	364	72	2,800	3,236
Actual return on fund assets less interest income	(2,684)	(330)	(5,777)	(8,791)
Actuarial (gain)/loss from changes in demographic assumptions	(13)	(10)	(54)	(77)
Actuarial (gain)/loss from change in financial assumptions	(2,723)	(282)	(23,729)	(26,734)
Actuarial (gain)/loss arising from liability	1,176	(775)	(6,697)	(6,296)
Employer contributions	(996)	(255)	(491)	(1,742)
Effects of transfers in/out due to business combinations and disposals	3,354	687	21,519	25,560
Net defined benefit liability at end of the year	14,953	2,513	108,522	125,988

18. Provisions

Reconciliation of the Fair Value of Fund Assets – Para 140(a)(i)

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
At 30 June 2018				
Fair value of fund assets at beginning of the year	38,544	5,386	98,180	142,110
Interest income	934	122	2,505	3,561
Actual return on fund assets less interest income	2,073	272	5,716	8,061
Employer contributions	904	236	394	1,534
Contributions by participants	469	-	336	805
Benefits paid	(5,911)	(1,174)	(4,322)	(11,407)
Taxes, premiums and expenses paid	(79)	(167)	645	399
Transfers in/out due to business combinations and disposals	-	-	-	-
Fair value of fund assets at end of the year	36,934	4,675	103,454	145,063
At 30 June 2017				
Fair value of fund assets at beginning of the year	25,682	3,649	83,453	112,786
Interest income	714	110	1,869	2,693
Actual return on fund assets less interest income	2,684	330	5,777	8,791
Employer contributions	996	255	491	1,742
Contributions by participants	510	-	515	1,025
Benefits paid	(4,052)	(1,622)	(7,295)	(12,969)
Taxes, premiums and expenses paid	(101)	25	541	465
Transfers in/out due to business combinations and disposals	12,111	2,639	12,829	27,579
Fair value of fund assets at end of the year	38,544	5,386	98,180	142,112

18. Provisions

Reconciliation of the Defined Benefit Obligation – Para 140(a)(ii)

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
At 30 June 2018				
Present value of obligation at beginning of the year	53,497	7,900	206,700	268,097
Current service cost	811	279	949	2,039
Interest cost	1,325	188	5,338	6,851
Contributions by participants	469	-	336	805
Actuarial (gain)/loss from changes in demographic assumptions	617	(126)	631	1,122
Actuarial (gain)/loss from change in financial assumptions	(5,352)	(513)	(45,391)	(51,256)
Actuarial (gain)/loss arising from liability experience	1,072	612	2,086	3,770
Benefits paid	(5,911)	(1,174)	(4,321)	(11,406)
Taxes, premiums and expenses paid	(79)	(167)	645	399
Present value of obligation at end of the year	46,449	6,999	166,973	220,421
At 30 June 2017				
Present value of obligation at beginning of the year	41,112	6,725	202,908	250,745
Current service cost	1,046	332	1,494	2,872
Interest cost	1,077	182	4,669	5,928
Contributions by participants	510	-	515	1,025
Actuarial (gain)/loss from changes in demographic assumptions	(13)	(10)	(54)	(77)
Actuarial (gain)/loss from change in financial assumptions	(2,723)	(282)	(23,729)	(26,734)
Actuarial (gain)/loss arising from liability experience	1,176	(775)	(6,697)	(6,296)
Benefits paid	(4,052)	(1,622)	(7,295)	(12,969)
Taxes, premiums and expenses paid	(101)	25	541	465
Transfers in/out due to business combinations and disposals	15,465	3,325	34,348	53,138
Present value of obligation at end of the year	53,497	7,900	206,700	268,097

18. Provisions

Fair value of fund assets - Para 142

All Pooled Fund assets are invested by SAS Trustee Corporation (STC) at arm's length through independent fund managers and assets are not separately invested for each entity. As such, the disclosures below relate to total assets of the Pooled Fund.

Assets category	Quoted prices in market for identical assets \$'000	Significant observable inputs \$'000	Unobservable inputs \$'000	Total \$'000
	Level 1	Level 2	Level 3	
As at 30 June 2018				
Cash	2,185,469	2,215,695	-	4,401,164
Australian fixed interest	41,854	2,193,068	-	2,234,922
International fixed interest	8,116	1,387,991	-	1,396,107
Australian equities	8,719,442	548,908	3,055	9,271,405
International equities	8,499,476	2,391,501	373	10,891,350
Property	788,018	608,934	2,314,335	3,711,287
Alternatives	420,898	5,332,818	4,141,113	9,894,829
Total as at 30 June 2018	20,663,273	14,678,915	6,458,876	41,801,064

As at 30 June 2017

Cash	3,077,362	9,945	-	3,087,307
Australian fixed interest	997	2,499,728	-	2,500,725
International fixed interest	-	480,991	-	480,991
Australian equities	8,947,483	498,572	24	9,446,079
International equities	9,033,497	1,869,112	1,150,894	12,053,503
Property	926,105	533,191	1,993,812	3,453,108
Alternatives	390,899	5,068,137	3,607,020	9,066,056
Total as at 30 June 2017	22,376,343	10,959,676	6,751,750	40,087,769

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

	2018	2017
Cash	-	7.7%
Short term securities	10.5%	-
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%
Total	100%	100%

18. Provisions

Level 1 - quoted prices in active markets for identical assets or liabilities. The assets in this level are listed shares; 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; 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 cashflow 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 entity's own financial instruments - Para 143

The disclosures below relate to total assets of the Pooled Fund. The fair value of the Pooled Fund assets as at 30 June 2018 includes \$97.7 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 million (30 June 2017: \$250 million).
- Health Administration Corporation occupies part of a property 50% owned by the Pooled Fund with a fair value (100% interest) of \$287 million (30 June 2017: \$261 million).

Significant actuarial assumptions at the reporting date	2018	2017
Discount rate	4.23% p.a.	2.62% p.a.
Salary increase rate (excluding promotional increases)		
2016/17 to 2018/19	2.70% p.a.	2.50% p.a.
2019/20 to 2020/21	3.20% p.a.	3.50% p.a.
2021/22 to 2025/26	3.20% p.a.	3.00% p.a.
2026/27 onwards	3.20% p.a.	3.50% p.a.
Rate of CPI increase		
2017/2018	2.00%	2.00%
2018/2019	2.25%	2.50%
2019/2020	2.25%	2.50%
Thereafter	2.50%	2.50%

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 will show the pension mortality rates for each age. Alternatively, the assumptions are available on request from the Trustee.

18. Provisions

Sensitivity analysis - Para 145

WaterNSW's total defined benefit obligation as at 30 June 2018 under several scenarios is presented below. The total benefit obligation disclosed is inclusive of the contribution tax provision which is calculated based on the asset level at 30 June 2018. Scenarios A to F relate to sensitivity of the total defined benefit obligation to economic assumptions, and scenarios G and H relate to sensitivity to demographic assumptions.

	Carrying amount	Scenario A -1% discount rate	Scenario B +1% discount rate
Discount rate	as above	as above - 1.0% pa	as above +1.0% pa
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above	as above
Defined benefit obligation (\$'000)	220,422	251,289	195,199

	Carrying amount	Scenario C +0.5% CPI rate change	Scenario D -0.5% CPI rate change
Discount rate	as above	as above	as above
Rate of CPI increase	as above	plus 0.5% pa	less 0.5% pa
Salary inflation rate	as above	as above	as above
Defined benefit obligation (\$'000)	220,422	234,072	207,983

	Carrying amount	Scenario E +0.5% Salary rate increase	Scenario F -0.5% Salary rate increase
Discount rate	as above	as above	as above
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	plus 0.5%pa	less 0.5%pa
Defined benefit obligation (\$'000)	220,422	221,623	219,256

	Carrying amount	Scenario E Lower Mortality*	Scenario G Higher Mortality**
Defined benefit obligation (\$'000)	220,422	223,452	218,482

* 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 the years 2018 to 2023.

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

18. Provisions

Asset-Liability matching strategies - Para 146

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 - Para 147(a)

Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review. Contribution rates are set after discussions between the employer, STC and NSW Treasury.

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

Surplus/deficit

The following is a summary of the 30 June 2018 financial position of the Fund calculated in accordance with AASB 1056 Accounting Standard "Superannuation Entities":

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
As at June 2018				
Accrued benefits ¹	39,827	6,321	101,757	147,905
Net market value of fund assets	(36,935)	(4,674)	(103,455)	(145,064)
Net (surplus) / deficit	2,892	1,647	(1,698)	2,841
As at June 2017				
Accrued benefits ¹	40,616	6,328	101,442	148,386
Net market value of fund assets	(38,545)	(5,385)	(98,179)	(142,109)
Net (surplus) / deficit	2,071	943	3,263	6,277

¹There is no allowance for a contribution tax provision within the accrued benefit figure for AASB 1059. Allowance for contribution tax is made when setting the contribution rates.

Contribution recommendations

	SASS	SANCS	SSS
Recommended contribution rate for 2018	1.9	2.5	0.9 (1.6)*
Recommended contribution rate for 2017	1.9	2.5	1.6

*Rural contributon rate

Economic assumptions

The economic assumptions adopted for the 30 June 2018 AASB 1056 Accounting Standard "Superannuation Entities" (these assumptions are consistent with the assumptions to be used for the 2018 actuarial investigation of the Pooled Fund) :

Weighted average assumptions

	Per annum
Expected rate of return on Fund assets backing current pension liabilities	7.4% p.a
Expected rate of return on Fund assets backing other liabilities	6.4% p.a
Expected salary increase rate (excluding promotional salary increases)	2.7% for 2018/2019 then 3.2% pa thereafter
Expected rate of CPI increase	2.2% p.a

18. Provisions

	SASS	SANCS	SSS	Total
	\$'000	\$'000	\$'000	\$'000
Expected employer contributions	794	205	331	1,330

Maturity profile of defined benefit obligation - Para 147(c)

The weighted average duration of the defined benefit obligation is 13.7 years (12.9 years for Rural plans).

Impact financial year to 30 June 2018

Profit or Loss

Current service cost	811	279	949	2,039
Net interest	391	66	2,833	3,290
Profit or loss component of the defined benefit cost	1,202	345	3,782	5,329

Other comprehensive income

Actuarial (gains) losses on liabilities	(3,663)	(28)	(42,673)	(46,364)
Actual return on Fund assets less interest income	(2,073)	(272)	(5,716)	(8,061)
Total remeasurement in other comprehensive income	(5,736)	(300)	(48,389)	(54,425)

Impact of Change in Method of Determining the Discount Rate

The approach to setting the discount rate as at 30 June 2018 has changed. In prior years, the discount rate was based on the yield on Commonwealth Government bonds. A corporate bond yield has been used instead for this year's reporting as at 30 June 2018 (and will be used for future years' reporting).

The table below shows a comparison of the AASB 119 deficit/(surplus) as at 30 June 2018 using a discount rate based on corporate bond yields and the deficit/(surplus) that would have been calculated had a discount rate based on Government bond yields been used.

	SASS	SANCS	SSS	Total
	\$'000	\$'000	\$'000	\$'000
As at 30 June 2018				
Deficit/(surplus) using Corporate bond yield	9,514	2,324	63,520	75,358
Deficit/(surplus) using Government bond yield	14,815	2,847	107,965	125,627
Difference in deficit/(surplus)	(5,301)	(523)	(44,445)	(50,269)

Notes to the financial statements

For the year ended 30 June 2018

19. Commitments	2018 \$'000	2017 \$'000
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Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as a liability:

Property, plant and equipment	286,720	49,500
Capital commitments	286,720	49,500

Amounts disclosed as capital commitments includes GST of \$26.1 million (2017: \$4.5 million) recoverable from the Australian Taxation Office.

