

Annual Report

2014-15



The Hon Gladys Berejiklian MP
Treasurer and Minister for Industrial Relations
52 Martin Place
SYDNEY NSW 2000

The Hon Dominic Perrottet MP
Minister for Finance, Services and Property
52 Martin Place
SYDNEY NSW 2000

Dear Shareholders

2014-15 Annual Report of WaterNSW

We are pleased to submit the 2014-15 Annual Report of WaterNSW 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 blue ink, appearing to read "Terry Charlton".

Terry Charlton
Chairman

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

David Harris
Chief Executive Officer

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Report from Chairman and Chief Executive Officer



Terry Charlton
Chairman



David Harris
Chief Executive
Officer

This is the inaugural annual report for WaterNSW and documents the beginning of a new era of bulk water supply management across NSW. On 1 January 2015, WaterNSW was formed by merging the Sydney Catchment Authority (SCA) with State Water Corporation. This legislated process created a single organisation responsible for managing raw water supply across the State.

WaterNSW is Australia's largest water supplier and NSW's major supplier of raw water. The organisation delivers raw water from our 42 large dams, pipelines and the State's rivers to regional towns, irrigators, Sydney Water and other licensed authorities, retail suppliers and councils. In addition we develop infrastructure solutions for water supply security and reliability. WaterNSW also promotes improvements in achievable water quality standards and contributes to the protection of public health and the environment through enhanced catchment protection practices in declared catchments. WaterNSW will continue to deliver on stringent NSW Government water quality standards and catchment protection for the Sydney drinking water catchment. Specialist staff manage 42 major dams across NSW. WaterNSW delivers water from dams, pipelines and the State's rivers for agricultural and urban water users. In fact, two-thirds of water used in NSW is supplied by WaterNSW.

While the WaterNSW entity was officially launched on 1 January 2015, work had been underway since March 2014 to align SCA and State Water. From July 2014 staff were already working closely together to identify and integrate processes and systems fit for the new organisation.

Throughout this process organisation reform has focussed on creating a stronger organisation with shared knowledge, expertise and unique skills to meet the increasing challenges of water management and water infrastructure. During this period, a new and comprehensive Strategic Action Plan (SAP) was developed to support achievement of our corporate Strategic Objectives. The SAP is a three-year transformation program for the business. Achievement of the SAP goals will deliver the Government's vision of an efficient, customer focused and commercially minded bulk water utility.

Importantly, the organisation integration was conducted in parallel with the delivery of core business functions of the new WaterNSW business. In 2014-15, WaterNSW delivered water in the quantities and timeliness required by its customers 100% of the time. In the rural area of operations, more than 3,776 gigalitres (GL) of water was delivered to licensed customers and the environment along regulated river systems in regional NSW. The largest recipient in 2014-15 was the Murrumbidgee valley (approximately 2,309 GL), followed by almost 1,282 GL in the Murray (NSW). In the Greater Sydney area of operations, 516 GL of water was delivered to the largest customer in the Sydney region – Sydney Water Corporation. In addition, the water supplied for treatment met the quality standard specified in the Raw Water Supply Agreement and complied with health guidelines.

In 2014-15, WaterNSW continued to invest in its assets to ensure that its water supply infrastructure meets current and future needs. Capital works to the value of \$69 million were delivered across the rural and Greater Sydney areas, with a large part of the expenditure directed towards ensuring that WaterNSW dams meet contemporary safety standards.

Another key operational highlight for the period was the program to identify and provide an emergency water supply to the far west communities in the Broken Hill region. The program is a complex suite of projects which incorporate the project management and river operations expertise of the former State Water with the specialist water quality skills in the SCA.

2014-15 was an exciting new beginning for WaterNSW. We extend our sincere gratitude to the Board for their valuable contribution, as well as the executive management team and staff in WaterNSW for their hard work throughout what has been an exciting and challenging period. We look forward to building upon the achievements of the past year and delivering on the vision of WaterNSW as a world-class bulk water supplier.



Terry Charlton
Chairman



David Harris
Chief Executive Officer

About WaterNSW

WaterNSW is Australia's biggest water supplier and the major supplier of raw water in NSW. It delivers raw water from 42 large dams, pipelines, canals and the State's rivers. It ensures that the water supplied is reliable and, where that water is to be used by end use customers for drinking, it meets relevant water quality standards.

WaterNSW plans water infrastructure solutions to water supply and reliability issues and then develops, operates and maintains that infrastructure. WaterNSW also promotes improvements in achievable water quality standards and contributes to the protection of public health and the environment through enhanced catchment protection practices in declared catchments.

Mission

To provide service to our customers and to the people of NSW by:

- Managing and developing raw water infrastructure;
- Promoting improvements in achievable water quality standards and supplying raw water to those standards;
- Contributing to the protection of public health and the environment through enhanced catchment protection practices in declared catchments;
- Developing the capability of our people; and
- At all times acting safely, operating efficiently and exercising sound commercial judgement.

Objectives

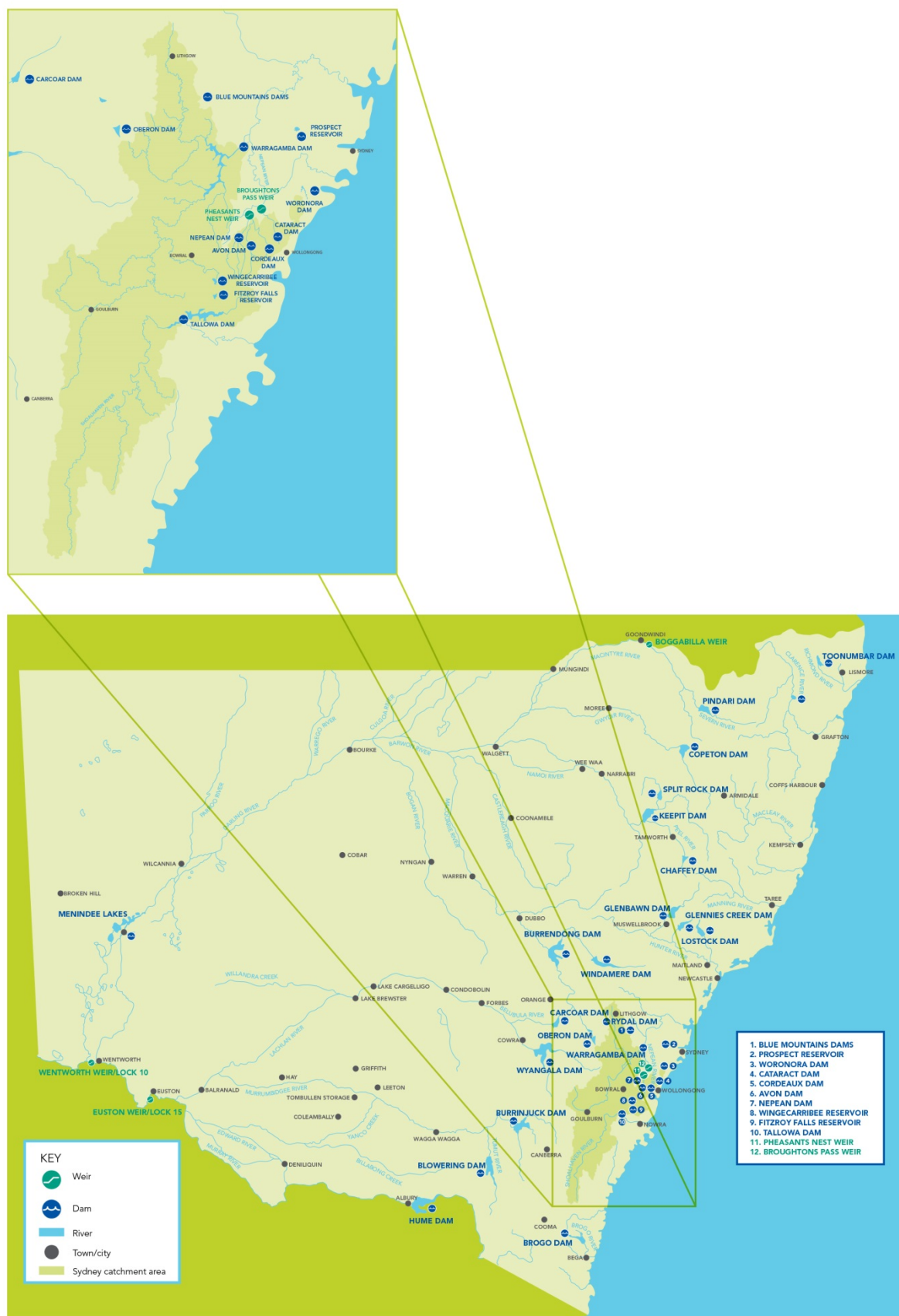
WaterNSW is subject to the *State Owned Corporations Act 1989*. Its principal objectives are enshrined in the enabling legislation *Water NSW Act 2014*. These objectives provide the starting point in the development of our strategy:

- **Infrastructure Solutions:** to provide for the planning, design, modelling and construction of bulk water infrastructure;
- **Water Quality:** to supply water in compliance with appropriate standards of quality;
- **Catchment Protection:** to protect public health, safety and the environment and provide for the management of designated catchment areas;
- **Act Commercially:** to maintain and operate the works of WaterNSW efficiently in accordance with sound commercial principles; and
- **Efficiency:** to capture, store and release water in an efficient, effective and safe manner.

NSW rural bulk water delivery. WaterNSW maintains, manages and operates major infrastructure to deliver bulk water to licensed water users on the State's regulated rivers. There are about 6,300 customers in 14 regulated river systems. WaterNSW manages and operates 21 dams and more than 280 weirs and regulators to deliver water for town water supplies, industry, irrigation, stock and domestic use, riparian and environmental flows. WaterNSW works closely with water users and Customer Service Committees (CSCs) to set asset management priorities and distribute water efficiently in regulated river valleys.

Greater Sydney supplier of bulk water. WaterNSW captures, stores and supplies quality raw water to Sydney Water Corporation and Shoalhaven, Goulburn-Mulwaree and Wingecarribee councils. There are also approximately 61 small bulk water raw and unfiltered water customers in the greater Sydney area of operations. WaterNSW manages and protects the drinking water catchment areas and maintains a network of 21 dams and other water supply infrastructure for Greater Sydney.

Area of operations



Key Statistics



This year's highlights

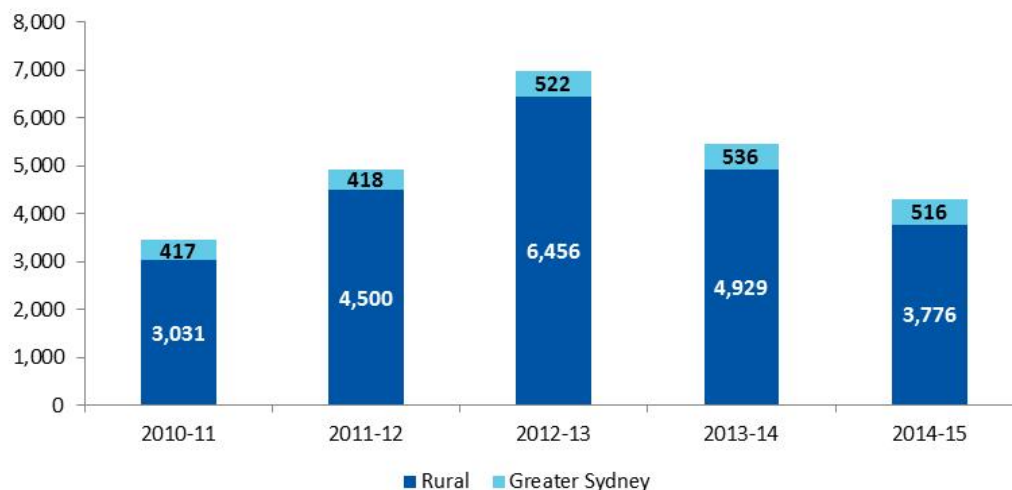
In 2014-15, WaterNSW embarked on a process of transformation to create a new world-class bulk water utility while continuing to deliver water reliably and in the quality expected by its customers. The table below provides a highlight of WaterNSW's key achievements for the year.

Business transformation	On 1 January 2015, WaterNSW commenced and is responsible for managing bulk water supply across most of NSW.
	Commenced the development of an integrated organisational structure. Implementation of the new structure is expected to be completed by December 2015. The new structure will enable us to deliver our objectives in an efficient, effective and customer focused manner.
	A new and comprehensive Strategic Action Plan (SAP) was developed. The SAP is a three-year transformation program. Delivery of the SAP will deliver on WaterNSW's objectives of being an efficient and customer focused water utility.
Focus on safety	Safety is our highest priority. During 2014-15 new, integrated and fit-for-purpose Work Health and Safety Procedures were developed. Implementation of these procedures across all work sites commenced during the year and will continue in 2015-16.
Improving customer value	In June 2015, WaterNSW submitted a price proposal to the Independent Regulatory and Pricing Tribunal (IPART) on the prices for customers in the Greater Sydney region from 1 July 2016. The proposed prices will see the real cost of raw water supply to customers fall by more than 7% in 2016-17. Despite WaterNSW planning to deliver a significantly larger Greater Sydney capital investment program over the next 4 years than the last 4 years, real prices in 2019-20 will still be around 3% lower compared to 2015-16.
Reliable delivery of water	Delivered water in the quantities and time required by its customers 100% of the time.
	Operational losses for the rural system of 3% were lower than the annual target of 5%.
	Met environmental flow requirements 100% of the time.
Quality water	Met the water quality standard in the Raw Water Supply Agreement with Sydney Water 99.95% of the time.
	Water supplied for treatment achieved 100% compliance with health guidelines.
Capital investment	In 2014-15, \$69 million was invested in assets. Significant works completed include: • Prospect Dam Improvement works • Burrendong Dam Safety Upgrade (Auxiliary spillway and gate strengthening) • Keepit Dam Safety Upgrade (Phase 2 – Electrical Upgrade) • Upper Canal Interim Works (Stormwater cross drains, security fencing) • Telemetered metering Phase 1A

Water sales and storages

Water sales

**Water Sales (GL)
2010-11 to 2014-15**



Rural systems

Water sales of 3,776 GL for rural NSW for 2014-15 were well below the 20-year long term average of 4,587 GL. Early season sales were due to high demand in the south, whereas late season sales were well below average due to supply shortage in the north. Usage in both Murray and Murrumbidgee catchments was close to the long term average.

Greater Sydney system

Water sales for Greater Sydney were 516 GL in 2014-15. While sales were 17 GL above forecast, this was 16 GL below sales in 2013-14. The fall in demand was primarily due to wetter and cooler weather conditions compared to 2013-14.