Payable as lessee

Operating lease commitments contracted for at the reporting date but not recognised as a liability are expected to be payable as follows:

Within one year	6,231	6,860
Later than one year but not later than five years	19,621	16,610
Later than five years	16,617	18,545
Operating lease commitments	42,469	42,015
Representing non-cancellable operating leases	42,469	42,015

Amounts disclosed as operating lease commitments includes GST of \$3.9 million (2017: \$3.9 million) recoverable from the Australian Taxation Office.

Water NSW leases a number of office and depot facilities under operating leases. Leases generally have terms of one to twelve years. Lease agreements are subject to annual review in which rental amounts can be increased (usually by CPI). All leases allow for renewal at the end of the lease term and have been negotiated on commercial terms.

Receivable as lessor

Within one year	3,299	1,643
Later than one year but not later than five years	7,698	4,093
Later than five years	43,731	46,886
Operating lease commitments	54,728	52,622
Representing non-cancellable operating leases	54,728	52,622

Water NSW leases to other parties positions to locate hydro-electric equipment and structures under non-cancellable operating leases. These leases also convey certain rights to access water discharges over the term of the agreement. These leases are for terms ranging from 10 years to 75 years (2017: 10 years to 75 years) with option periods following, ranging up to 75 years.

Notes to the financial statements

For the year ended 30 June 2018

20. Equity transfer

On 30 April 2018 certain functions of Water NSW as well as the relevant staff, assets and liabilities were transferred to the National Resources Access Regulator (NRAR). This transaction was treated as an administrative restructure.

The values of assets and liabilities transferred from Water NSW to NRAR as a result of this restructure are as follows:

Net assets/liabilities transferred	30 April 2018 \$'000
	NRAR
Cash	(15)
Employee entitlements	15
Net assets/liabilities transferred from Water NSW	-

On 1 July 2016 certain functions of DPI Water (NSW Department of Industry) as well as the relevant staff, assets and liabilities were transferred to WaterNSW.

This was an administrative restructure, which is treated as a contribution by owners.

The values of assets and liabilities transferred to Water NSW as a result of this restructure are as follows:

Net assets/liabilities transferred	1 July 2016 \$'000
	NSW Department of Industry*
Receivables	14,978
Property, plant and equipment	4,927
Employee entitlements	(14,978)
Superannuation liabilities	(25,560)
Net assets/liabilities transferred to Water NSW on equity transfer	(20,633)

* - consolidated entity

Notes to the financial statements

For the year ended 30 June 2018

21. Contingent liabilities and contingent assets

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

Operational activities

Risk exposure occurs as a result of operational activities. These exposures comprise various matters that have or possibly could lead to disputes over past or existing contracts or other operational activities. Some project works undertaken by Water NSW, either on its own behalf or on behalf of third parties, have been subject to delays and disruptions. As a result Water NSW has received and rejected claims from contractors for variations to contracted amounts, which are now the subject of dispute. Irrespective of the legal position with respect to these disputed claims, the amounts are either not material to Water NSW or are the ultimate responsibility of third parties as pass through costs to Water NSW.

Green State Power

Under the Green State Power transfer agreement Water NSW was paid a pre-tax cash amount of \$7.15 million by Green State Power to cover potential obligations in the future. The obligations are for potential compensation to the hydro-operator during the first 30 year term for any power station unavailability that is caused by an act or omission of Water NSW (excluding planned works or force majeure). The potential liability is capped (for both Burrinjuck Dam and Keepit Dam combined) to \$5 million.

Origin Energy

Under the Operations and Maintenance Agreement for the operation of the Kangaroo-Fitzroy Project with Origin Energy Water NSW has an exposure to pay Origin Energy liquidated damages if its assets are not available for use to transfer water to enable the generation of hydro-electricity. Liquidated damages are calculated on a sliding scale if asset availability falls below 94% in a calendar month. The maximum monthly exposure to liquidated damages is \$250,000 if asset availability for the whole of the month is zero. Water NSW's maximum exposure to liquidated damages is \$600,000 in any calendar year or approximately \$32.5 million for the 54 year remaining period of the 60 year agreement.

Site contamination

Water NSW has a potential exposure to risk from contaminated land and infrastructure that may contain hazardous materials and environmental incidents. There is an ongoing program for the management of contamination and remediation where required. It is not possible to estimate liabilities reliably, as the need for and the type of management and remediation is dependent on future events that cannot be determined at this time.

Notes to the financial statements

For the year ended 30 June 2018

22. Related parties

Water NSW has related party relationships with key management personnel (refer (a) below) and their related entities (refer (b) below).

(a) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of Water NSW, directly or indirectly. This comprises all directors, whether executive or non-executive, and senior executives who lead the various business units of Water NSW.

	2018 \$'000	2017 \$'000
Remuneration of key management personnel		
Short term employee benefits*	4,034	4,013
Long term employee benefits	51	51
Termination benefits	18	219
Post term employee benefits	229	229
Remuneration of key management personnel	4,332	4,511
<i>This comprises compensation relating to:</i>		
Directors, excluding Chief Executive Officer*	459	352
Senior executives, including Chief Executive Officer	3,873	4,160
Remuneration of key management personnel	4,332	4,511

* includes Rob Aldis' remuneration of \$44,699 (2017: \$29,737) (excluding GST) for the work as the Chair of the Project Board - Warragamba Dam Wall Raising and Broken Hill Pipeline.

The above disclosures for senior executives are based on accruals of employee benefits during the reporting period in accordance with the requirements of AASB 124 'Related Parties' and AASB 119 'Employee Benefits'.

(b) Other transactions with key management personnel

Any transactions undertaken with key management personnel or entities related to them are conducted on an arm's length basis on commercial terms and conditions. In accordance with the requirements of TC 16-12 "Related Party Disclosures" Water NSW collects arm's length transactions only in excess of \$100,000. Such transactions are disclosed if it is concluded that they are either quantitatively or qualitatively material to the Water NSW's financial statements. During the current reporting period Water NSW paid membership fees and participated in the conferences and workshops conducted by the Water Services Association of Australia (WSAA) (transactions totalling \$126,733 (incl GST - \$11,521) (2016-17- \$177,045 (incl GST - \$16,095). The Chief Executive Officer of Water NSW is a board member of WSAA. Water NSW incurred \$923,105 (incl GST \$84,607) in legal fees to Henry Davis York and \$3,371,678 in legal fees to Norton Rose Fulbright.

Dr Nicholas Brunton is a board member of Water NSW and a partner of Henry Davis York and Norton Rose Fulbright. Dr Brunton's term as a director of WaterNSW expired on 19 March 2017. Dr Brunton was reappointed as a Board member on 27 July 2017. From 2001, he was also a partner of Henry Davis York and when that firm merged with Norton Rose Fulbright on 1 December 2017 he became a partner of Norton Rose Fulbright. On 30 August 2017, management notified to the Board the engagement of Henry Davis York by WaterNSW to provide certain legal services. This engagement occurred at a time when Dr Brunton was not a director of WaterNSW. In addition, the engagement of Henry Davis York occurred without the knowledge of Dr Brunton.

Notes to the financial statements

For the year ended 30 June 2018

22. Related parties

The engagement of Henry Davis York by management was considered appropriate because of the specific expertise and experience of other partners of Henry Davis York. Dr Brunton had no role whatsoever in the decision to appoint Henry Davis York. In addition, Dr Brunton had no role whatsoever in the providing any legal services as part of the engagement of Henry Davis York and the ongoing provision of legal services by Henry Davis York and then Norton Rose Fulbright. The engagement of Henry Davis York and later Norton Rose Fulbright has been disclosed in the WaterNSW disclosure register at all times since the date that Dr Brunton was reappointed to the Board of WaterNSW.

There were no other related party transactions to disclose.

(c) Government-related entities

Government-related entities are those that are controlled or jointly controlled or significantly influenced by the NSW Government. The aggregate value of the significant transactions and outstanding balances are as follows:

Related Party	Nature of transaction	Note reference
Sydney Water Corporation	Sale of water	Note 4
NSW Department of Industry	NSW Government contributions to operations	Note 4
NSW Department of Industry	Administered assets	Note 25
NSW Treasury Corporation	Borrowings and interest repayment	Note 7, Note 17
NSW Treasury	Return of capital	Statement of changes in equity
NSW Treasury	Dividends	Note 18
NSW Treasury	Government guarantee fee	Note 7
Revenue NSW	Taxes	Note 9

23. Auditors remuneration

	2018 \$'000	2017 \$'000
Audit Office of NSW - External audit	304	295
Auditors remuneration	304	295

Notes to the financial statements

For the year ended 30 June 2018

24. Financial instruments

a) Risk management framework

Water NSW's principal financial instruments are outlined below. These financial instruments arise directly from operations of Water NSW, or are required by Water NSW to finance its operations. Water NSW does not enter into or trade financial instruments including derivative financial instruments for speculative purposes.

Water NSW's main risks arising from financial instruments are outlined below, together with the objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included throughout these financial statements.

The Board has overall responsibility for the establishment and oversight of risk management and reviews and approves policies for managing identified risks. Risk management policies are established to identify and analyse the risks faced by Water NSW, as well as to set limits and controls and monitor identified risks. Compliance with policies is reviewed by the Audit and Risk Committee on a continuous basis.

The totals for each category of financial instruments, measured in accordance with AASB 139 "Financial Instruments: Recognition and Measurement" as detailed in the accounting policies to these financial statements, are as follows:

Category	Carrying amount	
	30 June 2018 \$'000	30 June 2017 \$'000
Financial assets		
Cash and cash equivalents	Not applicable	20,752
Trade and other receivables ¹	Loans and receivables (at amortised cost)	118,826
Financial assets	139,578	271,787
Financial liabilities		
Trade and other payables	Amortised cost	99,701
Borrowings	Amortised cost	1,369,634
Financial liabilities	1,469,335	713,381

¹Excludes statutory receivables, payables as well as prepayments and deferred income and which fall outside the scope of AASB 7 'Financial Instruments: Disclosures'.

b) Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to Water NSW. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment) in the statement of financial position.

Credit risk arises from the financial assets of Water NSW, including cash, receivables, and deposits. No collateral is held by Water NSW and no financial guarantees have been granted.

Credit risk associated with financial assets, other than receivables, is managed through the selection of counterparties and the establishment of minimum credit rating standards. Water NSW's deposits held with NSW Treasury Corporation (T-Corp) are guaranteed by the State.

Cash and cash equivalents

Credit risk related to business with banks and other financial institutions is managed by the Audit and Risk Committee in accordance with approved Board policy. Investment with individual counterparties is limited to T-Corp, and banks with a Moody's rating of A1 or A2.

Notes to the financial statements

For the year ended 30 June 2018

24. Financial instruments

Trade and other receivables

All trade receivables are recognised at amounts receivable at reporting date. Water NSW monitors collectability of trade debtors on an ongoing basis and has policies in place to recover or write-off amounts outstanding. Trade and other receivables that are neither past due nor impaired are considered to be of high credit quality. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due. This evidence includes past experience, and current and expected changes in economic conditions and debtor credit ratings. Debts which are known to be uncollectible are written off. No interest is earned on trade debtors.

All credit and recovery risks associated with trade debtors have been provided for in the statement of financial position.

Under the *Water Act 1912* (Water Act) and the *Water Management Act 2000* (WM Act) if the New South Wales Department of Industry issues a new licence or transfers an existing licence then that licensee automatically becomes a customer of Water NSW under the conditions of that licence. Water NSW does not undertake any credit quality assessment or define any credit limits before accepting new water customers issued such licences. The Water Act allows outstanding monies to be charged on the land supplied with water, and if this charge is registered against the land title, the debt will pass with the land to any future owner. Given these facts, fees charged on a water access licence are largely perpetual and not standard commercial debt where only court action is available to collect a debt when a debt is considered doubtful, unless security is held against the debt. Generally prospective acquirers of a water access licence undertake searches on the licence they are seeking to acquire to determine whether there is any debt outstanding. If there is, the acquirer discounts the market value of the licence by the debt owing or arranges to settle the debt at the time of acquisition.

Water NSW also has trade receivables for non water related charges. The majority of such debt relates to government related bodies and are considered low risk.

The ageing of trade receivables past due but not impaired as well as trade receivables considered impaired is detailed below:

Past due but not impaired^{1,2}

31 - 60 days overdue

61 - 90 days overdue

> 90 days overdue

Current assets

Carrying amount	
30 June 2018 \$'000	30 June 2017 \$'000
8,393	759
864	18
14,780	3,717
24,037	4,493

The ageing of trade receivables individually considered impaired is detailed below:

Considered impaired^{1,2}

Less than 3 months overdue

Between 3 months and 6 months overdue

More than 6 months overdue

Current assets

Carrying amount	
30 June 2018 \$'000	30 June 2017 \$'000
-	-
-	-
348	375
348	375

¹Figures disclosed report 'gross receivables'.

²The ageing analysis excludes statutory receivables, as these are not within the scope of AASB 7 and excludes receivables that are not past due and not impaired.

Notes to the financial statements

For the year ended 30 June 2018

24. Financial instruments

Term Deposits

Water NSW has placed funds on deposit through TCorp. These deposits are similar to money market or bank deposits and can be placed 'at call' or for a fixed term. For fixed term deposits, the interest rate payable by respective banks is negotiated initially and is fixed for the term of the deposit, while the interest rate payable on at call deposits can vary. The deposits at reporting date were earning an average interest rate of 1.74% (2017 – 2.38%) for at call and 2.42% (2017 – 2.42%) for fixed term. Over the year, the weighted average interest rate was 1.99% (2017 – 2.37%) on a weighted average balance during the year of \$34.4 million (2017 – \$70.5 million) for at call deposits and 2.45% (2017 – 2.58%) on a weighted average balance of \$61.2 million (2017 – \$82.7 million) for fixed term. None of these assets are considered past due or impaired.

c) Liquidity risk

Liquidity risk is the risk that Water NSW will be unable to meet its payment obligations when they fall due. Water NSW continuously manages risk by monitoring its future cash flows and maturities and holding adequate amounts of high quality liquid assets. The objective is to maintain a balance between continuity of funding and flexibility through the use of readily accessible standby facilities.

Water NSW has obtained approval under the *Public Authorities (Financial Arrangement) Act 1987* for the following borrowing limits:

	Approved facility \$'000	Balance used \$'000	Balance available \$'000
30 June 2018			
Long term borrowing facility	1,650,000	1,188,990	461,010
Long term borrowing facility - Broken Hill Pipeline	350,000	180,644	169,356
"Come & Go" facility	45,000	-	45,000
"Come & Go" facility - Broken Hill Pipeline	5,000	-	5,000
Intra-day facility	40,000	-	40,000
Intra-day facility - Broken Hill Pipeline	5,000	-	5,000
Credit card facility	1,500	301	1,199
Overdraft facility	14,000	-	14,000
Overdraft facility - Broken Hill Pipeline	1,000	-	1,000
Operating leases	49,000	42,469	6,531
Operating leases - Broken Hill Pipeline	1,000	-	1,000
Borrowing facility	2,161,500	1,412,404	749,096
30 June 2017			
Long term borrowing facility	2,000,000	665,806	1,334,194
"Come & Go" facility	50,000	-	50,000
Intra-day facility	45,000	-	45,000
Credit card facility	1,500	278	1,222
Overdraft facility	15,000	-	15,000
Operating leases	50,000	42,015	7,985
Borrowing facility	2,161,500	708,099	1,453,401

Water NSW has access to the Transaction Negotiation Authority (TNA) facility of \$11.5 million.

Water NSW's Treasury Risk Management Policy establishes prudential limits on the percentage of debt which can mature in any one 12 month financial year. Planned future capital expenditure will be funded in part through T-Corp borrowings. Future committed expenditure is disclosed in Note 19.

Notes to the financial statements

For the year ended 30 June 2018

24. Financial instruments

During the current and prior reporting year there were no defaults of loans payable. No assets have been pledged as collateral. Water NSW's exposure to liquidity risk is deemed insignificant based on prior periods data and current assessment of risk. The contractual maturity of Water NSW's non-derivative fixed rate financial liabilities for the comparative period is shown in the following table:

	Maturity dates			Total \$'000
	Less than 1 year \$'000	1-5 years \$'000	More than 5 years \$'000	
30 June 2018				
Trade and other payables	99,701	-	-	99,701
Borrowings	56,981	990,032	322,621	1,369,634
Non-derivative financial liability	156,682	990,032	322,621	1,469,335
30 June 2017				
Trade and other payables	47,575	-	-	47,575
Borrowings	51,422	435,205	179,179	665,806
Non-derivative financial liability	98,997	435,205	179,179	713,381

The table above discloses the remaining contractual maturity for Water NSW's financial liabilities. The table is based on the undiscounted interest and principal cash flows of financial liabilities according to the earliest date on which Water NSW can be required to pay. The nominal amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities and therefore may not reconcile to the statement of financial position. The timing of cash flows presented in the table to settle financial liabilities reflect the earliest contractual settlement dates and do not reflect management's expectations that borrowing facilities will be rolled forward.

d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Water NSW's exposures to market risk are primarily through interest rate risks related to borrowings and other price risks associated with the movement in the unit price of the Hour-Glass (Cash) Facility. Water NSW has negligible exposure to foreign currency risk and does not enter into commodity contracts.

The effect on profit and equity due to a reasonably possible change in risk variable is outlined in the information below for interest rate risk and other price risk. A reasonably possible change in risk variable has been determined after taking into account the economic environment in which Water NSW operates and the time frame for the assessment (i.e. until the end of the next annual reporting year). The sensitivity analysis is based on risk exposures in existence at the statement of financial position reporting date. The analysis is performed on the same basis as for 2017. The analysis assumes that all other variables remain constant.

Interest rate risk

Exposure to interest rate risk arises primarily through Water NSW's interest bearing liabilities. This risk is minimised by undertaking mainly fixed rate borrowings, through T-Corp. Water NSW does not account for any fixed rate financial instruments at fair value through profit or loss or as available-for-sale. Therefore, for these financial instruments, a change in interest rates would not affect profit or loss or equity.

T-Corp manages interest rate risk exposures applicable to specific borrowings of Water NSW in accordance with a debt portfolio mandate agreed between the two parties. T-Corp receives a fee for this service. At reporting date the carrying value of borrowings managed by T-Corp stood at \$1,369 million (2017: \$666 million).

Notes to the financial statements

For the year ended 30 June 2018

24. Financial instruments

	2018 \$'000	2017 \$'000
Fixed rate instruments		
Call loans to Authorities	9,104	12,000
Commonwealth guaranteed	26,660	25,351
Loans State guaranteed	1,311,962	606,942
CPI Indexed Year on year (YOY) loan	4,085	4,085
Loans to Authorities	17,777	17,428
Fixed rate instruments	1,369,588	665,806
Variable rate instruments		
Cash and cash equivalents (excluding Hour-Glass Cash Facility)	2,715	162,209
Variable rate instruments	2,715	162,209

Water NSW's exposure to interest rate risk is set out below. A reasonably possible change of +/- 100 basis points (bp) is used, consistent with current trends in interest rates (based on official RBA interest rate volatility over the last five years). The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

Profit or loss		Equity	
+100bp	- 100bp	+ 100bp	- 100bp

Variable rate instruments - 30 June 2018

Cash and cash equivalents	27	(27)	27	(27)
	27	(27)	27	(27)

Variable rate instruments - 30 June 2017

Cash and cash equivalents	1,622	(1,622)	1,622	(1,622)
	1,622	(1,622)	1,622	(1,622)

Other price risk - T-Corp Hour-Glass Investment Facility

Exposure to 'other price risk' primarily arises through the investment in the T-Corp Hour-Glass Investment Facility, which is held for strategic rather than trading purposes. The entity has no direct equity investments. The entity holds units in the following Hour-Glass investment trust:

Facility	Investment sectors	Investment horizon	30 June 2018 \$'000	30 June 2017 \$'000
Cash Facility	Cash, Money market Instruments	Up to 1 1/2 years	18,037	27,009

The unit price of the facility is equal to the total fair value of the net assets held by the facility divided by the number of units on issue in the facility. Unit prices are calculated and published daily.

T-Corp as trustee for the Hour-Glass facility is required to act in the best interest of the unit holders and to administer the trusts in accordance with the trust deeds. As trustee, T-Corp has appointed external managers to manage the performance and risks of each facility in accordance with a mandate agreed by the parties. T-Corp has also leveraged off internal expertise to manage certain fixed income assets for the Hour-Glass facilities. A significant portion of the administration of the facilities is outsourced to an external custodian.

Notes to the financial statements

For the year ended 30 June 2018

24. Financial instruments

Investment in the Hour-Glass facilities limits Water NSW's exposure to risk, as it allows diversification across a pool of funds with different investment horizons and a mix of investments. T-Corp provides sensitivity analysis information for the investment facility, using historically based volatility information collected over a ten year period, quoted at two standard deviations (i.e. 95% probability). The facility is designated at fair value through profit or loss and therefore any change in unit price impacts directly on profit (rather than equity). A reasonably possible change is based on the percentage change in unit price (as advised by T-Corp) multiplied by the redemption value as at 30 June each year for the facility (balance from Hour-Glass statement).

	Impact on profit/loss		
	Change in unit price	30 June 2018	30 June 2017
		\$'000	\$'000
T-Corp Hour-Glass Investment	+/- 1%	180	270

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Water NSW's exposure to foreign currency risk is immaterial. Water NSW limits currency risk by fully hedging foreign currency transactions in excess of \$1,000,000 within five days of the exposure arising. The aggregate of all small exposures or an individual exposure to a single currency over \$1,000,000 must be similarly hedged. At the reporting date, there are no foreign currency exposures attached to any financial assets or financial liabilities.

e) Fair value measurement

Fair value recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable and as set out in Note 14 :

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
30 June 2018				
T-Corp Hour-Glass Investment (Cash) Facility	-	18,037	-	18,037
	-	18,037	-	18,037
30 June 2017				
T-Corp Hour-Glass Investment (Cash) Facility	-	27,009	-	27,009
	-	27,009	-	27,009

The Hour-Glass Investment Cash Facility is considered a level 2 measurement. Prices are observable, however, no active market exists for these facilities as they are only accessible to government agencies. The input used by Water NSW to assess fair value is the current advised unit rate provided by NSW Treasury Corporation. There were no transfers of financial instruments between levels 1 or 2 during the current and previous reporting years.