Water storage levels

The table below provides a snapshot of the level of water held in storage at the end of June 2015.

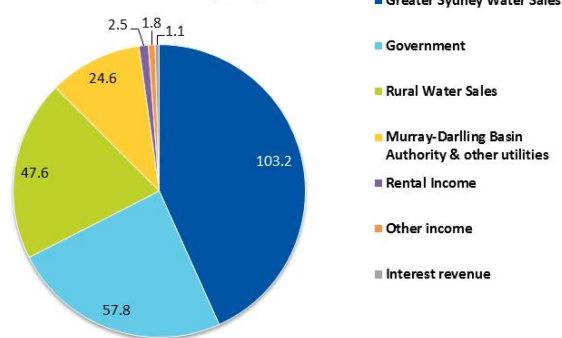
System / Valley	Storage Volume (June 2015)		Storage Change (from last Year)	
	GL	%	GL	%
Warragamba	1,888	93	+ 177	+ 9
Total Urban	2,388	93	+ 270	+ 11
Northern Valleys	482	16	-286	-10
Central Valleys	802	27	-215	-8
Southern Valleys	4,718	41	-2,197	-20
Coastal Valleys	891	83	-1	0
Total Rural	6,894	39	-2,698	-15

Financial outcomes

Financial highlights

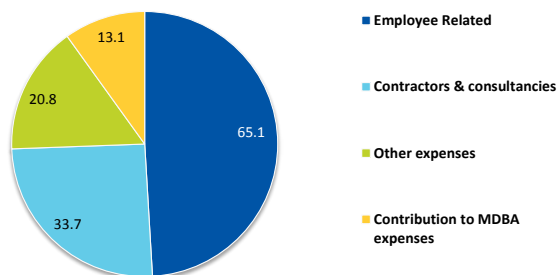
Financial data shown here is consistent with the statutory results in the audited financial statements for WaterNSW, comprising the former State Water Corporation for the full year and the former SCA from 1 January 2015 following the transfer of its assets, liabilities and rights to WaterNSW.

Total income 2014-15 (\$M)



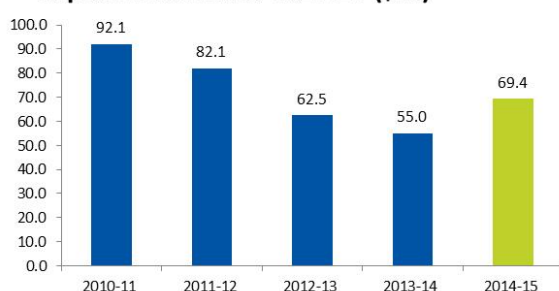
Total Income \$239 million includes \$103.2 million sales to Sydney Water and other smaller customers in the Greater Sydney area in 2015. Rural sales were \$27.8 million lower than the previous year. Revenue from the Murray-Darling Basin Authority & other utilities \$11.7 million lower than the previous year.

Operating expenses 2014-15 (\$M)



On a normalised basis, operating expenses for 2014-15 were \$133 million. Contractors and consultancies were \$10 million lower compared to the State Water level in the prior year.

Capital investment 2014-15 (\$M)



Capital investment for 2014-15 was primarily for dam safety compliance.

Summary financial performance

Financial performance indicators	2010-11 State Water	2011-12 State Water	2012-13 State Water	2013-14 State Water	2014-15 WaterNSW*
Total revenue (\$'000)	135,919	165,131	179,677	170,827	237,471
Operating expenses (\$'000)	93,059	112,672	102,052	101,420	132,766
Devaluation of Property, Plant & Equipment (\$'000)	57	10	22,857	(15,058)	73,168*
Earnings before interest, tax, depreciation and amortisation (EBITDA) (\$'000)	42,803	52,449	54,768	84,465	31,537
Depreciation, amortisation, impairments and loss on asset sales (\$'000)	10,858	11,384	18,534	15,458	59,367*
Net Finance costs (\$'000)	4,122	8,271	8,986	9,671	16,939
Total expenses (\$'000)	108,096	132,337	152,429	111,491	282,240
Net profit before tax (NPBT) (\$'000)	27,823	32,794	27,248	59,336	(44,769)
Income tax expense (\$'000)	7,451	9,339	7,575	17,299	(70,233)
Net profit after tax (NPAT) (\$'000)	20,372	23,455	19,673	42,037	25,464
Capital investment program (\$'000)	92,121	82,101	62,548	54,953	69,370

Explanatory notes

- * On 1 January 2015, all assets, liabilities and rights of the former Sydney Catchment Authority were transferred to State Water Corporation and the entity renamed WaterNSW. The 2014-15 WaterNSW financial outcomes in the table above therefore reflect 12 months of the former State Water results to 30 June 2015 and 6 months of the former Sydney Catchment Authority results from 1 January 2015 to 30 June 2015.
- * Higher operating expenditure for 2014-15 was due to two significant items:
 - o Change in approach to valuation of infrastructure systems and buildings resulted in a reduction in value of \$73.2 million.
 - o a loss on disposal of plant and equipment resulted in the write down of assets of \$23.7 million

Financial performance comparison

The following table provides a comparison of financial performance for the combined Statements of Profit and Loss of the former SCA and former State Water Corporation between 2013-14 and 2014-15.

COMBINED STATEMENTS OF PROFIT & LOSS		
for SCA, State Water/WaterNSW	FY14	FY15
MANAGEMENT ACCOUNTS	\$'000	\$'000
Regulated revenue:		
Sydney Water	203,800	207,127
Other customers	77,752	48,746
Government share	45,530	32,510
Operating Subsidy	1,212	1,093
Non-regulated revenue:	10,666	8,320
State and Commonwealth project revenue:		
Metering	4,314	1,231
Water for rivers	1,059	3,001
Menindee drought works	0.0	2,918
MDBA works	5,083	7,455
Other	20,352	10,916
Revenue	369,766	323,315
Murray Darling Basin Authority recovery:		
Contributions collected	9,103	12,788
Contributions paid	(9,195)	(13,148)
Murray Darling Basin Authority net recoveries	(92)	(360)
Administration	(17,790)	(15,601)
Salary and wages	(75,966)	(72,062)
Other employee related	(5,815)	(5,409)
Contractors	(68,937)	(44,139)
Consultancies	(7,879)	(4,695)
Materials, plant and equipment	(15,224)	(13,691)
Other	(1,095)	(138)
Operating expenditure	(192,705)	(155,733)
Earnings before interest, tax, depreciation and amortisation	176,969	167,222
Depreciation and amortisation	(50,442)	(53,678)
Net financing cost	(39,992)	(31,564)
Profit before tax and non-recurring items	86,534	81,980
Green state power contribution	0.0	7,150
Restructuring	0.0	(9,611)
DTIRIS Service Fee Actuarial Remeasurement	304	(9,903)
Wyangala and Shoalhaven write off	0.0	(35,186)
Fair valued debt expense	0.0	(47,757)
Asset impairment	15,058	(73,168)
Non-recurring items	15,362	(168,474)
Profit before tax	101,896	(86,493)
Tax	(33,969)	79,340
Profit after tax	67,927	(7,154)

Financial Statements



WATER NSW

STATEMENT BY MEMBERS OF THE BOARD

30 JUNE 2015

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 2015 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 the Corporation 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.



Chris Westworth
Director



David Harris
Chief Executive

25 September 2015



INDEPENDENT AUDITOR'S REPORT

Water NSW

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of Water NSW (the Corporation), which comprise the statement of financial position as at 30 June 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2015, 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
- comply with International Financial Reporting Standards as disclosed in Note 2(b).

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

Directors' Responsibility for the Financial Statements

The directors are responsible for preparing financial statements that give a true and fair view 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 of financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In Note 2(b), the directors also state that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

My opinion does not provide assurance:

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

Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and relevant ethical pronouncements. The PF&A Act further promotes independence 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 but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by the possibility of losing clients or income.



David Nolan
Director, Financial Audit Services

1 October 2015
SYDNEY

Water NSW
Statement of comprehensive income
For the year ended 30 June 2015

	Note	WaterNSW 2015 \$'000	State Water 2014 \$'000
Revenue			
Revenue from water supply	4	150,853	75,431
Other revenue	4	87,695	96,150
Revenue		238,548	171,581
Expenses			
Employee related expenses	5	(65,144)	(33,819)
Other operating expenses	6	(126,989)	(83,059)
Finance costs	7	(18,016)	(10,425)
Revaluation of property plant and equipment	13	(73,168)	15,058
Expenses		(283,317)	(112,245)
Profit before income tax		(44,769)	59,336
Income tax equivalent expense	8	70,233	(17,299)
Profit/(loss)		25,464	42,037
Other comprehensive income			
Items will not be reclassified to profit or loss			
Revaluation of property, plant and equipment	13	(15,909)	15,733
Remeasurement of defined benefit superannuation net liability	17	4,785	842
Income tax on other comprehensive income	8	3,374	(4,973)
Other comprehensive income		(7,750)	11,602
Comprehensive income		17,714	53,639
Attributable to equity holders of Water NSW		17,714	53,639

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

Water NSW
Statement of financial position
As at 30 June 2015

	Note	WaterNSW 2015 \$'000	State Water 2014 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	9	81,327	26,915
Trade and other receivables	10	47,188	18,774
Other non-financial assets	11	6,653	5,567
Current assets		135,168	51,256
Non-current assets			
Other non-financial assets	11	-	-
Intangible assets	12	16,134	9,600
Property, plant and equipment	13	2,149,773	794,031
Non-current assets		2,165,907	803,631
ASSETS		2,301,075	854,887
LIABILITIES			
Current liabilities			
Trade and other payables	14	47,319	30,033
Other liabilities	15	39,747	9,707
Borrowings	16	277,248	1,106
Current tax liabilities	8	2,145	-
Provisions	17	40,601	33,440
Current liabilities		407,059	74,286
Non-current liabilities			
Borrowings	16	384,426	157,889
Other liabilities	15	102,000	99,831
Provisions	17	98,495	40,992
Deferred tax liabilities	8	115,768	69,282
Non-current liabilities		700,689	367,994
LIABILITIES		1,107,748	442,280
NET ASSETS		1,193,327	412,607
EQUITY			
Contributed equity		1,063,516	300,510
Retained earnings (accumulated losses)		54,998	24,749
Asset revaluation reserve		74,813	87,348
EQUITY		1,193,327	412,607

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 2015

	Note	Contributed Equity		Retained Earnings		Asset Revaluation Reserve		Total Equity	
		2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Balance at beginning of the period		300,510	300,510	24,749	2,423	87,348	76,335	412,607	379,268
Impact of changes in accounting policies	24			-	-	-	-	-	-
Comprehensive income									
Profit for the period		-	-	25,464	42,037	-	-	25,464	42,037
Revaluation of property, plant and equipment	13	-	-	-	-	(15,909)	15,733	(15,909)	15,733
Remeasurment of defined benefit superannuation liability		-	-	4,785	842	-	-	4,785	842
Income tax on other comprehensive income	8	-	-		(253)	3,374	(4,720)	3,374	(4,973)
Comprehensive income for the year (restated)		-	-	30,249	42,626	(12,535)	11,013	17,714	53,639
Transactions with owners in their capacity as owners									
Increase (decrease) in net assets from equity transfers - Sydney Catchment Authority	19	762,556	-	-	-	-	-	762,556	-
Increase (decrease) in net assets from equity transfers - Green State Power	19	450		-	-	-	-	450	-
Dividend paid or provided for	17	-	-	-	(20,300)	-	-	-	(20,300)
Transactions with owners in their capacity as owners		763,006	-	-	(20,300)	-	-	763,006	(20,300)
Balance at the end of the period		1,063,516	300,510	54,998	24,749	74,813	87,348	1,193,327	412,607

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 2015

	Note	WaterNSW 2015 \$'000	State Water 2014 \$'000
Cash flows from operating activities			
Receipts from customers & other		201,083	131,369
Interest received		1,077	754
Payments to suppliers and employees		(104,082)	(118,072)
Interest and other costs of finance paid		(9,841)	(13,599)
Receipt of grants and subsidies from NSW Government		48,165	52,096
Income tax (paid)/refunds received		(1,002)	-
Net cash from operating activities	9	135,400	52,548
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		1,802	1,196
Proceeds from government grants in respect of property, plant and equipment		-	10,752
Payments for property, plant and equipment		(64,748)	(56,806)
Net cash used in investing activities		(62,946)	(44,858)
Cash flows from financing activities			
Repayment of borrowings		-	-
Proceeds from borrowings		2,258	331
Dividends paid		(20,300)	(24,295)
Net cash used in financing activities		(18,042)	(23,964)
Net increase/(decrease) in cash and cash equivalents			
		54,412	(16,274)
Cash and cash equivalents at beginning of year	9	26,915	43,189
Cash and cash equivalents transferred via equity transfer		-	-
Cash and cash equivalents at end of year	9	81,327	26,915

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

Water NSW

Notes to the financial statements

For the period ended 30 June 2015

1 Reporting entity

Water NSW is a statutory state owned corporation domiciled in Australia and constituted under the *Water NSW Act 2014* (the Act) which commenced on 1 January 2015. Water NSW is a continuation of State Water Corporation (SWC), which continues in existence as a corporation constituted by the Act, but with the new corporate name of Water NSW. The Act also facilitated the transfer of assets, rights and liabilities of the Sydney Catchment Authority (SCA) to Water NSW effective 1 January 2015.

The principal objectives of the Corporation are:

- to capture, store and release water in an efficient, safe and financially responsible manner
- to supply water in compliance with appropriate standards of quality
- to ensure that declared catchment areas and water management works in such areas are managed and protected so as to promote water quality, the protection of public health and public safety, and the protection of the environment
- to provide for the planning, design, modelling and construction of water storages and other water management works
- to maintain and operate the works of Water NSW efficiently and economically and in accordance with sound commercial principles.

The corporation's ultimate parent is the NSW Government. The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

The financial statements of WaterNSW for the year ended 30 June 2015 incorporate the following balances:

- Ex-State Water Corporation income and expenses from 1 July 2014 to 30 June 2015
- Ex-Sydney Catchment Authority income and expenses from 1 January 2015 to 30 June 2015

2 Basis of preparation

a. Going Concern

The financial statements are general purpose financial statements that have been prepared on a going concern basis in accordance with Australian Accounting Standards (which include Australian Accounting Interpretations) of the Australian Accounting Standards Board, International Financial Reporting Standards as issued by the International Accounting Standards Board, mandates issued by NSW Treasury adopted in Water NSW's Statement of Corporate Intent, *the Public Finance and Audit Act 1983 the Public Finance and Audit Regulation 2015* and *the State Owned Corporations Act 1989*.