Fair value compared to carrying amount

Financial instruments are generally recognised at amortised cost, with the exception of the T-Corp Hour-Glass facilities, which are measured at fair value. Cash and cash equivalents, trade and other receivables, trade and other payables and other financial liabilities are short term instruments in nature whose carrying amounts are considered to be a reasonable approximation of their fair values. Borrowings are stated at amortised cost.

Notes to the financial statements

For the year ended 30 June 2018

24. Financial instruments

	30 June 2018		30 June 2017	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Financial assets				
Cash at bank and on hand	2,715	2,715	162,209	162,209
Trade and other receivables	118,826	118,826	82,569	82,569
Cash - T-Corp Hour-Glass Facility	18,037	18,037	27,009	27,009
	139,578	139,578	271,787	271,787
Financial liabilities				
Trade and other payables	99,701	99,701	47,575	47,575
Borrowings	1,369,634	1,396,148	665,806	691,062
	1,469,335	1,495,849	713,381	738,637

f) Capital management

Water NSW's agreed capital structure is reviewed every year as part of the Statement of Corporate Intent process. The purpose of such a review is to confirm whether or not the current capital structure continues to be appropriate and, if not, to negotiate revised arrangements between the Board and NSW Treasury.

Gearing levels

Water NSW monitors its gearing levels. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity as shown in the statement of financial position plus net debt.

	2018 \$'000	2017 \$'000
Total borrowings	1,369,634	665,806
Less cash and cash equivalents	(20,752)	(189,218)
Net debt	1,348,882	476,588
Total equity	740,277	1,323,979
Total capital employed	2,089,159	1,800,566
Gearing ratio ¹	63.93%	23.95%

¹Calculated as: (Interest bearing debt - cash & cash equivalents) / (interest bearing debt + equity).

Dividend policy

The dividend of \$98.1 million (2017: \$38.2 million) is in line with NSW TPP 16-04 "Financial Distribution Policy for Government Businesses".

Notes to the financial statements

For the year ended 30 June 2018

25. Administered items	2018 \$'000	2017 \$'000
Administered revenues		
NOW ¹ - water charges	11,017	31,460
YCATAC ² - Yanco Columbo system levy	107	112
MDBA ³	12,041	-
Total administered revenue	23,165	31,572
Administered assets		
Administered cash	3,935	1,310
Debtors and accrued charges NOW ¹	11,110	8,082
Debtors and accrued charges MDBA ³	2,386	
Total administered assets	17,431	9,392
Administered liabilities		
Creditors and accruals NOW ¹	13,965	9,392
Creditors and accruals MDBA ³	3,466	
Total administered liabilities	17,431	9,392

¹NOW - New South Wales Office of Water (NSW Department of Industry)

²YCATAC - Yanco Creek and Tributaries Advisory Council

³MDBA - Murray-Darling Basin Authority

These charges are payable by Water NSW to the respective agencies as and when collected. Accrued charges are based on known entitlement charges and on usage, where applicable. Billing of customers is completed after year end.

Water NSW held bank guarantees from various suppliers for the amount of \$82.2 million as at 30 June 2018. (2016/2017: \$11.6 million).

Notes to the financial statements

For the year ended 30 June 2018

26. Events after balance date

No events after the balance date

End of audited financial statements

WATER NSW

Director's Declaration

30 JUNE 2018

Under Section 41C of the *Public Finance and Audit Act 1983* we state that the accompanying financial statements and notes thereto are general purpose statements which:

- a) give a true and fair view of the financial position of Water NSW as at 30 June 2018 and its financial performance for the year then ended.
- b) have been prepared in accordance with;
 - applicable Australian Accounting Standards (including Australian Accounting Interpretations);
 - the *Public Finance and Audit Act 1983* and the *Public Finance and Audit Regulation 2015*; and
 - the *State Owned Corporations Act 1989*.
- c) also comply with International Financial Reporting Standards.

We are not aware of any circumstances at the date of this statement that would render any particulars included in the financial statements to be misleading or inaccurate.

At the date of this statement, there are reasonable grounds to believe that Water NSW will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors.



Anne McDonald
Director



David Harris
Chief Executive

26 September 2018



INDEPENDENT AUDITOR'S REPORT

WATER NSW

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of Water NSW (the Corporation), which comprise the Statement of 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 comprised of 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.

Director's Responsibilities for the Financial Statements

The directors of the Corporation 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. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that 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.

A handwritten signature in black ink that reads "James Sugumar". The signature is written in a cursive, flowing style.

James Sugumar
Director, Financial Audit Services

28 September 2018
SYDNEY

Appendix 1 Management and Structure

Board

Method and Term of Appointment

Directors are appointed by the voting shareholders as set out in the *WaterNSW Act 2014* and hold their office for a period up to five years, which may be renewed by the shareholders. The Board of Directors is to consist of not fewer than three and not more than eight directors and have between them the necessary expertise, skills and knowledge that will enable WaterNSW to meet its objectives.

Members



Anne McDonald – Chair
BEC, FCA, FAICD

Anne McDonald was a former Director of Sydney Water and has strong experience in the water industry and price regulated businesses. She is currently on the board of three ASX listed companies (Link Group, Spark Infrastructure and Speciality Fashion Group). Anne has broad based business and financial experience gained through working with a wide cross section of international and domestic companies.



Dr Nicholas Brunton
BA, LLB, PhD, FAPI

Dr Nicholas Brunton is a partner at the law firm of Norton Rose Fulbright, Sydney. He is also a Member of the Advisory Board for the Australian Centre for Climate Change and Environmental Law at the University of Sydney and a Fellow of the Australian Property Institute. Nicholas has expertise in environmental and planning law, catchment management, property and risk management for large organisations.



Professor Andrew Wilson
BMed Sci, MBBS (Hons), PhD, FRACP, FAFPHM

Professor Wilson is Co-Director of the University of Sydney Menzies Centre for Health Policy and Professor of Public Health in the School of Public Health. He leads the NHMRC Prevention Partnership Centre and is chair of the Pharmaceutical Benefits Advisory Committee for the Australian Department of Health. He has specialist qualifications in clinical medicine and public health, and a PhD in epidemiology.



Rob Aldis
BE (Civil), FAICD

Rob Aldis spent 24 years working for the Leighton Group prior to joining the Infrastructure Advisory company Evans Peck where he was the Managing Director for 14 years. He has more than 40 years' experience in the Engineering and Construction Sector, particularly in relation to water supply infrastructure. He is currently Chairman of the NorthWestern Roads Group and its subsidiaries, owners of the M7 Motorway and NorthConnex Tunnel project in Sydney, and a member of the Project Advisory Group for the completion of the Pacific Highway in NSW.



Emma Stein
BSc (Hons), MBA, FAICD

Emma has worked as a non-executive director for listed ASX 50-200, private and government owned Australian and NZ oil and gas, power, energy and utilities, resources, engineering and industrial services companies.

Her European executive career (1984-2003) spanned building materials, fuel distribution and energy retailing - as Managing Director of British Fuels Gas she ran the first independent domestic gas retailer, as Gaz de France's UK Managing Director she built a major industrial customer focused gas and electricity retailer.



David Harris - Chief Executive Officer
BEd, LLB (Hons)

David Harris is the CEO of WaterNSW. Previously David was for a short time CEO of both State Water Corporation and the Sydney Catchment Authority, the two entities that were merged to form WaterNSW. David has over 20 years' experience in the Australian water industry and has been involved in various key policy and market reforms in the water, energy and utilities industries over that time. From 2002 to 2013 David was a key member of the Executive leadership of Snowy Hydro Limited.

Board Committees

Audit and Risk

Assists the Board in discharging its obligations of due diligence with respect to:

- business improvement and assurance: internal controls, including fraud control; internal and external audit;
- regulatory compliance: laws, regulations, standards and best practice; and
- finance and risk: statutory accounting, financial management, financial reporting, delegations and the risk management framework.

Members: Anne McDonald (Chair), Nicholas Brunton, Emma Stein.

Infrastructure and Operations

Assists the Board in discharging its obligations of due diligence with respect to:

- infrastructure solutions: water modelling, strategic planning;
- asset management: planning and maintenance, dam safety, management system;
- asset development: project and contract management; and
- asset operations: water delivery - flood operations, water modelling; IT delivery – operations, security and disaster recovery; corporate services - physical security, crisis and emergency management, incident management and fleet; customer operations – metering, billing and water accounting.

Members: Rob Aldis (Chair), Emma Stein.

Safety, People and Capability

Assists the Board in discharging its obligations of due diligence with respect to:

- safety of our people: operations, management system, leadership program;
- organisational development: change management, internal communications, leadership, training;
- recruitment, performance management, terminations;
- remuneration: pay, conditions; and
- organisational capability: workforce planning, structure, succession, talent management.

Members: Anne McDonald (Chair), Rob Aldis, Andrew Wilson.

Water Quality, Health and Catchment Protection

Assists the Board in discharging its obligations of due diligence with respect to:

- public health: water quality, risk;
- science: operations, innovation;
- water quality: monitoring, reporting;
- catchment protection: planning, environment assessment and development, enforcement; and
- environment: management system, operations.

Members: Nicholas Brunton (Chair), Andrew Wilson.

Nominations

Assists the Board in discharging its obligations of due diligence with respect to:

- determining skills gaps on the existing board;
- identifying suitable candidates;
- recommending candidates to the Board for referral to Treasury; and
- reviewing Director induction programs.

The Board met as a whole to consider nominations committee matters.

Board Meeting Attendance

	Board	Audit and Risk	Infrastructure and Operations	Safety, People and Capability	Water Quality, Health and Catchment Protection
	Attended (Held)	Attended (Held)	Attended (Held)	Attended (Held)	Attended (Held)
Anne McDonald ¹	14 (14)	5 (5)	3 (5)	5 (5)	5 (5)
Nicholas Brunton ²	11 (12)	4 (4)			4 (4)
Andrew Wilson	13 (14)	-	-	4 (5)	4 (5)
Rob Aldis	14 (14)	-	5 (5)	5 (5)	-
Emma Stein	13 (14)	5 (5)	5 (5)	-	-
David Harris ³	14 (14)	5 (5)	5 (5)	5 (5)	5 (5)

1. Anne McDonald is not a formal member of the Infrastructure and Operations Committee or the Water Quality, Health and Catchment Protection Committee.
2. Nicholas Brunton's term as a Director expired on 3 March 2017. Nicholas was reappointed on 27 July 2017.
3. David Harris is ex-officio member of all Committees.

Board Governance

The Board complies with the governance standards included in the NSW Treasury policy and guidelines paper, *Guidelines for Governing Boards of Government Businesses* (TPP 17-10). Whilst measurable diversity objectives are reported annually, there is a focus on further developing diversity commitments.

Board Member Remuneration

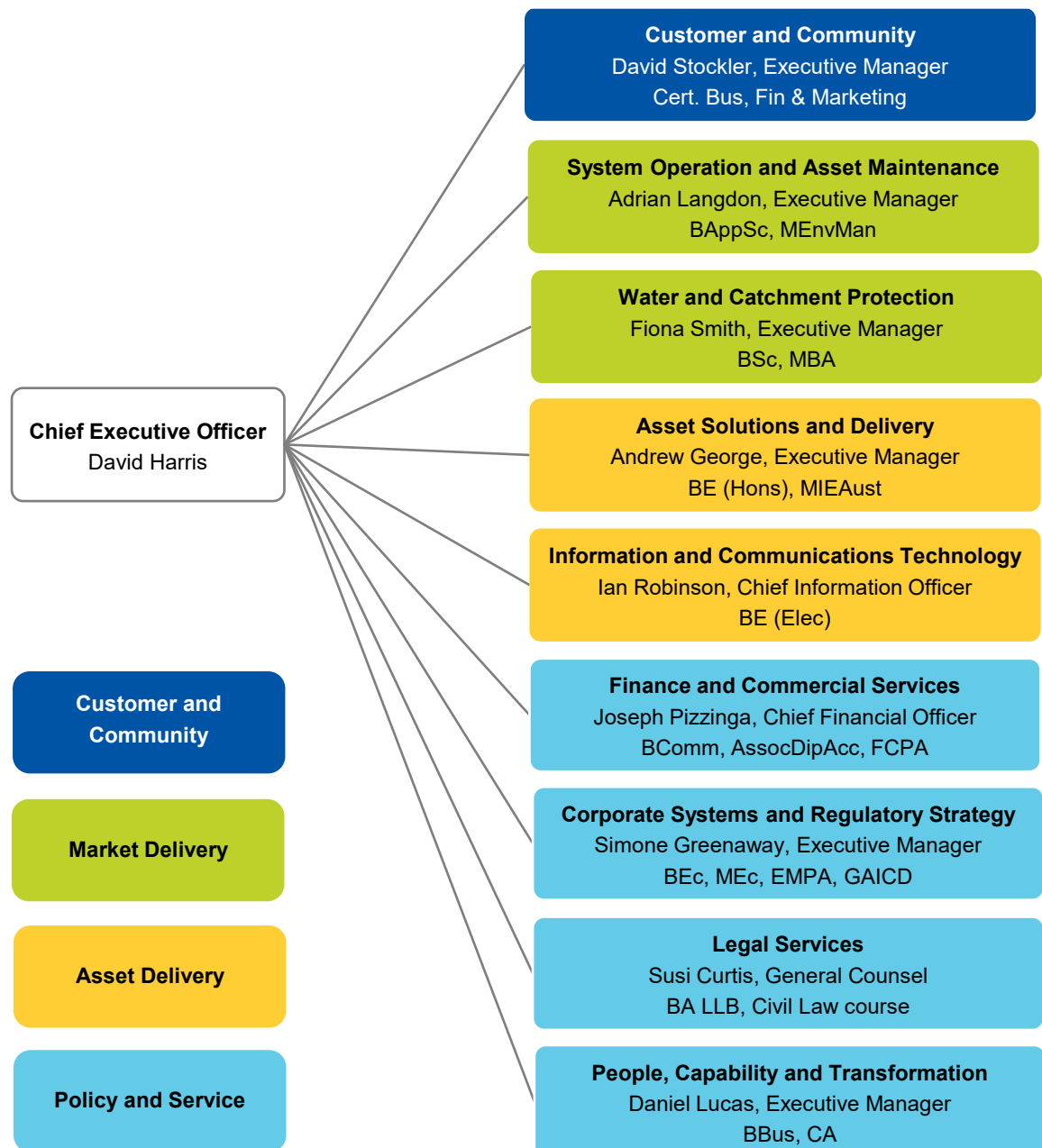
Number of Board Members	Total Salary	Total Sitting Fees	Total Travel	Total Remuneration
5	\$351,522	\$27,895	\$2,314	\$381,731

Executive Leadership Team

Structure

The Executive Leadership Team, led by the Chief Executive Officer, manages WaterNSW in accordance with the policies and determinations of the Board, including:

- preparing plans, policies, strategies, budgets and reports for approval;
- establishing, maintaining and ensuring compliance with internal controls, compliance, management and information systems, and accounting records;
- ensuring WaterNSW meets all workplace health and safety requirements; and
- regular reporting on the efficient and effective management of WaterNSW, its performance and the achievement of objectives.



Remuneration

TRP range	2016-17			2017-18		
	Average TRP ¹	Male	Female	Average TRP ¹	Male ²	Female
Band 4 +	\$566,267	1	-	\$579,856	1	-
Band 3	\$382,171	2	1	\$386,670	2	-
Band 2	\$292,250	3	2	\$290,226	3	2
Band 1	\$249,308	-	1	\$249,308	-	1

1. WaterNSW does not use SES remuneration package ranges. The executive team Total Remuneration Package (TRP) has therefore been mapped to the equivalent band.
2. At 30 June 2018 the Chief Financial Officer was an agency contractor. Remuneration for this position is not included in the table.

The estimated percentage of total employee related expenditure that relates to Executive Team members for 2017-18 is 4% (4% in 2016-17).

Appendix 2 People and Culture

Number of Employees

	2015-16	2016-17	2017-18
Total employees	532	765	791

Movements in Remuneration

Water NSW adjusted salaries and allowances by 3.3% for those employees under the State Water Corporation Enterprise Agreement 2015, the Sydney Catchment Authority Consolidated Award 2015-2016 and the Crown Employees (Public Service – Salaries 2016) Award for the reporting period in accordance with Fair Work Commission Annual Wage Review 2016-17.

Overseas Travel

Date of travel	Name	Destination	Purpose
1-9 November 2017	Dominic Lattouf	United States of America	Attend and present at the International Mechanical Engineering Congress and Exposition. WaterNSW funded airfares, accommodation and incidentals.
27 November - 1 December 2017 and 8-20 January 2018	Yolanda Chorazyczewski	Vietnam	Provide consulting services to consultancy RMCG for a project for the Government of Vietnam on pricing water infrastructure. Travel costs were funded by RMCG.
21-26 January 2018	Daniel Berry	India	Attend and present at the International Dam Safety Conference. Travel costs were funded by Australian Water Partnership.
26-28 April 2018	Andrew Ball	Scotland	Attend the water microbiology sessions of the International Organization for Standardisation (ISO) meeting as a representative of Standards Australia. Travel costs were funded by Standards Australia.

Personnel Policies and Procedures

WaterNSW maintains personnel policies and procedures in relation to the following:

Learning and development

- Employee Onboarding and Induction
- Professional Capability and Development
- Performance and Development Planning and Review

Performance management

- Counselling and Discipline
- Grievance Resolution
- Performance Management

Employment conditions and award

- Code of Conduct
- Managing Excess Employees
- Public Interest Disclosures - Reporting Unethical or Improper Conduct
- Leave Management
- Salary Packaging
- Secondary Employment
- Work Experience
- SCA Consolidated Award 2015-16
- State Water Corporation Enterprise Agreement 2015
- Crown Employees (Public Service Conditions of Employment) Reviewed Award 2009

Staff welfare

- Breastfeeding at Work
- Carer's Leave
- FACS Leave
- Flexible Work Arrangement
- Maternity Leave
- Part-Time Work
- Sick Leave
- First Aid
- Return to Work
- Prevention of Discrimination, Bullying and Harassment
- Purchased Leave
- Working from Home

Recruitment and selection

- Recruitment and Selection
- Onboarding
- Job Evaluation

Work Health and Safety

WaterNSW has placed a strong focus on implementing the safety management system across all areas of its operations.

During the reporting period a significantly revised injury management program was developed ensuring the consistent and contemporary management of workplace injuries. This program includes a new Return to Work Procedure and subsidiary documentation including training and collateral to provide ease of information for reporting and managing a workplace injury which will be presented to the business during 2018-19.

Along with an intensive focus on process safety and continued deployment of the Switch On Behavioural Safety Program an embedding phase titled Safe4Life has also launched. The

Safe4Life campaign is designed to further inculcate the behaviours and actions derived from the foundational Switch On Program, transforming our workforce from a compliance to commitment culture. A detailed three-year implementation strategy including objectives and targets has been developed.

WaterNSW had no notifiable incidents and there were no prosecutions or any breaches.

	2014-15	2015-16	2016-17	2017-18
Total compensable injuries	9	4	5	3
Total lost time days ¹	383	438	20	214 ²
Average lost time days per compensable injury	19.3	62.5	4.0	71.3

1. Total lost time days are calculated for the reporting period based on actual work days lost because of a worker injury or illness.
2. One injury in October resulted in 172 days lost.

Workforce Diversity

WaterNSW is an equal opportunity employer. We value diversity and strive to ensure our employees, our behaviour and our decision making reflects this.

Trends in the Representation of Workforce Diversity Groups

	Benchmark (%)	2014-15 (%)	2015-16 (%)	2016-17 (%)	2017-18 (%)
Women ¹	50	29.7	28.0	28.3	28.9
Aboriginal people and Torres Strait Islanders ²	3.3	1.7	1.6	1.4	0.8
People whose first language spoken was not English ³	23.2	12.5	7.5	12.8	5.5
People with a disability ⁴	N/A	2.3	1.7	3.7	1.8
People with a disability requiring work-related adjustment ⁴	N/A	0.6	0.4	0.8	0.3

1. The benchmark of 50% for representation of women across the sector is intended to reflect the gender composition of the NSW community.
2. The NSW Public Sector Aboriginal Employment Strategy 2014–17 introduced an aspirational target of 1.8% by 2021 for each of the sector's salary bands. If the aspirational target of 1.8% is achieved in salary bands not currently at or above 1.8%, the cumulative representation of Aboriginal employees in the sector is expected to reach 3.3%.
3. A benchmark from the Australian Bureau of Statistics (ABS) Census of Population and Housing has been included for People whose First Language Spoken as a Child was not English. The ABS Census does not provide information about first language but does provide information about country of birth. The benchmark of 23.2% is the percentage of the NSW general population born in a country where English is not the predominant language.
4. In December 2017 the NSW Government announced the target of doubling the representation of people with disability in the NSW public sector from an estimated 2.7% to 5.6% by 2027. More information can be found at: [Jobs for People with Disability: A plan for the NSW public sector](#). The benchmark for 'People with Disability Requiring Work-Related Adjustment' was not updated.

Trends in the Distribution Index for Workforce Diversity Groups

	Benchmark (%)	2014-15 (%)	2015-16 (%)	2016-17 (%)	2017-18 (%)
Women	100	91	93	95	96
Aboriginal people and Torres Straight Islanders	100	N/A	N/A	N/A	N/A
People whose first language was not English	100	105	112	111	112
People with a disability	100	N/A	N/A	90	N/A
People with a disability requiring work-related adjustment	100	N/A	N/A	N/A	N/A

1. A Distribution Index score 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 less than 100 means that members of the Workforce Diversity group tend to be more concentrated at lower salary bands than is the case for other staff. 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 more concentrated at higher salary bands than is the case for other staff.
2. The Distribution Index is not calculated when the number of employees in the Workforce Diversity group is less than 20 or when the number of other employees is less than 20.

Appendix 3 Legislative Change and Compliance

Significant Legislation

Water NSW Act 2014

Aside from establishing WaterNSW, the objectives of the *Water NSW Act 2014* are primarily focused on WaterNSW's 'capture, store, release', water quality, declared catchment and storage functions.

Water Management Act 2000 and the Water Act 1912

The *Water Management Act 2000* controls the extraction of water, the use of water, the construction of works and the carrying out of activities on or near water sources in NSW. The *Water Management Act 2000* will replace the long-standing *Water Act 1912*, which remains in force in some areas of the state. The objectives of the *Water Management Act 2000* are to provide for the sustainable and integrated management of the water sources of the state.