Under the Debt Management Facility, Water NSW is able to rollover its maturing debt to any term offered by its lender (T-Corp), provided the total capital value of the debt remains within limits approved under the Public Authorities (Financial Arrangements) Act 1987 (Refer Note 23 c). Water NSW also pays a Government Guarantee Fee to NSW Treasury to have its loans guaranteed by the State (Refer Note 7).

The financial statements except for cash flow information have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

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

Notes to the financial statements

For the period ended 30 June 2015

b. Statement of compliance

The financial statements are general purpose financial statements prepared in accordance with:

- Australian Accounting Standards (which include Australian Accounting Interpretations)
- the *Public Finance and Audit Act 1983* and Regulation;
- the *State Owned Corporations Act 1989*; and
- other applicable financial reporting directions issued by the Treasurer
- International Financial Reporting Standards (IFRS)

The financial statements were authorised for issue by the Board on 21 September 2015.

c. Reporting periods

The financial statements cover the period from 1 July 2014 to 30 June 2015. The current year balance of the Water NSW includes income and expenses of Water NSW, being the formerly named SWC for the period 1 July 2014 to 30 June 2015 and income and expenses from the former SCA from the period 1 January 2015 to 30 June 2015. The comparative balances of the Water NSW comprise the formerly named SWC balances and transactions for the period 1 July 2013 to 30 June 2014.

d. Basis of measurement

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

- Non-derivative financial instruments at fair value through profit or loss are measured at fair value
- Property, plant and equipment are measured at fair value
- Borrowings are measured at amortised cost using the effective interest method
- Defined benefit superannuation liabilities are stated at the present value of accrued defined benefit obligations less the fair value of fund assets.
- Long-term provisions are stated at the present value of the future estimated obligation.

e. Fair value

A number of the entity's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The valuation technique used by the entity to measure fair value maximises the use of relevant observable inputs and minimises the use of unobservable inputs. The entity categorises the valuation techniques based on the inputs used in the valuation techniques as follows:

- Level 1: Quoted prices in active markets for identical assets / liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- Level 3: Inputs that are not based on observable market data (unobservable inputs).

The entity recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Notes to the financial statements

For the period ended 30 June 2015

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Water NSW selects valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected are consistent with one of more of the following valuation approaches:

- Market approach: uses prices and other relevant information generated by market transactions involving identical or similar assets or liabilities.
- Income approach: converts estimated future cash flows or income and expenses into a single current, i.e. discounted, value.
- Cost approach: reflects the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risk. When selecting a valuation technique Water NSW gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data, such as publicly available information of actual transactions, and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data are not available and therefore are developed using the best information available about such assumptions are considered unobservable.

Refer to Notes 13(a) and 23 for further disclosures regarding the fair value measurement of financial and non-financial assets and liabilities.

f. Use of estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively in the period in which the estimate is revised. If the revision affects both current and future periods, estimates are recognised in both periods.

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

- Note 8 – Deferred tax assets and deferred tax liabilities
- Note 13: Fair value of property, plant and equipment
- Note 17 - Employee benefits and other provisions, including defined benefit superannuation obligations
- Note 19: Equity transfer following merger at fair value

g. Comparative figures

Certain comparative amounts are sometimes reclassified to conform with the current year's presentation or in the application of a new or revised Australian Accounting Standard. 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 period ended 30 June 2015

h. Changes in accounting policies

Material accounting policies adopted in the preparation of the financial statements are presented in Note 3 and have been consistently applied to all periods in these financial statements unless otherwise stated.

3 Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below.

a. Revenue

Water NSW recognises revenue from the rendering of water delivery 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.

i) 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. Post 30 June 2014 prices for water delivery are subject to price regulation by either IPART or the ACCC, depending upon location of the relevant regulated valley.

ii) Government grants and subsidy 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 recognized 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.

iii) Interest revenue

Interest revenue is recognised using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement*.

iv) 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.

v) 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 period ended 30 June 2015

b. 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 the Office of State Revenue.

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.

i) Current tax.

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.

ii) Deferred tax

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 liabilities and assets, 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.

c. Financial instruments

i) 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 for which are subject to insignificant risk associated with changes in value.

ii) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets 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, less an allowance for any impairment of receivables. Any changes are recognised in profit or loss for the year when impaired, derecognised or through the amortisation process. Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

iii) Impairment of 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.

Notes to the financial statements

For the period ended 30 June 2015

Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the entity 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.

iv) Offsetting financial instruments

Financial instruments are offset and the net amount recognised in the statement of financial position when, and only when, there is a legal right to offset the amounts and there is an intention to either settle on a net basis or to realise the assets and settle the liability simultaneously.

v) Derecognition of financial assets and liabilities

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby Water NSW no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

d. Borrowings

Borrowings 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 measured at amortised costs 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 management intends to defer the settlement, the borrowings are recognised as a non-current liability. All other borrowings are recognised as a current liability.

e. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that it is necessary to complete and prepare the asset for its intended use.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

f. 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.

Notes to the financial statements

For the period ended 30 June 2015

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.

g. Property, plant and equipment

i) Acquisition of property, plant and equipment

All items of property, plant and equipment are initially recognised at the cost of acquisition. Cost is the amount of cash and cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction.

Assets acquired at no cost, or for nominal consideration, are initially recognised at fair value at the date of acquisition (see also assets transferred as a result of an equity transfer – Note 3(m)).

Where payment for an asset is deferred beyond normal credit terms its cost is the cash price equivalent.

Labour and on costs directly attributable to the construction and upgrade of property, plant and equipment (including intangibles) are capitalised to the extent that future economic benefit will arise. Other costs capitalised to the extent that future economic benefits will arise include:

- materials used in construction
- contractors services
- major inspection costs
- estimate of restoration costs
- an appropriate proportion of overheads, except those that are for administration or are general in nature

Construction costs are capitalised initially as work in progress. The costs are subsequently reclassified as completed assets when construction has ended and the asset becomes operational and available for use in the manner intended by management.

ii) 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. All other repairs and maintenance are charged to the profit or loss during the reporting period in which they are incurred.

In respect of major inspections undertaken, 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 de-recognised

iii) Capitalisation thresholds

Thresholds are applied for capitalisation of expenditure according to asset classes as follows:

- Information systems - \$1,000
- Other plant and equipment - \$5,000
- Infrastructure - \$10,000

Notes to the financial statements

For the period ended 30 June 2015

iv) Restoration costs

The estimated cost of dismantling and removing an asset and restoring the site is included in the cost of an asset, to the extent it is recognised as a liability.

v) Revaluation of property, plant and equipment

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.

Also refer to Note 2(e) for further information regarding fair value.

The entity revalues each class of property, plant and equipment that is subject to revaluation, at least every three years or with sufficient regularity to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at reporting date. Revaluations using the income approach are completed annually. Refer Note 13 for further information.

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 no active market, fair value is determined using the income approach detailed in Note 13. Valuation for system assets are carried out annually.

All land assets have been revalued using the market approach within the last 2 years and are assessed annually for comparison to fair value.

Other asset classes with short useful lives are measured at depreciated historical cost, as a surrogate to fair value.

When revaluing assets, any balance of accumulated depreciation at the revaluation date in respect of those assets are credited to the asset accounts to which they relate. The net asset accounts are then increased or decreased by the revaluation increments or decrements.

Revaluation increments are credited directly to the revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement previously recognised as an expense to profit or loss, the increment is recognised immediately as revenue in profit or loss.

Revaluation decrements are recognised immediately as expenses in profit or loss, except that, to the extent that a credit balance exists in the revaluation reserve in which case, the revaluation decrements are debited directly to the revaluation reserve.

vi) 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:

Notes to the financial statements

For the period ended 30 June 2015

Asset class	Useful life
Infrastructure systems	5 to 150 years
Buildings	1 to 100 years
Plant and equipment	2 to 32 years
Vehicles	5 to 15 years
Furniture & fitouts	3 to 15 years
Information systems	2 to 10 years
Water meters	20 years
Intangible assets	
Computer software	3 to 25 years

Land is not a depreciable asset. Work in progress is not depreciable until the assets are brought into service and are available for use. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted where appropriate.

vii) 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 the 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.

Net losses on disposal are reclassified as expenses and all revenue is stated net of the amount of goods and services tax.

h. Intangible assets

Intangible assets are only recognised if it is probable that future economic benefits will flow to the entity and the cost of the asset can be reliably measured. Intangible assets are measured initially at cost. Where an asset is acquired at no or nominal cost, the cost is its fair value as at the date of acquisition.

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

Intangible assets are not revalued as it is considered that their depreciated net carrying amount closely approximates fair market value less costs to sell.

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.

i. 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 sources of information 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.

Notes to the financial statements

For the period ended 30 June 2015

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 the 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.

For property plant and equipment fair value defined consistently with AASB 13. 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. Water NSW considers disposal costs to be negligible and as such revalued assets assessed under the income approach have not had their recoverable amount estimated.

j. Employee benefits

i) Wages and salaries, recreation leave, and associated on-costs

Salaries and wages (including non-monetary benefits) and paid sick leave that are expected to be settled wholly within 12-months after the end of the period in which the employees render the service are recognised and measured at the undiscounted amounts of the benefits.

Recreation leave, which is not expected to be settled wholly before 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*. Market yields on Australian Government bonds are used to discount the recreation leave. The yields match as closely as possible the estimated timing of expected payments. Recreation leave which is expected to be settled wholly within 12 months is not required to be discounted.

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.

ii) Long service leave

The liability for long service leave is measured at present value of the expected future payments to be made to employees under AASB 119 *Employee Benefits*. Market yields on Australian Government bonds are used to discount long-term long service leave. The yields match as closely as possible the estimated timing of expected payments.

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.

iii) Defined contribution superannuation plans

A defined contribution superannuation plan is a post-employment benefit plan which the entity pays fixed contributions into a separate entity but has no legal or constructive obligation to pay any further amounts. Contributions to defined contribution superannuation plans are recognised as an expense in the periods during which services are rendered by employees.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Notes to the financial statements

For the period ended 30 June 2015

iv) *Defined benefit superannuation plans*

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, which comprise actuarial gains or losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) are recognised immediately in the Statement of Other Comprehensive Income. The net interest expense (income) on the net defined benefit liability (asset) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

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.

Assumptions underlying defined benefit superannuation expenses and liability are disclosed in Note 17(a).

v) *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.

k. **Dividend**

The targeted dividend 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 2014-15 financial year has been calculated based on a fixed dollar amount agreed with shareholders.

l. **Other provisions**

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.

Notes to the financial statements

For the period ended 30 June 2015

If the effect of the time value of money 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. The unwinding of the discount is recognised as a finance cost.

When some or all of those economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is only recognised as an asset if it is virtually certain that the reimbursement will be received and the amount of the receivable can be reliably measured.

i) Restorations

A provision for restoration is recognised when there is an obligation to bring premises back to their original state at the end of a lease term. Each estimate is based on the details of the individual property concerned and terms related to the lease.

m. Equity transfers

The transfer of net assets between NSW public sector entities as a result of an administrative restructure are designated as contributions by owners and recognised as an adjustment to contributed equity. This treatment is consistent with the requirements set out in AASB 1004 'Contributions' and Australian Interpretation 1038 'Contributions by Owners Made to Wholly-Owned Public Sector Entities'.

Transfers involving statutory bodies are specifically addressed 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.

As a result of the Water NSW Act 2014, the Sydney Catchment Authority has transferred all of its assets, rights and liabilities to Water NSW, which was formally known as State Water Corporation.

In accordance with the requirements of TPP 09-3: *Contributions by owners made to wholly-owned Public Sector Entities*, all assets and liabilities will be transferred at fair value. The following summarises the fair value adjustments arising directly from the transfer:

	Non-financial assets	Borrowing
Prior to 31.12.14	284	454,129
TPP 09-3 FV adjust	-284	47,757
Values at 01.01.15	-	501,886

Note 19 provides additional information on the equity transfers that have occurred during the reporting period.

n. 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.

Notes to the financial statements

For the period ended 30 June 2015

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.

Payments made under operating leases are recognised in profit or loss on a straight line basis over the lease term. Lease incentives received are recognised as a liability and amortised over the term of lease.

o. Deferred Government Grants

Government grants are recognised at fair value 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 credited to deferred income at fair value and are credited to 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.

p. New standards and interpretations not yet adopted.

The 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. Water NSW's assessment of the impact of those relevant new standards and interpretations is set out below.

i) AASB 9 Financial Instruments and amending standards AASB 2010-7, 2013-9 (Part C), 2014-1 (Part E), 2014-7 and 2014-8

AASB 9 introduces new requirements for the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. Under AASB 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard also introduces a number of additional changes relating to financial liabilities.

The new requirements improve and simplify the approach for financial instruments compared with the requirements of the existing AASB 139. The main changes from AASB 139 are as follows:

- There are only two categories of financial assets instead of four, being amortised cost and fair value through profit or loss (or through other comprehensive income for equity instruments). This eliminates tainting and most of the impairment issues associated with the four categories in AASB 139.
- Financial assets can be reclassified when there is a relevant change in the entity's business model changes, compared to the restrictions on reclassifications under AASB 139.
- Identifying and separating embedded derivatives is not required under AASB 9. Instead, the entire instrument is classified and measured according to one of the two categories.
- AASB 9 requires investments in unquoted equity instruments (and contracts on those investments that must be settled by delivery of the unquoted equity instrument) to be measured at fair value. The cost exemption in AASB 139 has been removed. However, in limited circumstances, cost may be an appropriate estimate of fair value.
- Investments in contractually linked instruments that create concentrations of credit risk (tranches) are now required to be classified and measured using a 'look through' approach. Such an approach looks to the underlying assets generating cash flows and assesses the cash flows against the classification criteria to determine whether the investment is measured at fair value or amortised cost.
- The portion of a change of fair value relating to the entity's own credit risk for financial liabilities measured at fair value utilising the fair value option is presented in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

While these are significant changes to the classification and measurement requirements for financial instruments for many entities, these amendments and the initial application of this standard will have no impact on the financial results of the organisation. The initial application date of this standard as per Part E of Australian Accounting Standard AASB 2014-1

Notes to the financial statements

For the period ended 30 June 2015

'Amendments to Australian Accounting Standards' issued in June 2014 has now further extended the mandatory application date of AASB 9 to annual reporting 2018 .

ii) *AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation [AASB 116 & AASB 138]' (issued August 2014)*

This standard amends Australian Accounting Standards AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets' to:

- establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset;
- clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset; and
- clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

The initial application of this standard will have no impact on the financial results of the organisation. The standard is applicable to annual reporting periods beginning on or after 1 January 2016.

iii) *AASB 15 Revenue from Contracts with Customers*

AASB 15 *Revenue from contracts with customers* (issued in January 2015) is the new comprehensive standard for revenue recognition, replacing AASB 111 *Construction contracts*, AASB 118 *Revenue* and AASB 1004 *Contributions*. It is equivalent to IFRS 15 of the same name issued by the International Accounting Standards Board. It is applicable for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. Specific disclosure exemptions for entities applying Australia's reduced disclosure regime (AASB 1053) have been included (see paragraph 4.5).