Protection of the Environment Operations Act 1997

The *Protection of the Environment Operations Act 1997* is the primary NSW statute regulating pollution of the environment. Its objectives include the protection, restoration and enhancement of the environment, providing public access to information on pollution and reducing risks to human health and the environment. Relevantly for WaterNSW, it includes offences involving harm to the environment and land pollution, for non-scheduled activities that affect or are located within the WaterNSW declared catchments and controlled areas.

Environmental Planning and Assessment Act 1979

The EP&A Act is the primary NSW planning legislation. Its focus is on ensuring development meets the needs of people, protects the environment and encourages the proper management, development and conservation of resources (natural and artificial). Relevantly for WaterNSW, it includes special provision in a State Environment Planning Policy relating to development in the Sydney drinking water catchment relating to the protection of water quality.

Biodiversity Conservation Act 2016

The *Biodiversity Conservation Act 2016* is focused on the maintenance of a healthy, productive and resilient environment consistent with the principles of ecologically sustainable development (as described in the *Protection of the Environment Administration Act 1991*).

Changes in Acts and Subordinate Legislation

Water Management Act 2000

The *Water Management Act 2000* was amended in June 2018 to provide for: the transfer of ownership of metering equipment from WaterNSW to private irrigators; heads of power to develop regulations for metering equipment; and, the exclusion of Crown liability (which relevantly includes WaterNSW) for the release of water for environmental purposes and the development of consequential regulations.

Natural Resources Access Regulator Act 2017

The *Natural Resources Access Regulator Act 2017* creates the Natural Resources Access Regulator, an independent NSW government agency, and renders it responsible for the compliance and enforcement functions in NSW water management outside of the Sydney Catchment.

Local Government Act 1993

The *Local Government Act 1993* was amended to exempt WaterNSW from liability for flood liable land under the Act.

Biodiversity Conservation Act 2016

The *Biodiversity Conservation Act 2016* (BC Act) and the *Local Land Services Amendment Act 2016* commenced on 25 August 2017 and result in a new system for land management and conservation in NSW. The BC Act repeals the *Native Vegetation Act 2003*, the *Threatened Species Conservation Act 1995*, the *Nature Conservation Trust Act 2001*, parts of the *National Parks and Wildlife Act 1974*, and deletes provisions of the *Environmental Planning and Assessment Act 1979* that deal with threatened species.

Significant Judicial Decisions - Land and Environment Court: *Sharkey v Minister administering the Water Management Act 2000*

This case considered whether a licence held under the *Water Act 1912* was correctly converted to an unregulated water licence under the *Water Management Act 2000*. The absence of a clear definition of the expression ‘the upper limit of the storage of Hume Dam’ resulted in competing interpretations of whether the licence provided access to regulated or unregulated waters.

The court ruled that the upper limit of the storage of the Hume Dam is where the river bed first reaches an elevation of 192 Australian Height Datum, and as such the licence should have been converted to a regulated water licence under the *Water Management Act 2000*. Part 5 of

Schedule 12 to the *Water Management Act 2000* has been amended to define the upper limit locations of water storage referred to in certain regulated river orders and management plans by reference coordinates which clearly identify the intended upper limit of the dam.

Powers Exercised Under Legislation

Water NSW Act 2014

Section 61(10)(a) Powers exercised by authorised officers ¹

Section	Function exercised	Number of times exercised	Outcome
Section 61 (10)(a)(i)	Number of times authorised officers entered onto land – section 68	9	On all 9 occasions Water NSW Authorised Officers made entry upon premises under the consent of the occupier – section 68(3)(a)
	Number of times authorised officers issued search warrants – section 69	0	
Section 61 (10)(a)(ii)	Number of times authorised officers exercised the power to require a person to answer questions – section 70 (1) and (5)	0	Power utilised to identify driver of vehicle of interest
	Number of times authorised officers exercised the power to issue a notice requiring a person to provide information and records – section 71	1	
	Number of times authorised officers exercised the power to require a person to state name and address or produce drivers licence – section 73 ²	0 ²	
Section 61 (10)(a)(iii)	Number of times authorised officers issued penalty notices under section 102 ³	47 ³	47 PINs issued for various catchment offences detected
Section 61 (10)(a)(iv)	Number of times authorised officers exercised functions with respect to the commencement of prosecutions for offences against the Water NSW Act 2014 or regulations and the outcome of prosecutions	0	

1. Authorised Officers are not delegated to issue notices under sections 71 and 74 or commence prosecutions.
2. Authorised Officers are trained to use their powers under Part 6 of Division 3 only in circumstances where it is safe to do so, after first asking the alleged offender to provide the information voluntarily. If the officer believes that it is not safe to use their powers based on the situation they are in, they can disengage and refer the matter to the Investigation and Compliance section for further investigation using investigation powers under Division 3, if appropriate.
3. Issued by an authorised officer appointed to issue penalty notices under section 102 of the Water NSW Act 2014. The persons who can issue penalty notices are a class of authorised officer who have delegation.

Section 61(10)(b) Powers exercised by WaterNSW under delegation

Section	Function exercised	Number of times exercised	Outcome
Section 70(2)	The power to issue a notice requiring a corporation to nominate a person to answer question	0	
Section 71	The power to require a person to provide information and records	1	Information returned that identified a person of interest utilising a company vehicle.
Section 74	The power to require an owner of a motor vehicle and others to give information	0	
Section 77	The power to issue a catchment correction notice	0	
Section 81	The power to issue a catchment protection notice	0	
	The power to direct a public authority to take corrective action	0	
Section 86	The power to issue compliance cost notice	0	

Section 61(10) (c) Other information requested by the Minister with respect to the exercise of regulatory functions

The Minister has not requested any other information.

Water Management Act 2000

WaterNSW's performance in executing its compliance function was subject to two separate reports by the NSW Ombudsman in 2018.

In March the Ombudsman released a report which concerned WaterNSW's provision of enforcement statistics that were later found to be inaccurate. The Ombudsman accepted that there was no attempt by WaterNSW or any WaterNSW employee to mislead the Ombudsman, and in accepting that the error was unintentional, the Ombudsman's report noted that WaterNSW had provided the material at a time when it was under pressure to supply a large volume of information to multiple inquiries underway simultaneously.

In response to the report WaterNSW undertook further improvements to our practices to address specific matters arising from the review, including the development of a new Information Assurance Framework to ensure that information provided to regulatory authorities is accurate.

In August, WaterNSW's compliance performance was examined as part of the Ombudsman's final report into the administration of water compliance and enforcement functions in recent years. The Ombudsman observed WaterNSW's ability to absorb the compliance function was not assisted by the complexity of the wider transformational change also taking place at the time. In his report the Ombudsman acknowledged that the water management landscape is significantly different now compared to when his investigation began in July 2016.

The Ombudsman identified a number of areas where WaterNSW should improve its policies and practices. These recommendations are being implemented with WaterNSW having already begun to implement changes based on the recommendations in the Ombudsman's report released earlier in the year.

Section	Function exercised between 1 July 2017 and 30 April 2018	Number of times exercised
Section 327 (2)	Stop work order	0
Section 329 (2)	Notice for the removal of unlawful water management works	12
Section 333 (2)	Issue directions to protect	5
Section 338A (1)	Require information and records on behalf of the Minister	0
Section 338A (2)	Require information and records	0
Section 365	Issue Penalty Notices	7
Section 364	Exercise functions with respect to the commencement of prosecutions for offences	0
Various Sections	Warning and advisory letters	159

1. From 30 April 2018 responsibility for all compliance functions under the Water Management Act 2000 were assumed by the Natural Resources Access Regulator (NRAR).
2. The 2017-18 figures include all compliance outcomes that occurred during the nominated period, regardless of when any associated investigation was commenced or was finalised. This differs from methodology used in the 2016-17 period.

Protection of the Environment Operations Act 1997

Function exercised	Number of times exercised
Clean-up notices (section 91)	0
Prevention (section 96)	1
Compliance cost notices (section 104)	0
Requirements to provide information and records (sections 192 and 193)	5
Requirements to answer questions (section 203)	1
Prosecutions commenced	0
Penalty infringement notices issued	0
Warning letters issued	0

Environmental Planning and Assessment Act 1979

	2014-15	2015-16	2016-17	2017-18
Number of development applications assessed	188	155	170	168
Proportion (of total received) of development proposals assessed within statutory timeframes (%)	100	100	99	100
Proportion (of total received) of development proposals where concurrence withheld (%)	0	0	0	0

Implementation of Pricing Determinations

WaterNSW is subject to:

- Commonwealth price regulation in the Murray Darling Basin under the:
 - *Water Act 2007* (Cth);
 - *Water Charge (Infrastructure) Rules 2010* (WCIR) made under section 92 of the *Water Act 2007*; and
 - Australian Competition and Consumer Commission *Pricing principles for price approvals and determinations under the WCIR* of July 2011 (ACCC Pricing Principles); and
- New South Wales price regulation for monopoly services under the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW).

WaterNSW was subject to three separate price determinations during 2017-18:

- services we supply to Sydney Water and some councils and minor customers in the Greater Sydney area are subject to the IPART Determination *WaterNSW, Maximum prices for water supply services from 1 July 2016 in relation to Sydney Catchment Functions*;
- services we supply to irrigators, regional councils, mines, energy companies and environmental water holders in rural areas are subject to the IPART Determination *WaterNSW, Prices for rural bulk water services from 1 July 2017*; and
- services we supply under our conferred Water Administration Ministerial Corporation (WAMC) functions are subject to the IPART Determination *Water Administration Ministerial Corporation, Maximum prices for Water Management services from 1 July 2016*. We share this revenue with the Department of Industry - Lands and Water and, from 1 May 2018, also with the Natural Resources Access Regulator as all three entities share responsibility for the delivery of WAMC functions.

These documents set out the maximum prices and methodologies for calculating the maximum prices WaterNSW can charge its customers for the services described in the decision and determinations. WaterNSW has implemented the outcomes of the decision and determinations by charging customers the maximum prices as set out in or as calculated by the decision and determinations.

WaterNSW's budget and financial targets in the annual Statement of Corporate Intent are also set to ensure the outcomes in the decision and determinations are met. WaterNSW has robust processes in place to ensure that over the period of the IPART determinations, it will not exceed the capital and operating expenditure allowances while meeting or exceeding NSW Treasury's financial targets.

Appendix 4 Access to Information

Government Information (Public Access) Act 2009

Proactive release of information

Under section 7 of the *Government Information (Public Access) Act 2009* (GIPA Act), agencies must regularly review their programs for the release of government information to identify the kinds of information that can be made publicly available. This review must be undertaken at least once every 12 months.

During 2017-18 WaterNSW conducted regular reviews of the content and currency of information available on its website and welcomes any feedback from customers and members of the general public to make accessing our information easier.

WaterNSW proactively released information about our dams, individual dam levels, customer news and updates, major projects, Early Warning Network, flood information, water supply and water quality.

WaterNSW focuses on delivery of customer service and aims to make doing business easy for its customers through its online services and customer helpdesk. WaterNSW provides our customers and the communities of NSW with a “one-stop shop” for licensing, water trades and water information.

Government Information (Public Access) Act 2009 applications received by WaterNSW

During 2017-18 WaterNSW received thirty-three valid applications under the *Government Information (Public Access) Act 2009*. Twenty six applications were determined as shown below, with two applications transferred to other agencies. The processing period for the remaining five applications will extend into 2018-19.

Number of applications by type of applicant and outcome

	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	Total
Media	0	0	0	1	0	0	0	0	1
Members of Parliament	2	1	0	1	0	0	0	0	4
Private sector business	0	0	0	0	0	0	0	1	1
Not for profit organisations or community groups	0	1	0	0	0	0	0	0	1
Members of the public (application by legal representative)	0	1	0	1	0	0	0	1	3
Members of the public (other)	11	4	1	0	0	0	0	0	16
Total	13	7	1	3	0	0	0	2	26

Number of applications by type of application and outcome

	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	Total
Personal information applications	0	1	0	0	0	0	0	0	1
Access applications (other than personal information applications)	13	6	1	3	0	0	0	2	25
Access applications that are partly personal information applications & partly other	0	0	0	0	0	0	0	0	0
Total	13	7	1	3	0	0	0	2	26

Invalid applications

Reason application is invalid	Number of applications
Application does not comply with formal requirements (section 41 of the Act)	0
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	0
Invalid applications that later become valid applications	0
Total	0

Conclusive presumption of overriding public interest against disclosure: matters listed in Schedule 1 to the Act

	Number of times consideration used*
Overriding secrecy laws	0
Cabinet information	0
Executive Council information	0
Contempt	0
Legal professional privilege	2
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
Total	2

* More than one public interest consideration can apply to an access application and, if so, each consideration is recorded (but only once per application). This also applies in relation to the following table.

Other public interest considerations against disclosure – matters listed in table to section 14 of the Act

	Number of occasions when application not successful
Responsible and effective government	2
Law enforcement and security	0
Individual rights, judicial processes and natural justice	6
Business interests of agencies and other persons	0
Environment, culture, economy and general matters	0
Secrecy provisions	0
Exempt documents under interstate Freedom of Information legislation	0
Total	8

Timeliness

	Number of applications
Decided within the statutory timeframe (20 days plus any extensions)	23
Decided after 35 days (by agreement with the applicant)	1
Not decided within time (deemed refusal)	0
Total	24

Number of applications reviewed under Part 5 of the Act (by type of review and outcome)

	Decision varied	Decision upheld	Total
Internal review	0	2	2
Review by Information Commissioner*	1	1	2
Internal review following recommendation under section 93 of the Act	0	0	0
Review by NCAT	0	0	0
Total	1	3	4

* The Information Commissioner does not have the authority to vary decisions but can make recommendations to the original decision-maker.

Public Interest Disclosures

The purpose of the *Public Interests Disclosures Act 1994* (PID Act) is to facilitate and encourage the disclosure by public officials of instances of wrongdoing. A public official includes an employee of WaterNSW. For the purpose of the PID Act, wrongdoing extends to corrupt conduct, maladministration, serious and substantial waste of public money, breaches of the *Government Information (Public Access) Act 2009* and local government pecuniary interest contraventions.

WaterNSW is committed to the disclosure of wrongdoing. This commitment is supported through the Public Interest Disclosure Procedure which is published on WaterNSW's Intranet. The procedure confirms that WaterNSW will not tolerate any reprisal against an employee who reports an incident of wrongdoing or is believed to have reported an incident of wrongdoing.

The procedure establishes an internal reporting system for the purposes of the PID Act which assigns roles and responsibilities to WaterNSW and various employees in relation to PID reporting.

Disclosure officers have been appointed in urban and rural areas to receive reports. Disclosure officers provide advice, assist employees make reports and discuss with a reporter any concerns they have about reprisals or work place conflict. The Disclosures Co-Ordinator, located at Parramatta has reporting and investigation responsibilities.

WaterNSW's Public Interest Disclosure Procedure is designed to complement normal communication channels between managers and their staff. Employees are encouraged to raise matters with their immediate manager but also have the option of making a PID report either internally or to an external oversight agency.

All WaterNSW employees are required to undertake annual 'Fraud and Corruption Prevention Awareness' training to ensure they are aware of the contents of the Public Interest Disclosure Procedure and the protections under the PID Act for a person who makes a public interest disclosure.

Public Interest Disclosures	
Number of public officials who made public interest disclosures	0
Number of public interest disclosures received in total	0

Appendix 5 Customer Response

Complaints Made to WaterNSW

Category	Number of complaints 2017-18
Unregulated Billing (Metering) ¹	133
WaterNSW Billing	76
General	19
Water Metering	19
Licensing	18
Employee Performance	14
Recreation Areas - Parks and Dams	14
Water Delivery	14
Trade	6
Water Ordering	6
Communications	5
Water Pricing	5
Environmental Management	4
Water Account Balances	4
Asset Management	3
iWAS	3
Customer Service Charter	1
Total	344

1. 133 complaints were related to one billing incident which occurred just prior to the end of the reporting period and was resolved in the next reporting period.

Complaints Made to Other Bodies

WaterNSW received eleven Referrals to Higher Level (RHLs) from the Energy and Water Ombudsman NSW (EWON) regarding customer complaints during the reporting period. Eight of these RHLs were resolved internally as complaints.

EWON opened five of the eleven RHLs as Investigations (two of these opened twice), resulting in a total of seven Level 1 Investigations. All RHLs were closed as Level 1 Investigations.

EWON made no determinations for any WaterNSW matters during the reporting period.

Appendix 6 Financial Performance

Consultancies

Over \$50,000

	Name	Consultancy	Cost
Engineering	GHD Pty Ltd	Dungowan Dam Feasibility Study	\$323,980
	GHD Pty Ltd	Risk assessment of Greater Sydney Dams excluding Warragamba including options and recommendations	\$285,086
	GHD Pty Ltd	Cranky Rock Storages Feasibility Study	\$271,664
	Jacobs Group Pty Ltd	Mole river feasibility study - hydrologic & hydraulic modelling expertise	\$207,416
	Aurecon Australia Pty Ltd	Rural Assets Maintain Capability Panel Works - Validation & Options Study	\$148,697
	eWater Ltd	Mole River Dam & Dungowan Dam Feasibility Study	\$144,510
Management Services	Blue Grass Consulting Pty Ltd	Strategic planning and corporate advisory services	\$139,731
Total Consultancies equal to or greater than \$50,000			\$1,521,084

Less than \$50,000

Category	Number of Engagements	Cost of Engagements
Accounting	1	\$31,400
Engineering	4	\$141,210
Management Services	2	\$29,808
Total Consultancies less than \$50,000	7	\$202,418

Payment of Accounts

Aged analysis at the end of each quarter

	< 30 days overdue \$'000	30 to 60 days overdue \$'000	61 to 90 days overdue \$'000	> 90 days overdue \$'000	Retention value ¹ \$'000
September	3,797	43	1	33	49
December	3,777	240	211	166	39
March	3,090	51	542	147	32
June	7,454	550	217	246	65

1. Retention monies are held for major projects / upgrades / maintenance works completed. In the case of failure by the contractor to rectify any defect, WaterNSW may apply the retention monies or any other monies held for the purpose of rectifying such defects. The retention may be held for a number of years. Once the retention (or defects liability) period has expired the monies are released to the creditor.

Accounts due or paid within each quarter

Measure	Sep	Dec	Mar	Jun	Total
Accounts due for payment (number)	2,641	2,773	2,440	3,258	11,112
Accounts paid on time (number)	1,636	1,737	1,584	2,016	6,973
Accounts paid on time (percentage of number)	62	63	65	62	63
Accounts due for payment (\$'000)	57,568	88,572	84,211	162,376	392,727
Accounts paid on time (\$'000)	35,924	73,967	71,017	147,189	328,097
Accounts paid on time (percentage of \$)	62	84	84	91	84
Accounts with interest overdue (number)	0	0	0	0	0
Interest paid on overdue accounts (\$)	0	0	0	0	0

Invoices are actioned by the relevant site and then sent to Accounts Payable for processing and payment. WaterNSW sites may only be visited once a week to deliver mail due to their remote location. This can impact on payment timeframes. Purchase cards are used to pay invoices of less than \$3,000 where possible to allow processing of low value invoices promptly.

Investment Performance

WaterNSW has placed funds on deposit through TCorp. These deposits are similar to money market or bank deposits and can be placed 'at call' or for a fixed term. For fixed term deposits, the interest rate payable by respective banks is negotiated initially and is fixed for the term of the deposit, while the interest rate payable on at call deposits may vary.

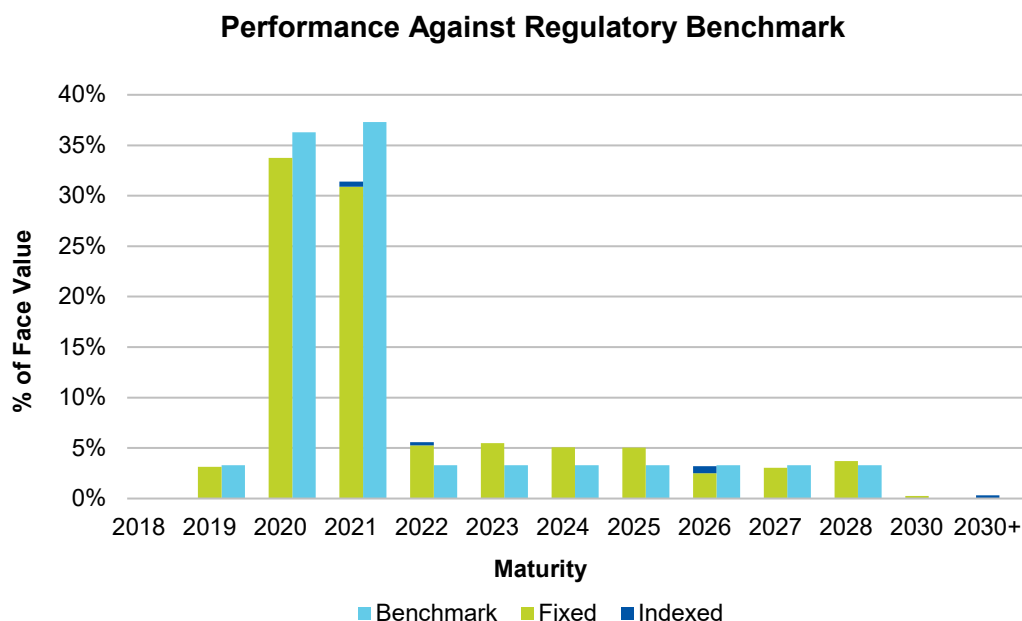
At 30 June 2018 WaterNSW had \$18.0 million invested in at-call deposits with TCorp's Hour-Glass cash facilities. Performance of these investments is detailed below.

	1 year	3 year	5 year	7 year
Actual performance	1.99	2.28	2.50	3.01
Benchmark performance	1.78	1.95	2.22	2.73
Variance	0.21	0.33	0.27	0.28

The weighted average interest rate earned on fixed term deposits was 2.45% on a weighted average balance of \$61.25 million from 1 July 2017 to 23 August 2017 when the last term deposit matured.

Liability Management Performance

WaterNSW has a Treasury Risk Management Policy to monitor and control our liability exposure. The key risks monitored by the policy are interest rate repricing risk, debt mix risk and liquidity limits.



Disposal of Land

WaterNSW did not dispose of any land in 2017-18.

Economic Factors Affecting Performance

There were no economic factors that affected the achievement of WaterNSW's objectives.

External Production Costs

No external costs were incurred in the production of this report.

Funds Granted to Non-Government Community Organisations

There were no funds granted to non-government community organisations.

Appendix 7 Risk Management

Risk

WaterNSW continued to implement its Risk Management Framework which provides a basis for consistently managing risk in order to support the achievement of the organisations objectives. The framework reflects ISO 31000:2009, the International Risk Management Standard and the NSW Treasury Policy TPP09-05 Internal Audit and Risk Management.