The new standard establishes principles, and includes disclosure requirements, for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, based on the international financial reporting standard IFRS 15 *Revenue from Contracts with Customers*.

IFRS 15 addressed concerns that existing revenue standards have led to inconsistencies between entities' reported revenues, principally in relation to when an entity recognises revenue under some long term contracts (e.g. some construction contracts) and contracts that bundle together goods and services (e.g. contracts that bundle a telephone handset with network services). By incorporating the requirements of IFRS 15 into AASB 15, the new Australian standard addresses these issues as they apply to Australia and ensures that financial statements prepared by Australian entities in accordance with Australian accounting standards will remain compliant with international financial reporting standards. The entities that will be most impacted are those that operate in the software and telecommunications services industries.

AASB 15 also includes a cohesive set of disclosure requirements that provide users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

At this stage the organisation has assessed that the standard is not likely to have a major impact.

iv) *AASB 2015-1 Annual Improvements to Australian Accounting Standards*

This Standard make amendments to AASB 1, AASB 2, AASB 3, AASB 5, AASB 7, AASB 11, AASB110, AASB 119, AASB 121, AASB 133, AASB 134, AASB 137 and AASB 140. This standard applies to financials reporting periods beginning on or after 1 January 2016.

AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014* – implements the five changes to four standards that arose from the IASB's Annual Improvements to IFRSs 2012–2014 Cycle, released in September 2014, as well as making other necessary editorial corrections to the AASB's own standards. AASB 2015-1 applies to annual reporting periods beginning on or after 1 January 2016. Consistent with previous

Notes to the financial statements

For the period ended 30 June 2015

improvements projects the amendments are, by their nature, minor and specialised and are deemed unlikely to have a significant impact on most financial statement preparers.

As the changes are minor and specialised it has been assessed at this stage that they will not have a major impact on the financial statements of the organisation.

v) AASB 2015-2 Disclosure Initiative – Amendments to AASB 101

AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 makes amendments to AASB 101 Presentation of Financial Statements that form part of the IASB's Disclosure Initiative project. The changes clarify that entities should not be disclosing immaterial information and that the presentation of information in notes can and should be tailored to provide investors and other users with the clearest story of an entity's financial performance and financial position. It is operative for financial reporting periods ending on or after 1 January 2016 with early adoption permitted.

This standard requires notes to the financial statement to include details on significant accounting policies and other explanatory information.

The organization has at this assessed that this standard will not have a major impact on the financial statements of the organization.

vi) AASB 2015-3 Materiality

AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality – completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards. The AASB decided in 2013 that it should not retain unnecessary local guidance on matters covered by IFRS. Since AASB 1031 was first issued in 2004, the IASB has improved the guidance on materiality contained within the IFRS conceptual framework and further improvement is planned by the IASB as part of its Disclosure initiative. A staged withdrawal of AASB 1031 commenced in late 2013, made necessary because of the extensive nature of the references to it in the board's standards. AASB 2015 -3 applies to annual reporting periods beginning on or after 1 July 2015.

vii) AASB 2015-6 Amendments to AAS – extending Related Party Disclosures to NFP Public Sector Entities (AASB 10, AASB 124 and AASB 1049)

AASB 2015-6 makes amendments to AASB 124 Related Party Disclosures to extend the scope of that Standard to include not-for-profit public sector entities. This Standard also makes related amendments to AASB 10 and AASB 1049, and an editorial correction to AASB 124.

AASB 124 does not presently apply to general purpose financial statements of not-for-profit public sector entities. The AASB noted that the version of AASB 124 issued in December 2009 provides a more appropriate basis for application by not-for-profit public sector entities than earlier versions of the Standard, as transactions between government-related entities of the same jurisdiction are exempted partially from disclosure. Therefore, in furtherance of its policy of promulgating transaction-neutral Standards to the extent feasible, the AASB is amending AASB 124 to require not-for-profit public sector entities to apply the Standard. Not-for-profit public sector entities at all levels of government will now be required to provide related party disclosures in the same way as their for profit counterparts.

No impact on the organisation as a for profit entity and under AASB 124 it already discloses related party transactions.

Notes to the financial statements

For the year ended 30 June 2015

4. Revenue

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Revenue		
Revenue from water supply		
Regulated - Sydney Water	102,555	-
Regulated - Other customers	47,619	75,028
Unregulated	-	403
Other	679	-
Revenue from water sales	150,853	75,431
Other revenue		
Murray-Darling Basin Authority and other utilities	24,580	36,295
NSW Government contributions to operations ²	32,510	45,530
NSW Government transitional operating subsidy ³	1,093	1,212
NSW Government community service subsidy ⁴	500	500
Other Government grants	23,692	8,218
Consultancies	350	-
Rent and conference centre hire	2,486	2,058
Interest revenue	1,077	754
Ancillary services	1,251	1,583
Other	156	-
Other revenue	87,695	96,150
Revenue	238,548	171,581

¹Represents regulated water supply in areas not covered by the Sydney Catchment Authority Water Determination (Published June 2012).

²The NSW Government contributions to operations 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).

³The 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.

⁴The NSW Government provides an additional subsidy for maintenance of unregulated weirs in rivers systems.

Notes to the financial statements

For the year ended 30 June 2015

5. Employee related expenses

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Employee related costs¹		
Employee related expenses (excluding post employee benefits)	61,925	33,927
Post employee benefits	7,513	4,738
	69,438	38,665
Less: Capitalisation of employee related expenses	(4,294)	(4,846)
Employee related expense	65,144	33,819

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Post employment expenses		
Defined benefit plans ²	4,851	2,685
Defined contribution plans	2,662	2,053
	7,513	4,738
Less: Capitalisation of employee related expenses	(55)	(536)
Post employment expenses	7,458	4,202

¹The personnel services arrangement between the former SCA and DTIRIS ceased on 1 January 2015 and all SCA staff and employee entitlements were transferred to Water NSW on that date.

²For further details refer to Note 17.

Notes to the financial statements

For the year ended 30 June 2015

6. Operating expenses

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Operating expenses		
Contractors and consultancies ¹	33,655	43,699
Depreciation	33,143	13,981
Amortisation	2,502	979
Contribution to MDBA expenses ²	13,147	9,195
Capital work in progress written off	240	2,359
Electricity and other energy expenses	1,403	978
Operating lease expenses	1,448	1,127
Grants	959	-
Data Management expenses	2,450	700
Licence Fees	1,436	-
Materials, plant and equipment	2,426	1,987
Property	2,965	2,243
Transport and travel	3,246	2,664
Other expenses from ordinary activities	4,245	2,546
Loss on disposal of property, plant and equipment	23,722	498
Impairment - Receivables	2	103
Operating expenses	126,989	83,059

¹Contractors and consultancies were recorded as operational services expenses during previous year.

²Contribution to MDBA expenses refers to a proportion of revenue from water charges to bulk water customers located within the area of operations of the MDBA, which is passed on to NSW Treasury to help meet the NSW Government's obligations under the Murray-Darling Basin Agreement to directly fund a proportion of the operating costs and States' share of capital costs of the MDBA.

Reconciliation of total maintenance expenses

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Employee-related maintenance expenses	6,758	5,728
Contracted labour and other (non-employee related) expenses	12,178	7,895
Total maintenance expenses	18,936	13,623

NSW Treasury Guidelines for Capitalisation of Expenditure on Property, Plant and equipment (TPP 06-6) 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 2015

7. Finance costs

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Finance costs		
Interest expense on loans	17,360	9,345
Government guarantee fee	6,359	3,876
Other borrowing costs	(1,518)	(39)
Fair value adjustment to borrowings ²	-	-
Unwinding of discounts on provisions	11	14
	22,212	13,196
Less: Borrowing costs capitalised ¹	(4,196)	(2,771)
Finance costs	18,016	10,425

¹The capitalisation rate applied for the year ended 30 June 2015 was 7.5%. (2014:8.05%).

8. Income tax

Note: on formation of WaterNSW on 1 January 2015, \$129.740 million of carried forward tax losses relating to the accelerated depreciation of regional irrigation assets of State Water Corporation continued to exist. These unutilised tax losses were not recognised in State Water Corporation's 2013-14 Financial Statements due to the absence of probable future taxable profit. Further tax losses from accelerated depreciation of Rural assets are expected to continue to accrue to WaterNSW for the next 2 years. WaterNSW will ensure that these tax losses, which were generated solely from Rural assets, will be applied solely for the benefit of Rural customers. This will be achieved by including these tax losses in Rural pricing submissions to the independent regulator.

Income tax expense recognised in the statement of comprehensive income

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Current tax expense		
Current tax expense relating to current financial year	12,799	-
Adjustment for prior year in relation to accrual deductions	-	-
Tax effect of under / overs in prior year	-	-
Deferred tax expense		
Origination and reversal of temporary differences	(83,032)	17,299
Income tax equivalent (benefit) expense	(70,233)	17,299

Notes to the financial statements

For the year ended 30 June 2015

8. Income tax (continued)

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

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Profit (loss) before tax	(44,769)	59,336
Income tax expense using statutory rate of 30 percent	(13,431)	17,800
Effect of:		
Non-deductible expenses	100	10
Other temporary differences	115	-
Government grant tax ruling ¹	(20,463)	
Under / (over) provided in prior years	1,125	-
Effect of tax exempt income	(7)	-
Utilisation of previously unbooked tax losses	(37,672)	(511)
Income tax equivalent (benefit) expense	(70,233)	17,299

¹ During the year, Water New South Wales obtained a tax ruling from the Australian Tax Office in relation to when Government grants were assessable for income tax. Grants are now assessed when the expenditure to acquire or construct the asset to which the grant relates is incurred rather than when received. Consequently an income tax benefit and deferred tax asset have been recorded this year as part of the remeasurement of the deferred tax base of government grants.

Income tax recognised in other comprehensive income

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Income tax recognised directly to equity		
Asset revaluation reserve	4,728	(4,720)
Defined benefit super actuarial gain/(loss) recognised in retained earnings	(1,354)	(253)
Income tax recognised directly to equity	3,374	(4,973)

Notes to the financial statements

For the year ended 30 June 2015

8. Income tax (continued)

Current tax liabilities

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Current tax liabilities	2,145	-
Current tax liabilities	2,145	-

Deferred tax balances

	Opening balance \$'000	Recognised in income \$'000	Recognised in equity \$'000	Closing balance \$'000
WaterNSW				
30 June 2015				
Temporary differences				
Property, plant and equipment	(85,836)	21,704	4,728	(59,404)
Investments	-	4,925	-	4,925
Other creditors	348	(14,089)	-	(13,741)
Employee benefits	4,062	101	-	4,163
Leased premises	166	407	-	573
Defined benefit super	12,059	729	(1,354)	11,434
Allowance for impairment of receivables	108	-	-	108
Deferred government grants	1,012	30,693	-	31,705
Prior year SD40F	(6,359)	0	-	(6,359)
Other - Transfer from former SCA ¹	-	-	(120,090)	(120,090)
Other - Provisions and accruals	-	3,670	-	3,670
	(74,440)	48,141	(116,716)	(143,015)
Unused tax losses and credits				
Tax losses	5,158	22,089	-	27,247
Deferred tax balance	(69,282)	70,230	(116,716)	(115,768)

Notes to the financial statements

For the year ended 30 June 2015

8. Income tax (continued)

Deferred tax balances (continued)

State Water	Opening balance \$'000	Recognised in income \$'000	Recognised in equity \$'000	Closing balance \$'000
30 June 2014				
Temporary differences				
Property, plant and equipment	(61,796)	(19,320)	(4,720)	(85,836)
Investments	29	(29)	-	-
Other creditors	354	(6)	-	348
Employee benefits	3,877	185	-	4,062
Leased premises	210	(44)	-	166
Defined benefit super	11,858	454	(253)	12,059
Allowance for impairment of receivables	79	29	-	108
Deferred government grants	2,150	(1,138)	-	1,012
Prior year SD40F	(6,359)	-	-	(6,359)
Oracle software licences	(16)	16	-	-
	(49,614)	(19,853)	(4,973)	(74,440)
Unused tax losses and credits				
Tax losses	2,604	2,554	-	5,158
				-
Deferred tax balance	(47,010)	(17,299)	(4,973)	(69,282)

¹TPP 09-3 requires that assets and liabilities transferred between public sector entities through equity be reflected in the books of both the transferee and transferor at their fair value to the transferee, i.e. Water NSW. Final accounts of dissolved entity (SCA) have recognised deferred tax assets and liabilities reflecting the fair value of these assets and liabilities to Water NSW. This is based on the fact that the SCA's tax bases have been transferred in their entirety to Water NSW, and that it will benefit from, and be liable for, the reversal of these timing differences in the future. Refer note 19 for further details of the equity transfer.

There were no deferred tax assets that were unrecognised during the current reporting period (2014: \$62.170 million).

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

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Deferred tax liabilities	(115,768)	(69,282)
Deferred tax liabilities	(115,768)	(69,282)

Notes to the financial statements

For the year ended 30 June 2015

9. Cash and cash equivalents

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Cash and cash equivalents		
Cash at bank and on hand	40,239	13,526
NSW Treasury Corporation Hour Glass (Cash) Facility	41,088	13,389
Cash and cash equivalents	81,327	26,915

Refer to Note 23 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.

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	81,327	26,915
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Reconciliation of profit after tax to net cash from operating activities in the statement of cash flows

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Profit (loss) after tax	25,464	42,037
Depreciation and amortisation and fair value adjustment through profit and loss	108,813	(98)
Loss on disposal of property, plant and equipment	23,722	498
Superannuation movements direct to equity	4,785	842
Income tax movements direct to equity	-	(4,973)
Capitalised borrowing costs disclosed as operating cash flow	(4,195)	(2,771)
Capital work in progress written off	240	2,359
Government grants received for capital projects	-	(10,752)
Capital prepayments	-	2,682
Trade and other receivables	7,916	2,472
Other Assets	-	-
Trade and other payables	17,286	(2,020)
Other liabilities	-	-
Provisions	-	-
Income tax assets and liabilities	(48,631)	22,272
Net cash from operating activities	135,400	52,548

Notes to the financial statements

For the year ended 30 June 2015

10. Trade and other receivables

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Trade and other receivables		
Trade receivables	45,937	17,847
Less: Allowance for impairment	(370)	(360)
Trade receivables	45,567	17,487
Other receivables	1,621	1,287
Trade and other receivables	47,188	18,774

Movements in the allowance for impaired receivables

	Note	WaterNSW 2015 \$'000	State Water 2014 \$'000
Allowance for impairment in trade receivables			
Carrying amount at the beginning of the year		360	262
Allowance for impairment recognised on equity transfer	19	9	-
Amount used		(2)	(3)
Additional provisions		3	101
Carrying amount at the end of the year		370	360

Details regarding credit risk, liquidity risk and market risk, including financial assets that are either past due or impaired, are disclosed in Note 23.

Notes to the financial statements

For the year ended 30 June 2015

11. Other non-financial assets

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Other current non-financial assets		
Lease incentives	1,275	-
Prepaid expenses	5,373	5,560
Other	5	7
Other current non-financial assets	6,653	5,567
Other non-current non-financial assets		
Lease incentives	-	-
Other non-current non-financial assets	-	-

12. Intangible assets

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Cost (gross carrying amount)	29,146	16,117
Accumulated amortisation and impairment	(13,012)	(6,517)
Net carrying amount	16,134	9,600

		WaterNSW 2015 \$'000	State Water 2014 \$'000
Software	Note		
Net carrying value at the beginning of the year		9,553	2,267
Software recognised on equity transfer	19	3,723	-
Additions		5,313	8,265
Amortisation		(2,502)	(979)
Net carrying amount at the end of the year		16,087	9,553

		WaterNSW 2015 \$'000	State Water 2014 \$'000
Easements and Development costs	Note		
Net carrying value at the beginning of the year		47	47
Software recognised on equity transfer	19	-	-
Additions		-	-
Amortisation		-	-
Net carrying amount at the end of the year		47	47

Notes to the financial statements

For the year ended 30 June 2015

13. Property, plant and equipment

	Work in Progress \$'000	System assets - infrastructure \$'000	System assets - water meters \$'000	System assets - buildings \$'000	Land \$'000	Plant & Equipment ¹ \$'000	Motor Vehicles \$'000	Furniture & Fitouts \$'000	Information Systems \$'000	Total \$'000
At 1 July 2014 - Fair value										
Gross carrying amount	76,471	560,429	17,889	2,892	123,626	3,581	6,012	850	2,281	794,031
Accumulated depreciation and impairment	-	-	-	-	-	-	-	-	-	-
Carrying value at the beginning of the period	76,471	560,429	17,889	2,892	123,626	3,581	6,012	850	2,281	794,031
At 30 June 2015 - Fair value										
Gross carrying amount	84,706	1,976,389	-	-	184,096	27,289	9,924	3,373	5,718	2,291,495
Accumulated depreciation and impairment	-	(131,873)	-	-	-	(6,773)	(1,013)	30	(2,093)	(141,722)
Carrying value at the end of the period	84,706	1,844,516	-	-	184,096	20,516	8,911	3,403	3,625	2,149,773

	Work in Progress \$'000	System assets - infrastructure \$'000	System assets - water meters \$'000	System assets - buildings \$'000	Land \$'000	Plant & Equipment ¹ \$'000	Motor Vehicles \$'000	Furniture & Fitouts \$'000	Information Systems \$'000	Total \$'000
At 30 June 2015										
Carrying value at the beginning of the year	76,471	560,429	17,889	2,892	123,626	3,581	6,012	850	2,281	794,031
Assets recognised on equity transfer	19,308	1,296,337	-	38,126	60,345	17,369	2,903	2,727	2,244	1,439,359
Additions	69,370	70,000	-	-	125	1,099	3,183	470	335	144,582
Disposals	-	(23,452)	-	-	-	(33)	(2,051)	-	-	(25,536)
Depreciation	-	(28,628)	-	-	-	(1,500)	(1,136)	(644)	(1,235)	(33,143)
Revaluation loss recognised in other comprehensive income	-	(15,909)	-	-	-	-	-	-	-	(15,909)
Revaluation loss in profit or loss	-	(73,168)	-	-	-	-	-	-	-	(73,168)
WIP written off	(240)	-	-	-	-	-	-	-	-	(240)
Transfers and reclassifications	(80,203)	58,907	(17,889)	(41,018)	-	-	-	-	-	(80,203)
Carrying value at the end of the period	84,706	1,844,516	-	-	184,096	20,516	8,911	3,403	3,625	2,149,773

¹In the prior year financial statements, separate asset classes were disclosed for marine craft and scientific instruments. For disclosure purposes these asset classes have been consolidated within Plant and Equipment asset class. There is no change to the overall value of property, plant and equipment as a result of this change.

Notes to the financial statements

For the year ended 30 June 2015

13. Property, plant and equipment (continued)

	Work in Progress \$'000	System assets - infrastructure \$'000	System assets - water meters \$'000	System assets - buildings \$'000	Land \$'000	Plant & Equipment ¹ \$'000	Motor Vehicles \$'000	Furniture & Fitouts \$'000	Information Systems \$'000	Total \$'000
At 1 July 2013 - Fair value										
Gross carrying amount	64,580	4,267,922	23,417	47,306	123,626	8,774	8,255	2,348	5,468	4,551,696
Accumulated depreciation and impairment	-	(3,750,883)	(10,520)	(44,805)	-	(5,557)	(1,724)	(1,140)	(4,423)	(3,819,052)
Carrying value at the end of the year	64,580	517,039	12,897	2,501	123,626	3,217	6,531	1,208	1,045	732,644

At 30 June 2014 - Fair value

Gross carrying amount	76,471	560,429	17,889	2,892	123,626	3,581	6,012	850	2,281	794,031
Accumulated depreciation and impairment	-	-	-	-	-	-	-	-	-	-
Carrying value at the end of the year	76,471	560,429	17,889	2,892	123,626	3,581	6,012	850	2,281	794,031

	Work in Progress \$'000	System assets - infrastructure \$'000	System assets - water meters \$'000	System assets - buildings \$'000	Land \$'000	Plant & Equipment ¹ \$'000	Motor Vehicles \$'000	Furniture & Fitouts \$'000	Information Systems \$'000	Total \$'000
At 30 June 2014										
Carrying value at the beginning of the year	64,580	517,039	12,897	2,501	123,626	3,217	6,531	1,208	1,045	732,644
Additions	54,953	23,989	5,180	391	-	971	1,941	6	1,901	89,332
Disposals	-	(141)	-	-	-	(13)	(1,539)	-	-	(1,693)
Depreciation	-	(10,148)	(1,136)	(153)	-	(594)	(921)	(364)	(665)	(13,981)
Revaluation gain recognised in other comprehensive income	-	15,580	-	153	-	-	-	-	-	15,733
Revaluation gain in profit or loss	-	14,110	948	-	-	-	-	-	-	15,058
WIP written off	(2,359)	-	-	-	-	-	-	-	-	(2,359)
Transfers and reclassifications	(40,703)	-	-	-	-	-	-	-	-	(40,703)
Carrying value at the end of the year	76,471	560,429	17,889	2,892	123,626	3,581	6,012	850	2,281	794,031

¹In the prior year financial statements, separate asset classes were disclosed for marine craft and scientific instruments. For disclosure purposes these asset classes have been consolidated within Plant and Equipment asset class. There is no change to the overall value of property, plant and equipment as a result of this change.

Notes to the financial statements

For the year ended 30 June 2015

13. Property, plant and equipment (continued)

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. An explanation of each level is provided at Note 2(e).

At 30 June 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Land	-	184,096	-	184,096
Infrastructure systems	-	-	1,844,516	1,844,516
Other property, plant and equipment (including intangibles)	-	-	137,295	137,295
	-	184,096	1,981,811	2,165,907

At 30 June 2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Land	-	123,626	-	123,626
Infrastructure systems	-	-	581,210	581,210
Other property, plant and equipment (including intangibles)	-	-	98,795	98,795
	-	123,626	680,005	803,631

The following table presents the changes in Level 2 and 3 items for the year ending 30 June 2015 for recurring fair value measurements:

	Infrastructure systems \$'000	Land \$'000	Other Property, plant and equipment \$'000	Total \$'000
Opening balance at 1 July 2014	581,210	123,626	98,795	803,631
Recognised on equity transfer	1,334,462	60,345	48,274	1,443,081
Additions	70,000	125	79,770	149,895
Depreciation	(28,628)	-	(7,017)	(35,645)
Disposals	(23,452)	-	(2,084)	(25,536)
Other reclassifications and transfers	-	-	(80,203)	(80,203)
Gains (losses) recognised in profit and loss	(73,168)	-	-	(73,168)
Gains (losses) recognised in comprehensive income	(15,909)	-	-	(15,909)
WIP written off	-	-	(240)	(240)
Closing balance at 30 June 2015	1,844,516	184,096	137,295	2,165,907

Notes to the financial statements

For the year ended 30 June 2015

13. Property, plant and equipment (continued)

	Infrastructure systems \$'000	Land \$'000	Other Property, plant and equipment \$'000	Total \$'000
Opening balance at 1 July 2013	532,437	123,626	78,895	734,958
Additions	-	-	56,894	56,894
Depreciation	(11,437)	-	(3,523)	(14,960)
Disposals	(141)	-	(1,552)	(1,693)
Other reclassifications and transfers	29,560	-	(29,560)	-
Gains (losses) recognised in profit and loss	15,058	-	-	15,058
Gains (losses) recognised in comprehensive income	15,733	-	-	15,733
WIP written off	-	-	(2,359)	(2,359)
Closing balance at 30 June 2014	581,210	123,626	98,795	803,631

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

System assets, including infrastructure, buildings and meters, are revalued on an annual basis using the income approach and in accordance with the accounting policy requirements of TPP 14-01 'Valuation of Physical 'Non-Current Assets at Fair Value' (TPP14-1). The valuation was performed internally, based on a comprehensive financial model developed by a third party, and was reviewed by management.

Cash Generating Units (CGUs)

The entity considers it has two CGUs, reflecting the segmented asset bases, customers and pricing determinations (revenue streams) of the Water NSW Greater Sydney (former Sydney Catchment Authority) and Water NSW Rural (former State Water Corporation) business segments.

Prior Year Income Approach

In the prior reporting period State Water Corporation (now Water NSW) used an income approach model based upon a discounted cash flow methodology. This approach was applied against a single CGU, being the entity as a whole. The key assumptions of the model included:

- Discount rate - real pre tax WACC of 4.26% p.a
- Future cash flows - determined on a real basis
 - estimated over 52 years based on SCI values, referenced to the average life of assets
 - based upon specialised assets in their current condition and consequently new capital expenditure and enhancements were excluded.
 - future revenues were based on prices and sales volumes consistent with the SCI

Notes to the financial statements

For the year ended 30 June 2015

13. Property, plant and equipment (continued)

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

Current Year Income Approach

For the current year, Water NSW reviewed its valuation model and aligned it with the methodology previously implemented by the Sydney Catchment Authority. The model continues to use an income approach based upon a discounted cash flow methodology. However, the key change compared to that approach previously undertaken by State Water Corporation was to shorten the period of discounted cash flows from 52 to 5 years and replace the longer term cash flows with a terminal value of the regulated asset base (RAB). The following key methods and assumptions have been used in the current year 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 WACC consistent with the formula and parameters as most recently published by the economic regulator(s).
- Future cash flows:
 - determined on a nominal basis
 - 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
 - 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

As buildings 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 the entity's Price Determinations.

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.

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

"Greater Sydney" CGU	Year 1 \$'000	Year 2 \$'000	Year 3 \$'000	Year 4 \$'000	Year 5 \$'000
Undiscounted cash flows	55,300	64,300	45,700	58,300	1,865,700

"Rural" CGU	Year 1 \$'000	Year 2 \$'000	Year 3 \$'000	Year 4 \$'000	Year 5 \$'000
Undiscounted cash flows	22,100	39,100	49,000	50,500	847,500

Changes to the cash flows 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.

Notes to the financial statements

For the year ended 30 June 2015

13. Property, plant and equipment (continued)

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

"Greater Sydney" CGU	Actual Revaluation	Scenario A: + 1%	Scenario B: - 1%
Weighted Average Cost of Capital (WACC)	8.32%	9.32%	7.32%
Fair value	1,493,900	1,437,900	1,552,800

"Rural" CGU	Actual Revaluation	Scenario A: + 1%	Scenario B: - 1%
Weighted Average Cost of Capital (WACC)	8.32%	9.32%	7.32%
Fair value	725,700	699,100	753,700

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:

"Greater Sydney" CGU	Actual Revaluation \$000	Scenario A: + 5% \$000	Scenario B: - 5% \$000
Fair value	1,493,900	1,506,100	1,481,700

"Rural" CGU	Actual Revaluation \$000	Scenario A: + 5% \$000	Scenario B: - 5% \$000
Fair value	725,700	734,200	717,200

In revaluing system assets, the assets 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, land is carried at fair value in accordance with TPP 14-1. 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 2013 for land assets of the former State Water Corporation (now Water NSW), and 31 December 2014 for land assets transferred from Sydney Catchment Authority. As the fair value of the land has not differed materially from the carrying value at reporting date, no revaluation adjustment has been recognised in the financial statements. Land has been valued by the valuer on the basis that it is not contaminated. Refer to Note 20 Contingent Liabilities.

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

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. For non-specialised assets, TPP 14-1 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.

Notes to the financial statements

For the year ended 30 June 2015

13. Property, plant and equipment (continued)

b) Asset values measured at historical cost

	2015 Water NSW		2014 State Water	
	Historical Cost \$'000	Fair Value \$'000	Historical Cost \$'000	Fair Value \$'000
Work in progress	84,706	84,706	76,471	76,471
Infrastructure systems	1,434,965	1,844,516	541,349	560,429
Water meters	28,095	-	26,501	17,889
Buildings	23,088	-	2,774	2,892
Land	117,574	184,096	14,752	123,626
Plant and equipment	20,516	20,516	3,581	3,581
Motor vehicles	8,911	8,911	6,012	6,012
Furniture & fit outs	3,403	3,403	850	850
Information systems	3,625	3,625	2,281	2,281
Carrying value at historical cost	1,724,883	2,149,773	674,571	794,031

14. Trade and other payables

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Current		
Trade payables	2,174	4,341
Non-Trade payables and accrued expenses - Treasury	668	9,977
Non-Trade payables and accrued expenses - Other ¹	28,535	13,598
Accrued interest on loans	15,942	2,117
Trade and other payables	47,319	30,033

¹Security deposits of \$0.006 million previously classified within Non-trade payables in 2014 have been reclassified as other liabilities in Note 15.