An annual risk review has identified the following top risks for WaterNSW, which are managed at the Executive level and covers Strategic and Operational risks.

Objectives	Risk Description
Prepare for the future	Failure to develop and deliver a successful strategy
Deliver reliable operational performance	Failure to protect the declared catchment
	Failure to provide adequate supply of water
	Failure to operate the system to deliver water
	Failure to facilitate water transactions to customers
	Failure to keep our people safe
	Failure to act commercially and be financially responsible
	Failure to demonstrate environmental and social responsibility
Respond to risk events	Failure to maintain a resilient business

Insurance

WaterNSW has a comprehensive insurance program as part of our risk management strategy. The insurance program is reviewed regularly to ensure it effectively addresses current and future risks.

Water uses the Treasury Managed Fund (TMF) to provide cover for all general insurance (Public Liability, Property, CTP and worker's compensation) as per current NSW legislation. Insurance for Directors and Officers and Statutory Liability is sourced from the open market through Marsh as our broker.

Compliance Checklist

Requirement	Legislative Reference	Reporting Requirement for Statutory Bodies	Annual Report Reference
Access	ARSBR Sch.1	<ul style="list-style-type: none"> Address of principal office/s Telephone number of principal office/s Business & service hours 	Back cover
Additional matters for inclusion in annual reports	ARSBR c8	<ul style="list-style-type: none"> After balance date events having a significant effect in succeeding year on: <ul style="list-style-type: none"> Financial operations Other operations Clientele/community served Total external costs (such as fees for consultants and printing costs) incurred in the production of the report. The website at which the report may be accessed (or the statutory body's website). 	Financial Statements Appendix 6 Back cover
Aims and objectives	ARSBR Sch.1	<ul style="list-style-type: none"> What agency sets out to do Range of services provided Clientele/community served 	Page 6
Budgets	ARSBA s7(1)(a)(iii) ARSBR c7(1)	<ul style="list-style-type: none"> Detailed budget for the year reported on Outline budget for following year 	Page 19
Charter	ARSBR Sch.1	<ul style="list-style-type: none"> Manner in which and purpose for which agency was established Principal legislation under which statutory body operates 	Page 6
Consultants	PM 2002-07 ARSBR Sch.1	<ul style="list-style-type: none"> For each engagement costing equal to or greater than \$50,000: <ul style="list-style-type: none"> Name of consultant Title of project (shown in a way that identifies the nature of the work) Actual costs For engagements costing less than \$50,000: <ul style="list-style-type: none"> Total number of engagements Total cost Categorised by the nature of the consultancy, such as: Finance and accounting/tax; Information Technology; Legal; Management Services; Environmental; Engineering; Organisational Review; Training Or a statement that no consultants used 	Appendix 6
Consumer Response	ARSBR Sch.1	<ul style="list-style-type: none"> Extent and main features of complaints Services improved/changed in response to complaints/suggestions 	Appendix 5
Economic or other factors	ARSBR Sch.1	<ul style="list-style-type: none"> Affecting achievement of operational objectives 	Appendix 6
Exercise of regulatory functions	WNSWA s61	<ul style="list-style-type: none"> Report annually on the exercise of any regulatory functions 	Appendix 3
Financial Statements	ARSBA s7(1)(a) (i) -(iia)	<ul style="list-style-type: none"> Inclusion of Financial Statements Controlled Entities' Financial statements Audit Opinion on Financial Statements Response to significant issues raised by Auditor-General 	Financial Statements
Funds granted to non-government community organisations	PM 91-34 ARSBR Sch.1	<ul style="list-style-type: none"> Name of recipient organisation Amount of grant Program area as per Budget paper Program as per Budget paper Nature & purpose of the project including aims and target clients 	Appendix 6

Requirement	Legislative Reference	Reporting Requirement for Statutory Bodies	Annual Report Reference
Government Information (Public Access) Act 2009	GIPAA s125(4), (6) GIPAAR c7, Sch 2; c12, Sch 3	<ul style="list-style-type: none"> Details of the agency's review under s7(3) of the Act during the year and details of any information made publicly available as a result of the review Total number of access applications received during the year (including withdrawn applications but not including invalid applications) Total number of access applications received that agency refused, either wholly or in part, because the application was for disclosure of information for which there is conclusive presumption of overriding public interest against disclosure Statistical information as described in Schedule 2 Each agency referred to in Schedule 3 of the Regulation (subsidiary agency) is declared to be part of and included in the parent agency specified in Schedule 3. 	Appendix 4
Human resources	ARSBR Sch.1	<ul style="list-style-type: none"> Number of officers and employees by category & compare to prior three years Exceptional movements in wages, salaries or allowances Personnel policies & practices Industrial relations policies & practices 	Appendix 2
Implementation of Price Determination	IPARTA s18(4)	If agency subject to determination or recommendation of Tribunal then: <ul style="list-style-type: none"> Statement that it was implemented and details of implementation; or Reasons for not being implemented. 	Appendix 3
Investment performance	ARSBR c10; TC 17/02	<ul style="list-style-type: none"> In the form of a comparison with a choice of "Hour Glass Investment Facilities" from Treasury Corporation Choice of comparison based on nature and term of underlying liability Stated in terms of annual compound percentage rate of return 	Appendix 6
Land Disposal	ARSBR Sch.1	<ul style="list-style-type: none"> If value greater than \$5,000,000 & not sold by public auction or tender <ul style="list-style-type: none"> list of properties for each case, name of person who acquired the property & proceeds Details of family or business association between purchaser & person responsible for approving disposal Reasons for the disposal Purpose/s for which proceeds were used Statement that access to documents relating to the disposal can be obtained under the Government Information (Public Access) Act 2009. 	Appendix 6
Legal change	ARSBR Sch.1; ARSBA s9(1)(f)	<ul style="list-style-type: none"> Changes in Acts and subordinate legislation Significant judicial decisions affecting agency or users of its services 	Appendix 3
Letter of submission	ARSBA s9A	<ul style="list-style-type: none"> Stating report submitted to Minister for presentation to Parliament Provisions under which report prepared If applicable, length of lateness in submitting report and reasons If no application for extension, reasons for lateness and lack of application To be signed by two members of statutory body or, if without members, by the CEO 	Page 2
Liability management performance	ARSBR c11; TC 17/02	<ul style="list-style-type: none"> Only if debt is greater than \$20m In the form of a comparison, details of agency's liability portfolio performance versus benchmark Benchmark is notional portfolio constructed as risk neutral per Treasurer 	Appendix 6

Requirement	Legislative Reference	Reporting Requirement for Statutory Bodies	Annual Report Reference
Management and structure	ARSB Sch.1	<ul style="list-style-type: none"> Names of members and their qualifications Method and term of appointment of board members Frequency of meetings and members' attendance at meetings Names, offices and qualifications of senior officers Organisation chart indicating functional responsibilities 	Appendix 1
Management and activities	ARSB Sch.1	<ul style="list-style-type: none"> Describe nature and range of activities If practicable, qualitative and quantitative performance measures showing efficiency and effectiveness Nature and extent of internal and external performance reviews conducted and resulting improvements in achievements Benefits from management and strategy reviews Management improvement plans and achievements reaching previous targets Major problems and issues which arose Major works in progress, cost to date, dates of completion, significant cost overruns or delays / amendments / deferrals / cancellations 	Page 6
Numbers and remuneration of senior executives	ARSB c12 PSC Circular 2016-05	<ul style="list-style-type: none"> Number of senior executives employed at the end of the reporting year broken down by band and then gender within each band, compared with the numbers at the end of the previous reporting year Average total remuneration package of senior executives in each band at the end of the reporting year, compared with the average at the end of the previous reporting year The percentage of total employee-related expenditure in the reporting year that relates to senior executives, compared with the percentage at the end of the previous reporting year 	Appendix 1
Payment of Accounts	TC 11/21 ARSB Sch.1	<ul style="list-style-type: none"> Details of performance in paying accounts for each quarter: <ul style="list-style-type: none"> 0-30, 30-60, 60-90 and 90+ \$ amounts Target %, actual % and \$ for on time Total dollar amount paid in quarter (Can use proper sampling techniques) Details of action taken to improve performance 	Appendix 6
Performance targets	SOCA s24A	<ul style="list-style-type: none"> Identify departures from performance targets (including financial targets) set out in the Statement of Corporate Intent. Set out reasons for departures from performance targets. 	Page 18
Promotion	ARSB Sch.1	<ul style="list-style-type: none"> Overseas visits by employees and officers with main purposes highlighted 	Appendix 2
Public Interest Disclosures (PID)	PIDA s31, PIDR c4, PM2013-13	<p>Separately report on:</p> <ul style="list-style-type: none"> PIDs made by public officials in performing their day to day functions as public officials PIDs not covered above that are made under a statutory or other legal obligation All other PIDs. <p>For each PID, a public authority should disclose:</p> <ul style="list-style-type: none"> Number of public officials who have made a PID to the public authority Number of PIDs received by the public authority in total and the number of PIDs relating to each of the following: <ul style="list-style-type: none"> corrupt conduct maladministration serious and substantial waste of public or local government money government information contraventions local government pecuniary interest contraventions Number of PIDs finalised Whether the public authority has a PID policy in place <p>Actions taken to ensure staff awareness responsibilities under s6E(1)(b) of the PIDA have been met.</p>	Appendix 4

Requirement	Legislative Reference	Reporting Requirement for Statutory Bodies	Annual Report Reference
Risk management and insurance activities	ARSB Sch.1	<ul style="list-style-type: none"> Report on the risk management & insurance arrangements and activities affecting the agency. 	Appendix 7
Summary review of operations	ARSB Sch.1	<ul style="list-style-type: none"> Narrative summary of significant operations Financial and other quantitative information for programs or operations 	Page 10
Time for Payment of Accounts	ARSB Sch.1; TC 11/21	<ul style="list-style-type: none"> Where interest was paid due to late payments, list of instances and reasons for delay which caused late payment. 	Appendix 6
Work Health and Safety (WHS)	ARSB Sch.1 ARSB c18 TC 15/18	<ul style="list-style-type: none"> Statement setting out WHS performance Details of injuries and prosecutions under the Work Health and Safety Act 2011 	Appendix 2
Workforce diversity	PSC Circular 2014-09 ARSB Sch.1	<ul style="list-style-type: none"> Statistics for both the representation and distribution of employees in diversity groups, in the same format as the report provided to each agency by the Public Service Commission. Workforce diversity achievements during the reporting year and the key workforce diversity strategies proposed for the following year. 	Appendix 2

Key to References

ARSBA	Annual Reports (Statutory Bodies) Act 1984
ARSB	Annual Reports (Statutory Bodies) Regulation 2015
GIPAA	Government Information (Public Access) Act 2009
GIPAAR	Government Information (Public Access) Regulation 2009
IPARTA	Independent Pricing and Regulatory Tribunal Act 1992
PIDA	Public Interest Disclosures Act 1994
PIDR	Public Interest Disclosures Regulation 2011
PC	Premier's Circular
PM	Premier's Memorandum
PSC	Public Service Commission
PFAA	Public Finance & Audit Act 1983
SOCa	State Owned Corporations Act 1989
TC	Treasury Circular
TD	Treasurer's Direction
TPP	Treasury Policy Paper
WNSWA	WaterNSW Act 2014

Access

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