Financial risk management policies in relation credit risk, liquidity risk and market risk are disclosed in Note 23.

Notes to the financial statements

For the year ended 30 June 2015

15. Other liabilities

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Current		
Deferred government grants	38,145	8,628
Lease inducement release	381	160
Income received in advance	1,220	919
Other	-	-
Current other liabilities	39,747	9,707
Non-Current		
Lease inducement release	1,185	109
Deferred government grants	100,685	99,716
Income received in advance	97	-
Other ¹	33	6
Non-current other liabilities	102,000	99,831

¹Security deposits of \$0.006 million previously classified within Non-trade payables in 2014 have been reclassified as other liabilities in Note 15.

Details of deferred government grants

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Lake Brewster Water Efficiency Project ¹	9,225	9,429
Rivers Environmental Restoration Program ²	5,107	5,257
Murrumbidgee Water Efficiency Projects ³	59,648	65,217
Booligal Weir Fishway ⁴	144	147
Hydrologic Monitoring Systems ⁵	818	949
NSW Metering Pilot Scheme ⁶	8,396	10,418
LMD Catchment Management Authority ⁷	1,927	1,951
Stevens Weir Fishway ⁸	4,277	4,338
Yanga Regulator ⁹	100	100
Chaffey Dam Augmentation ¹⁰	24,743	8,250
Metering Project ¹¹	5,041	2,288
Belubulla Investigation ¹²	389	-
Basin Plan Implementation ¹³	498	-
Menindee Water Supply ¹⁴	961	-
Broken Hill Emer Water ¹⁵	5,456	-
Broken Hill Supply Investigation ¹⁶	12,100	-
Total	138,830	108,344

Notes to the financial statements

For the year ended 30 June 2015

15. Other liabilities (continued)

¹Water NSW entered into agreements with the Federal Government, as represented by and acting through the now Department of Sustainability, Environment, Water, Population and Communities; the Lachlan Catchment Management Authority (LCMA); and Lachlan Valley Water, for Water NSW to undertake works known as Lake Brewster Water Efficiency Project. The project is complete and the deferred grant is now being credited to profit or loss over the expected useful lives of the assets created.

²Water NSW entered into an agreement with the now Office of Environment and Heritage, under the NSW Rivers Environmental Restoration Program, which was ultimately funded by the Federal Government's Water Smart Australia Program. Under the agreement, the Office of Environment and Heritage made financial contributions to Water NSW in advance of its undertaking the activities. The project is complete and the deferred grants is now being credited to profit or loss over the expected useful lives of the assets created.

³Water NSW has signed an agreement with Water for Rivers to deliver Water Efficiency Projects for the Murrumbidgee Valley. \$44.349 million relates to grant funding received in relation to construction of assets, while the remaining \$15.299 million relates to grant income received in advance for expenditure to be incurred in future periods, the majority of which relates to capital expenditure. Some projects associated with this funding have been completed and where appropriate the deferred grant balance is being credited to profit or loss over the expected useful lives of the assets.

⁴Water NSW entered into an agreement with Lachlan Catchment Management Authority (LCMA) to provide a fishway at Booligal Weir. This project was jointly funded, with the LCMA providing \$0.150 million and Water NSW the remaining balance. The project is complete and the deferred grant is now being credited to profit or loss over the expected useful lives of the assets created.

⁵Water NSW has signed an agreement with the Bureau of Metrology for the Modernisation and Extension of Hydrologic Monitoring Systems Project. The project is complete and the deferred grant is now being credited to profit or loss over the expected useful lives of the assets created.

⁶Water NSW has received funding from the Federal Government, via the New South Wales Office of Water, for the NSW Metering Scheme Pilot Project. This project is complete and the deferred grant is now being credited to profit or loss over the expected useful lives of the assets created.

⁷Construction of a fishway at Weir 32 on the Darling River was paid for the Lower Murray Darling Catchment Management Authority. Weir 32 is a Water NSW asset and it has been deemed that Water NSW also controls the fishway. The value of the asset and deferred grant balances were based upon advised construction costs as a proxy for fair value. The project is complete and the deferred grant is now being credited to profit or loss over the expected useful life of the fishway.

⁸Water NSW has received funding from the Murray Darling Basin Authority to construct a fishway at Stevens Weir, a Water NSW owned and controlled asset. The project is complete and the deferred grant is now being credited to profit or loss over the expected useful life of the fishway.

⁹Water NSW received funding from the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education as a contribution to the upgrade of Yanga Regulator. The project is yet to commence.

¹⁰Water NSW received funding from NSW Trade and Investment for the Chaffey Dam Augmentation project. The project has commenced and is expected to be completed during the 2015/16 financial year.

¹¹Water NSW has received funding from the Federal Government, via the New South Wales Office of Water, for the State-wide NSW Metering Project. At reporting date \$0.202 million has been treated as deferred since the expenditure to which it relates has not yet been incurred and \$4.839 million has been received in relation to the creation of assets.

¹²⁻¹³Water NSW has received funding to conduct investigative work on several projects. Expenditure in relation to these projects is currently operational in nature and as such does not relate to the acquisition or construction of assets. Amounts disclosed above represent unspent funds at the end of the reporting period.

¹⁴Water NSW has received funding to undertake temporary works to secure the remaining surface water supplies in the Menindee Lakes. Expenditure in relation to these projects is currently operational in nature and as such does not relate to the acquisition or construction of assets. Amounts disclosed above represent unspent funds at the end of the reporting period.

¹⁵Water NSW has received funding to conduct investigative activities to establish the feasibility of several groundwater supply options. At reporting date \$3.607 million has been treated as deferred since the expenditure to which it relates has not yet been incurred and \$1.849 million has been received in relation to the creation of assets.

¹⁶Water NSW has received funding to conduct design and construction activities to implement bore fields for the Menindee & Broken Hill Water Supply. The project is yet to commence.

Notes to the financial statements

For the year ended 30 June 2015

16. Borrowings

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Current borrowings		
NSW Treasury Corporation	277,248	1,106
Current borrowings	277,248	1,106
Non-current borrowings		
NSW Treasury Corporation	384,426	157,889
Non-current borrowings	384,426	157,889

TPP 09-3 requires that assets and liabilities transferred between public sector entities through equity be reflected in the books of both the transferee and transferor at their fair value to the transferee, i.e. Water NSW. Borrowings have been recognised in the SCA's financial statements, reflecting the fair value of the liability to Water NSW. In accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, the borrowings were initially recognised at fair value by Water NSW and subsequently at its rebased amortised cost.

Water NSW has loans with NSW Treasury Corporation totalling \$277 million (2014: \$1.106 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.

Financial risk management policies in relation credit risk, liquidity risk and market risk as well as approved financing facilities are disclosed in Note 23.

17. Provisions

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Current provisions		
Employee benefits	30,836	12,988
Fringe benefit tax	154	128
Restructuring/Redundancy	9,611	24
Dividend ¹	-	20,300
Current provisions	40,601	33,440
Non-current provisions		
Employee benefits	1,045	511
Restoration ²	1,110	285
Defined benefit superannuation scheme deficit	96,340	40,196
Non-current provisions	98,495	40,992

¹Under the National Taxation Equivalent Regime, the entity is not required to operate a dividend franking account. Dividend payable for financial year 2014/15 is zero.

Notes to the financial statements

For the year ended 30 June 2015

17. Provisions (continued)

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

	Fringe benefit tax provision \$'000	Restructuring/R edundancy Provision \$'000	Restoration Provision \$'000	Dividend Provision \$'000
At 30 June 2015				
Carrying amount at the beginning of the year	128	24	285	20,300
Recognised on equity transfer	54	-	534	-
Additional provisions recognised	510	9,611	263	-
Amounts used	(537)	(24)	-	(20,300)
Unwinding of discount rate	-	-	27	-
Carrying amount at the end of the year	154	9,611	1,110	-

	Fringe benefit tax provision \$'000	Restructuring Provision \$'000	Restoration Provision \$'000	Dividend Provision \$'000
At 30 June 2014				
Carrying amount at the beginning of the year	139	-	271	24,295
Additional provisions recognised	478	24	-	20,300
Amounts used	(489)	-	-	(24,295)
Unwinding of discount rate	-	-	14	-
Carrying amount at the end of the year	128	24	285	20,300

Notes to the financial statements

For the year ended 30 June 2015

17. Provisions (continued)

(a) Defined benefit superannuation schemes

Nature of the benefits provided by the fund

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)
- 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

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 last actuarial investigation was performed as at 30 June 2012.

Description of other entities' responsibilities for the governance of the fund

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

There are a number of risks to which the 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
- Legislative risk: The risk that legislative changes could be made which increase the cost of providing the defined benefits

Notes to the financial statements

For the year ended 30 June 2015

17. Provisions (continued)

Description of risks (continued)

- 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.

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

Description of significant events

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

Reconciliation of the net defined benefit liability/(asset)

	SASS 2015 \$'000	SANCS 2015 \$'000	SSS 2015 \$'000	Total 2015 \$'000
Net defined benefit liability/(asset) at beginning of the year	3,745	894	35,557	40,196
Recognised upon equity transfer	6,571	1,803	49,855	58,228
Current service cost	707	237	1,021	1,966
Net interest on net defined benefit liability/(asset)	226	53	1,967	2,247
Actual return on fund assets less interest income	(1,599)	(299)	(4,503)	(6,401)
Actuarial (gain) loss from changes in demographic assumptions	423	46	(1,188)	(719)
Actuarial (gain) loss from change in financial assumptions	447	6	5,078	5,531
Actuarial (gain) loss arising from liability experience	392	(353)	(3,235)	(3,196)
Employer contributions	(727)	(203)	(582)	(1,512)
Net defined benefit liability at end of year	10,185	2,185	83,970	96,340

	SASS 2014 \$'000	SANCS 2014 \$'000	SSS 2014 \$'000	Total 2014 \$'000
Net defined benefit liability/(asset) at beginning of the year	3,513	864	35,147	39,524
Current service cost	455	141	529	1,125
Net interest on net defined benefit liability/(asset)	124	30	1,327	1,481
Actual return on fund assets less interest income	(1,950)	(211)	(3,906)	(6,067)
Actuarial (gain) loss from change in financial assumptions	794	205	3,235	4,234
Actuarial (gain) loss arising from liability experience	1,314	4	(327)	991
Employer contributions	(505)	(139)	(448)	(1,092)
Net defined benefit liability at end of year	3,745	894	35,557	40,196

Notes to the financial statements

For the year ended 30 June 2015

17. Provisions (continued)

Reconciliation of the fair value of fund assets

	SASS 2015 \$'000	SANCS 2015 \$'000	SSS 2015 \$'000	Total 2015 \$'000
Fair value of fund assets at beginning of the year	17,042	2,677	43,590	63,309
Recognised upon equity transfer	12,657	2,581	35,101	50,339
Interest income	780	137	2,109	3,026
Actual return on fund assets less interest income	1,599	299	4,503	6,401
Employer contributions	727	203	582	1,512
Contributions by participants	343	-	431	774
Benefits paid	(946)	(354)	(3,243)	(4,542)
Taxes, premiums and expenses paid	182	93	272	547
Fair value of fund assets at end of the year	32,384	5,635	83,346	121,365

	SASS 2014 \$'000	SANCS 2014 \$'000	SSS 2014 \$'000	Total 2014 \$'000
Fair value of fund assets at beginning of the year	14,350	2,331	39,114	55,795
Interest income	530	87	1,455	2,072
Actual return on fund assets less interest income	1,950	211	3,906	6,067
Employer contributions	505	139	448	1,092
Contributions by participants	232	-	237	469
Benefits paid	(495)	(69)	(1,647)	(2,211)
Taxes, premiums and expenses paid	(30)	(22)	77	25
Fair value of fund assets at end of the year	17,042	2,677	43,590	63,309

Reconciliation of the defined benefit obligation

	SASS 2015 \$'000	SANCS 2015 \$'000	SSS 2015 \$'000	Total 2015 \$'000
Present value of obligation at beginning of year	20,787	3,571	79,146	103,504
Recognised upon equity transfer	19,228	4,384	84,956	108,567
Current service cost	707	237	1,021	1,966
Interest cost	1,007	190	4,076	5,273
Contributions by participants	343	-	431	774
Actuarial (gain) loss from changes in demographic assumptions	423	46	(1,188)	(719)
Actuarial (gain) loss from change in financial assumptions	447	6	5,078	5,531
Actuarial (gain) loss arising from liability experience	392	(353)	(3,235)	(3,196)
Benefits paid	(946)	(354)	(3,243)	(4,542)
Taxes, premiums and expenses paid	182	93	272	547
Present value of obligation at end of the year	42,569	7,821	167,315	217,704

Notes to the financial statements

For the year ended 30 June 2015

17. Provisions (continued)

Reconciliation of the defined benefit obligation (continued)

	SASS 2014 \$'000	SANCS 2014 \$'000	SSS 2014 \$'000	Total 2014 \$'000
Present value of obligation at beginning of year	17,863	3,195	74,261	95,319
Current service cost	455	141	529	1,125
Interest cost	654	117	2,782	3,553
Contributions by participants	232	-	237	469
Actuarial (gain) loss from change in financial assumptions	794	205	3,235	4,234
Actuarial (gain) loss arising from liability experience	1,314	4	(327)	991
Benefits paid	(495)	(69)	(1,647)	(2,211)
Taxes, premiums and expenses paid	(30)	(22)	77	25
Present value of obligation at end of year	20,787	3,571	79,147	103,505

Fair Value of Fund Assets

All Pooled Fund assets are invested by 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.

	Quoted prices in market for identical assets \$'000	Significant observable inputs \$ '000	Unobservable inputs \$'000	Total 2015 \$'000
Assets category as at 30 June 2015	Level 1	Level 2	Level 3	
Short Term Securities	95,603	2,545,913	-	2,641,516
Australian Fixed interest	958	2,638,759	16,881	2,656,598
International Fixed interest	(110)	1,003,959	-	1,003,849
Australian Equities	9,898,541	503,999	4,400	10,406,940
International Equities	9,963,287	2,585,150	563,044	13,111,481
Property	948,421	718,406	1,785,782	3,452,609
Alternatives	622,102	3,020,225	3,527,860	7,170,187
Total as at 30 June 2015	21,528,802	13,016,411	5,897,967	40,443,180

Notes to the financial statements

For the year ended 30 June 2015

17. Provisions (continued)

Fair Value of Fund Assets (continued)

	Quoted prices in market for identical assets \$'000	Significant observable inputs \$'000	Unobservable inputs \$'000	Total \$'000
Assets category as at 30 June 2014	Level 1	Level 2	Level 3	
Short Term Securities	1,572,615	880,140	-	2,452,755
Australian Fixed interest	10,928	2,354,086	-	2,365,014
International Fixed interest	-	880,529	-	880,529
Australian Equities	11,494,549	241,423	2,664	11,738,636
International Equities	8,172,677	2,780,531	121	10,953,329
Property	894,113	692,296	1,686,577	3,272,986
Alternatives	565,401	4,897,152	866,857	6,329,410
Total as at 30 June 2014	22,710,283	12,726,157	2,556,219	37,992,659

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

	2015	2014
Short Term Securities	6.5%	6.5%
Australian Fixed interest	6.6%	6.2%
International Fixed interest	2.5%	2.3%
Australian Equities	25.7%	30.9%
International Equities	32.4%	28.8%
Property	8.6%	8.6%
Alternatives	17.7%	16.7%
Total	100%	100%

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

Fair value of entity's own financial instruments

The disclosures below relate to total assets of the Pooled Fund. The fair value of the Pooled Fund assets include as at 30 June 2015 \$209.2 million (2014: \$173.9 million) in NSW government bonds.

Notes to the financial statements

For the year ended 30 June 2015

17. Provisions (continued)

Significant Actuarial Assumptions at the Reporting Date

	2015	2014
Discount Rate	3.03% p.a.	3.57% p.a.
Salary increase rate (excluding promotional increases)		
2014/15	2.27% p.a.	2.27% p.a.
2015/16 to 2018/19	2.50% p.a.	2.50% p.a.
2019/20	3.50% p.a.	3.00% p.a.
2020/21 to 2024/25	3.00% p.a.	3.00% p.a.
2023/24 onwards	3.50% p.a.	3.50% p.a.
Rate of CPI increase	2.50% p.a.	2.50% p.a.
Pensioner mortality	As per 2012 actuarial investigation of the Pooled Fund	

Sensitivity Analysis

The entity's total defined benefit obligation as at 30 June 2015 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 2015. 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. The defined benefit obligation has been recalculated by changing the assumptions as outlined below, whilst retaining all other assumptions.

	Base case	Scenario A -1% discount rate	Scenario B +1% discount rate
Discount rate	3.03%	2.03%	4.03%
Rate of CPI increase	Per actuarial assumptions	Per actuarial assumptions	Per actuarial assumptions
Salary inflation rate	Per actuarial assumptions	Per actuarial assumptions	Per actuarial assumptions
Defined benefit obligation (\$'000)	217,704	252,517	189,872

	Base case	Scenario C +0.5% CPI rate change	Scenario D -0.5% CPI rate change
Discount rate	Per actuarial assumptions	Per actuarial assumptions	Per actuarial assumptions
Rate of CPI increase	Per actuarial assumptions	Per above rates plus 0.5% pa	Per above rates less 0.5% pa
Salary inflation rate	Per actuarial assumptions	Per actuarial assumptions	Per actuarial assumptions
Defined benefit obligation (\$'000)	217,704	232,142	204,655

Notes to the financial statements

For the year ended 30 June 2015

17. Provisions (continued)

Sensitivity Analysis (continued)

	Base case	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
Discount rate	Per actuarial assumptions	Per actuarial assumptions	Per actuarial assumptions
Rate of CPI increase	Per actuarial assumptions	Per actuarial assumptions	Per actuarial assumptions
Salary inflation rate	Per actuarial assumptions	Per actuarial assumptions plus 0.5%pa	Per actuarial assumptions less 0.5%pa
Defined benefit obligation (\$'000)	217,704	219,612	215,853

	Base case	Scenario G +5% pensioner mortality rate	Scenario H -5% pensioner mortality rate
Defined benefit obligation (\$'000)	217,704	215,674	219,855
Defined benefit obligation (\$'000)	217,704	215,674	219,855

Asset-Liability matching strategies

The Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cash flows to manage liquidity requirements.

Funding arrangements

Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at 30 June 2012. 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 financial position of the Fund calculated in accordance with AAS 25 Financial Reporting by Superannuation Plans:

	SASS \$'000	SANCS \$'000	SSS \$'000
As at June 2015			
Accrued benefits - Rural ¹	18,022	2,799	42,169
Accrued benefits - Metro ¹	15,423	3,227	38,479
Net market value of fund assets - Rural	(18,629)	(2,787)	(47,084)
Net market value of fund assets - Metro	(13,755)	(2,848)	(36,262)
Net (surplus) / deficit	1,061	391	(2,698)

Notes to the financial statements

For the year ended 30 June 2015

17. Provisions (continued)

Surplus/deficit (continued)

	SASS \$'000	SANCS \$'000	SSS \$'000
As at June 2014			
Accrued benefits ¹	17,072	2,832	41,537
Net market value of fund assets	(17,042)	(2,677)	(43,590)
Net (surplus) / deficit	30	155	(2,053)

¹There is no allowance for a contribution tax provision within the accrued benefit figure for AAS 25. Allowance for contribution tax is made when setting the contribution rates.

Contribution recommendations

	SASS	SANCS	SSS
	A	B	A
Recommended contribution rate for 2015	1.9	2.5	1.6
Recommended contribution rate for 2014	1.9	2.5	1.6

A = multiple of members contributions

B = percentage of members salary

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 13.8 years for Rural and 14.8 years for Metro. (2014: 14.2 years)

Economic assumptions

The economic assumptions adopted for the 30 June 2012 actuarial investigation of the Pooled Fund are:

Weighted average assumptions	Per annum
Expected rate of return on Fund assets backing current pension liabilities	8.3%
Expected rate of return on Fund assets backing other liabilities	7.3%
Expected salary increase rate (excluding promotional salary increases)	2.7%
Expected rate of CPI increase	2.5%

Expected employer contributions

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
2015	849	279	991	2,119
2014	442	131	379	952

Notes to the financial statements

For the year ended 30 June 2015

18. Commitments

Capital commitments

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

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Property, plant and equipment	39,750	16,340
Capital commitments	39,750	16,340

Amounts disclosed as capital commitments includes GST of \$3.612 million (2014: \$1.487 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:

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Within one year	3,714	705
Later than one year but not later than five years	12,596	1,161
Later than five years	7,882	310
Operating lease commitments	24,192	2,176

Representing non-cancellable operating leases	24,192	2,176
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Amounts disclosed as operating lease commitments includes GST of \$2.199 million (2014: \$0.197 million) recoverable from the Australian Taxation Office.

Operating lease commitments (continued)

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

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Within one year	2,391	1,897
Later than one year but not later than five years	6,009	6,585
Later than five years	48,889	35,631
Operating lease commitments	57,289	44,113

Representing non-cancellable operating leases	57,289	44,113
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Notes to the financial statements

For the year ended 30 June 2015

18. Commitments (continued)

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 (2014 10 years to 75 years) years with option periods following, ranging up to 75 years. The longest remaining term before option is 62 years. Lease rentals are generally reviewed annually. The lessee does not have an option to purchase the property at the expiry of the lease period. Water NSW leases to other parties foreshore land at some of its water storage facilities under non-cancellable operating leases for periods of 5 years, with 2 further option periods of 5 years each. Lease rentals are generally reviewed annually. The lessee does not have an option to purchase the property at the expiry of the lease period. This foreshore land does not form part of the Transfer Order for the creation of Water NSW. However, Water NSW leases this land under an Instrument of Delegation from the Water Administration Ministerial Corporation (WAMC). This instrument delegates to Water NSW the administration functions over the land, and the authority to negotiate leases on behalf of the WAMC. Water NSW is paid an administration fee by WAMC which is equal to the net lease fee collected. In practice, this is paid directly from the lessee to Water NSW.

19. Equity transfer

Water NSW

On 1 January 2015 the Water NSW Act 2014 commenced. The assets, rights and liabilities of the former Sydney Catchment Authority were transferred to Water NSW, previously known as State Water Corporation. Staff of the Sydney Catchment Authority were employed by the NSW Department of Trade and Investment, Regional Infrastructure and Services (DTIRIS) under the Government Sector Employment Act 2013. The Water NSW Act 2014 facilitated the transfer of such staff to Water NSW effective 1 January 2015.

This was an administrative restructure, which is treated as a contribution by owners and recognised at the amount at which the assets and liabilities were recognised by the transferor immediately prior to the restructure. The carrying value of assets and liabilities held by the former body as at 1 January 2015 approximated the fair value transferred to Water NSW.

As required under Section 8.1 of TPP09-3 'Contributions by owners made to wholly-owned Public Sector Entities', an income statement for Sydney Catchment Authority is disclosed below for the period up 31 December 2014, including full prior year comparatives.

Income Statement	6 months to 31 December 2014 \$'000	12 Months to 30 June 2014 \$'000
Revenue		
Revenue from water sales	105,312	205,240
Other revenue	1,709	3,991
Revenue	107,021	209,231
Expenses		
Employee related expenses	(30,856)	(37,877)
Other operating expenses	(54,974)	(87,207)
Finance costs	(161)	(1,125)
Revaluation of property plant and equipment	(62,753)	(31,370)
Expenses	(148,744)	(157,579)
Profit before income tax	(41,723)	51,652
Income tax equivalent expense	9,108	(16,669)
Profit/(loss) from operations	(32,615)	34,983

Notes to the financial statements

For the year ended 30 June 2015

19. Equity transfer (continued)

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

Net assets transferred	31 December 2014 \$'000
Cash	23,395
Receivables	21,518
Other non-financial assets	1,974
Property, plant and equipment	1,438,909
Intangibles	3,723
Trade and other payables	(98,484)
Other liabilities	(1,772)
Current tax liabilities	(3,146)
Provisions	(1,584)
Borrowings	(501,886)
Deferred tax liability	(120,090)
Net assets transferred to WaterNSW on equity transfer	762,557

Green State Power

On 7 July 2014 certain Green State Power assets were vested to the then State Water Corporation. The assets comprised two parcels of land which were transferred at fair value.

This was a Government policy decision to transfer assets between public sector agencies as part of the electricity generator privatisation process. The transaction is treated as a contribution by owners and recognised at the amount at which the assets and liabilities were recognised by the transferor immediately prior to the restructure. The carrying value of assets and liabilities held by Green State Power at vesting date approximated the fair value transferred to Water NSW.

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

	7 July 2014 \$'000
Property, plant and equipment	450
Net assets transferred to State Water Corporation (now Water NSW) on equity transfer	450

20. 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.

Notes to the financial statements

For the year ended 30 June 2015

20. Contingent liabilities and contingent assets (continued)

Under the Green State Power transfer agreement WaterNSW was paid pre-tax cash amount of \$7.15M 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 WaterNSW (excluding planned works or force majeure). The potential liability is capped (for both Burrinjuck and Keepit combined) to \$5M.

Site contamination

WaterNSW has exposure to risk from contaminated land, 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 contingent 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.

21. Related parties

The entity 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 the entity, directly or indirectly. This comprises all directors, whether executive or non-executive, and senior executives who lead the various divisions of the entity.

Remuneration of key management personnel

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Short term employee benefits	2,651	1,882
Long term employee benefit	45	-
Termination benefit	33	-
Post term employee benefits	193	156
Remuneration of key management personnel	2,922	2,038

This comprises compensation relating to:

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Directors, excluding Chief Executive Officer	454	349
Senior executives, including Chief Executive Officer	2,467	1,689
Remuneration of key management personnel	2,922	2,038

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

(b) Other transactions with key management personnel

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. During the current reporting period there were no related party transactions other than key management personnel compensation, with key management personnel or related parties.

(c) Related entities

On 4 March 2014, the NSW Government announced that it would consolidate the Sydney Catchment Authority with State Water Corporation to form Water NSW. The Water NSW operating model commenced with each entity having separate boards with common board members, a common chairman and a common chief executive.

During this time, State Water Corporation (now Water NSW) supplied Sydney Catchment Authority with bulk water. Such transactions were conducted on an arm's length basis in the normal course of business and on commercial terms and conditions.

Total of \$1,371,342.44 were invoiced to Sydney Catchment Authority from 1 July 2014 to 31 December 2014.

Notes to the financial statements

For the year ended 30 June 2015

22. Auditors' remuneration

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Financial audit of Water NSW	350	208
Auditors remuneration	350	208

23. Financial instruments

a) Risk management framework

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

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

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

	Note	Category	WaterNSW Carrying Amount 30 June 2015 \$'000	State Water Carrying Amount 30 June 2014 \$'000
Financial assets				
Cash and cash equivalents	9	Not applicable	81,327	26,915
Trade and other receivables ¹	10	Loans and receivables	44,739	17,325
Financial assets			126,066	44,240

	Note	Category	WaterNSW Carrying Amount 30 June 2015 \$'000	State Water Carrying Amount 30 June 2014 \$'000
Financial liabilities				
Trade and other payables	14	Amortised cost	46,289	29,306
Borrowings	16	Amortised cost	661,674	158,995
Financial liabilities			707,963	188,301

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

²Refer to Note 16 - Borrowings

Notes to the financial statements

For the year ended 30 June 2015

23. Financial instruments (continued)

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 the entity. 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 the entity, including cash, receivables, and deposits. No collateral is held by the entity 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. Entity'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, Financial Risk and Compliance 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.

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.

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 Office of Water 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 a charge 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.

For receivables raised under the Sydney Catchment Authority Water Determination (published 2012) credit risk is minimised as transactions are mainly with Sydney Water Corporation within the government controlled water supply industry. Where the counterparty is a non-Government owned corporation the parties credit worthiness is first established to derive appropriate risk limits before the entity's standard payment terms and conditions are offered.

Water NSW also has trade receivables for non water related charges. The majority of such debt relate 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:

Notes to the financial statements

For the year ended 30 June 2015

23. Financial instruments (continued)

Trade and other receivables (continued)

	WaterNSW Carrying Amount 30 June 2015 \$'000	State Water Carrying Amount 30 June 2014 \$'000
Past due but not impaired ^{1,2}		
31 - 60 days overdue	1,362	3,270
61 - 90 days overdue	5,449	84
> 90 days overdue	880	804
Current assets	7,691	4,158

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

	WaterNSW Carrying Amount 30 June 2015 \$'000	State Water Carrying Amount 30 June 2014 \$'000
Considered impaired ^{1,2}		
Less than 3-months overdue	31	-
Between 3-months and 6-months overdue	2	-
More than 6-months overdue	325	360
Current assets	358	360

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

c) Liquidity risk

Liquidity risk is the risk that the entity will be unable to meet its payment obligations when they fall due. The entity 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.

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

Notes to the financial statements

For the year ended 30 June 2015

23. Financial instruments (continued)

c) Liquidity risk (continued)

WaterNSW	Approved facility \$'000	Balance used \$'000	Available balance \$'000
30 June 2015			
Long term borrowing facility	745,000	661,674	83,326
"Come & Go" facility	37,000	-	37,000
Intra-day facility ¹	45,000	-	45,000
Credit card facility ¹	945	177	768
Cheque cashing authority ¹	202	-	202
Overdraft facility ¹	2,000	-	2,000
Operating leases	30,000	24,192	5,808
Borrowing facility	860,147	686,043	174,104

State Water	Approved facility \$'000	Balance used \$'000	Available balance \$'000
30 June 2014			
Long term borrowing facility	275,000	158,995	116,005
"Come & Go" facility	7,000	-	7,000
Intra-day facility ¹	15,000	-	15,000
Credit card facility ¹	850	210	640
Cheque cashing authority ¹	200	-	200
Overdraft facility ¹	2,000	-	2,000
Borrowing facility	300,050	159,205	140,845

¹NSW Treasury has advised the Water NSW that an approval for financial accommodation in accordance with section 8(2) of the *Public Authorities (Financial Arrangements) Act 1987* is not required.

The entity's Treasury Risk Management Policy establishes prudential limits on the percentage of debt which can mature in any one twelve month financial year. Planned future capital expenditure will be funded in part, through T-Corp borrowings. Future committed expenditure is disclosed in Note 18.

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

Notes to the financial statements

For the year ended 30 June 2015

23. Financial instruments (continued)

c) Liquidity risk (continued)

WaterNSW 30 June 2015	Maturity dates			
	Total	Less than 1 year	1-5 years	More than 5 years
Trade and other payables	46,289	46,289	-	-
Borrowings	661,673	277,248	162,688	221,737
Non-derivative financial liability	707,962	323,537	162,688	221,737

WaterNSW 30 June 2014	Maturity dates			
	Total	Less than 1 year	1-5 years	More than 5 years
Trade and other payables	29,306	29,306	-	-
Borrowings	227,017	9,866	69,802	147,349
Non-derivative financial liability	256,323	39,172	69,802	147,349

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 managements 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. The entity'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. The entity 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 the 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 reporting date. The analysis assumes that all other variables remain constant.

Interest rate risk

Exposure to interest rate risk arises primarily through the entity's interest bearing liabilities. This risk is minimised by undertaking mainly fixed rate borrowings, through T-Corp. The entity 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 \$662 million (2014: \$159 million).

Notes to the financial statements

For the year ended 30 June 2015

23. Financial instruments (continued)

d) Market risk (continued)

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Fixed rate instruments		
Call loans to Authorities	1,001	1,106
Commonwealth guaranteed	24,322	24,241
Loans State guaranteed	615,495	113,143
Loans to Authorities	20,857	20,505
Fixed rate instruments	661,674	158,995

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Variable rate instruments		
Cash and cash equivalents (excluding Hour Glass Cash Facility)	40,239	13,526
Variable rate instruments	40,239	13,526

The entity's exposure to interest rate risk is set out below. A reasonably possible change of +/- 100 basis points 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 2015				
Cash and cash equivalents	402	(402)	402	(402)
	402	(402)	402	(402)

	Profit or loss		Equity	
	+100bp	- 100bp	+ 100bp	- 100bp
Variable rate instruments - 30 June 2014				
Cash and cash equivalents	135	(135)	135	(135)
	135	(135)	135	(135)

Notes to the financial statements

For the year ended 30 June 2015

23. Financial instruments (continued)

d) Market risk (continued)

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	WaterNSW 30 June 2015 \$'000	State Water 30 June 2014 \$'000
Cash Facility	Cash, money market instruments	Up to 1 1/2 years	41,088	13,389

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.

Investment in the Hour-Glass facilities limits the entity'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 percent 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.

	Change in unit price	WaterNSW Impact on 30 June 2015 \$'000	State Water 30 June 2014 \$'000
T-Corp Hour-Glass Investment	+/- 1%	411	134

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. The entity's exposure to foreign currency risk is immaterial. The entity 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 1(f):

30 June 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
T-Corp Hourglass Investment (Cash) Facility	-	41,088	-	41,088
	-	41,088	-	41,088

Notes to the financial statements

For the year ended 30 June 2015

23. Financial instruments (continued)

e) Fair value measurement (continued)

30 June 2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
T-Corp Hourglass Investment (Cash) Facility	-	13,389	-	13,389
	-	13,389	-	13,389

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 State Water 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.

The following table details the carrying amounts and fair values of assets and liabilities at reporting date:

	WaterNSW		Sate Water	
	30 June 2015 Carrying Amount \$'000	30 June 2015 Fair Value \$'000	30 June 2014 Carrying Amount \$'000	30 June 2014 Fair Value \$'000
Financial assets				
Cash at bank and on hand	40,239	40,239	13,526	13,526
Trade and other receivables	45,937	45,937	17,487	17,487
Cash - T-Corp Hourglass Facility	41,088	41,088	13,389	13,389
Financial liabilities				
Trade and other payables	47,319	47,319	30,033	30,033
Borrowings	661,674	691,623	157,889	181,145

f) Capital management

Consistent with TPP02-7 *NSW Treasury Policy Capital Structure Policy for Government Businesses* which is a component of the NSW Government's Commercial Policy Framework, the entity's objectives are to determine an appropriate capital structure to enable an appropriate return on equity and efficient investment decisions to be made on a commercial basis.

Under the policy, an appropriate capital structure is considered using the following criteria:

- Provision of an acceptable stream of dividends to the entity's Shareholder
- Maintenance of an appropriate investment grade rating,
- Capacity to finance the approved capital program through internally generated cash flow and debt
- Provision of sufficient flexibility for relevant contingencies

The entity'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.

Notes to the financial statements

For the year ended 30 June 2015

23. Financial instruments (continued)

f) Capital management (continued)

Gearing levels

The entity 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.

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Total borrowings	661,674	158,995
Less cash and cash equivalents	(81,327)	(26,915)
Net debt	580,347	132,080
Total equity	1,193,327	412,607
Total capital employed	1,773,674	544,687
Gearing ratio¹	31.29%	23.11%

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

Dividend policy

The Board has prepared the Statement of Corporate Intent for the year ending 30 June 2016 on a dividend payout ratio of zero percent of profit after tax for 2014-15.

24. After balance date events

There are no significant events subsequent to balance date.

Notes to the financial statements

For the year ended 30 June 2015

25. Administered Items

Administered Revenue, Assets and Liabilities

	WaterNSW 2015 \$'000	State Water 2014 \$'000
Administered Revenues		
NOW - Water Charges	45,281	45,557
YCATAC - Yanco Columbo System Levy	142	152
Total Administered Revenue	45,423	45,709
Administered Assets		
Administered cash	652	781
Debtors and accrued charges NOW	4,088	3,825
Debtors and accrued charges YCATAC	-	-
Total Administered Assets	4,741	4,606
Administered Liabilities		
Creditors and accruals NOW	4,744	4,610
Creditors and accruals YCATAC	(4)	(4)
Total Administered Liabilities	4,741	4,606

Water NSW administers, but does not control, certain activities on behalf of the New South Wales Office of Water (NOW) and Yanco Creek and Tributaries Advisory Council (YCATAC). Transactions and balances relating to administered activities are not recognised as Water NSW's income, expenses, assets and liabilities but are disclosed in the above schedules as "Administered Revenues", "Administered Assets" and "Administered Liabilities". The accrual basis of accounting and applicable accounting standards have been adopted.

Under these arrangements Water NSW is responsible for billing water licence holders on behalf of:

- NOW for unregulated river and groundwater charges and regulated river charges which are shared between Water NSW and NOW.
- YCATAC for a levy on irrigators in the Yanco Columbo System.

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.

End of audited financial statements

Appendices



Appendix 1 – Corporate governance

Board members and qualifications



Terry Charlton - Chair – appointed 1 March 2014

Terry Charlton is the former Managing Director of Snowy Hydro Limited and former Commissioner Snowy Mountains Hydro-electric Authority. Previously, he served as the President, Edison Mission Energy, UK, Europe, Middle East and Africa which followed a long standing career with Tubemakers of Australia.

Mr Charlton is the Board Chairman and is a member of the Safety, Operations, Environment & Catchment Protection Committee, Audit, Financial Risk & Compliance Committee, Infrastructure, Planning & Development Committee and the Health, Science & Water Quality Committee meetings.



Dr Nicholas Brunton –appointed - 3 March 2014

Dr Nicholas Brunton is Practice Leader for Environmental and Planning Law Group, Henry Davis York Lawyers, Sydney. He is a Member of the Advisory Board for the Australian Centre for Climate Change and Environmental Law at the University of Sydney and has expertise in environmental risk management for large organisations and pollution management.

Dr Brunton is Chair of the Board's Safety, Operations, Environment & Catchment Protection Committee and a member of the Audit, Financial Risk & Compliance Committee and, Infrastructure, Planning & Development Committee and the Health, Science & Water Quality Committee.



Carmel Krogh –appointed - 3 March 2014

Carmel Krogh is the Director of Shoalhaven Water and has over 30 years' experience as a professional in the water industry. She was previously Group General Manager Water and Waste at Eurobodalla Shire Council and an Infrastructure Advisor for AusAID.

Ms Krogh is Chair of the Board's Infrastructure, Planning & Development Committee and a member of the Audit, Financial Risk & Compliance and Committee, Safety, Operations, Environment and Catchment Protection Committee and the Health, Science & Water Quality Committee.



Professor Andrew Wilson – appointed - 26 May 2014

Professor Andrew Wilson is Director of the University of Sydney node of the Menzies Centre for Health Policy and Professor of Public Health in the School of Public Health. He has also served as Chief Health Officer for NSW. He has specialist qualifications in clinical medicine and public health, and a PhD in epidemiology.

Professor Wilson is currently Chair of the Board's Health, Science & Water Quality Committee and a member of the Infrastructure Planning & Development Committee and the Safety, Operations, Environment & Catchment Protection Committee.



Chris Westworth – appointed - 23 July 2013

Chris Westworth currently works as a consultant on a variety of financial reporting, financial structuring, auditing and compliance matters for Westworth Kemp Consultants.

Prior to his current employment, he enjoyed a successful tenure with Ernst & Young over a period of 25 years, working in a number of positions including Audit Partner and Oceania Professional Practice Director.

Mr Westworth is currently Chair of the Board's Audit, Financial Risk & Compliance Committee and a member of the Infrastructure Planning & Development Committee, Safety, Operations, Environment and Catchment Protection Committee and the Health, Science & Water Quality Committee.



Rob Aldis – appointed - 15 September 2014

Rob Aldis is the former Managing Director of engineering services company Evans Peck and has more than 40 years' experience in the Engineering and Construction Sector, particularly in relation to water supply infrastructure. He is also currently Director of the Advisory Board for Infrastructure Partnerships Australia.

Mr Aldis is a member of the Board's Infrastructure Planning & Development Committee and the Safety, Operations, Environment & Catchment Protection Committee.



David Harris – Chief Executive Officer – appointed - 12 May 2014

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 team of Snowy Hydro Limited.

Mr Harris is a member of the Board's Infrastructure, Planning & Development Committee, Health, Science & Water Quality Committee, Audit, Financial Risk & Compliance Committee and Safety, Operations, Environment & Catchment Protection Committee and the People and Culture Committee.

Board Committees

The WaterNSW Board has four standing committees. For 2014-15, the Board committees and their members were:

Safety, Operations, Environment and Catchment Protection Committee

Members: Nicholas Brunton (Chair), Andrew Wilson, Rob Aldis and David Harris.

Health, Science and Water Quality Committee

Members: Andrew Wilson (Chair), Nicholas Brunton, Carmel Krogh and David Harris.

Infrastructure Planning and Development Committee

Members: Carmel Krogh (Chair), Chris Westworth, Rob Aldis and David Harris.

Audit, Financial Risk and Compliance Committee

Members: Chris Westworth (Chair), Nicholas Brunton, Carmel Krogh and David Harris.

People & Culture Committee

Members: Terry Charlton (Chair), Rob Aldis, Chris Westworth, Andrew Wilson and David Harris.

Board members are appointed by the voting shareholders, as per Section 8(1) of the Water NSW Act 2014.

Board meeting attendance

	Board	Safety, Operations, Environment & Catchment Protection	Health, Science & Water Quality	Infrastructure Planning & Development	Audit, Financial Risk & Compliance Committee	People & Culture Committee
	Held(Att)	Held(Att)	Held(Att)	Held(Att)	Held(Att)	Held(Att)
Terry Charlton	9(9)	3(3)	7(7)	5(4)	4(3)	2(2)
Nicholas Brunton	9(8, ¹)	3(2)	7(7)	5(2)	4(4)	2(1)
Carmel Krogh	9(9)	3(3)	7(7)	5(5)	4(3)	2(1)
Andrew Wilson	9(8)	3(3)	7(5)	5(2)	4(4)	2(2)
Chris Westworth	9(9)	3(1)	7(7)	5(5)	4(3)	2(2)
[#] Rob Aldis	7(7)	3(3)	5(5)	4(4)	4(4)	2(2)
David Harris	9(9)	3(3)	7(7)	5(5)	4(4)	2(2)

[#]Rob Aldis appointed 15 September 2014

¹ Nicholas Brunton apology for day 2 of the 2 day Board meeting in June

Executive management team



The Executive management team of WaterNSW, led by the Chief Executive Officer, manages WaterNSW in accordance with the policies and other decisions determined by the Board. This includes:

- Preparing proposed plans, policies, strategies, budgets and reports for approval by the Board;
- Establishing, maintaining and ensuring compliance with internal controls, compliance systems, management and information systems and accounting records;
- Ensuring WaterNSW meets all workplace health and safety requirements; and
- Regular reporting to the Board on matters associated with performance and the efficient and effective management of WaterNSW and the achievement of its objectives.

As at 30 June 2015, the WaterNSW Executive Management Team consisted of the members in the tables below:

Name	Position	Qualifications
David Harris	Chief Executive Officer	BEC, LLB (Hons)
Elli Baker	Chief Financial Officer	BE, MFin, CFA, GAICD
Graham Begg	A/ Executive Manager, Transformation	BE, BSc, MBA
Peter English	A/Executive Manager, Retail	BBus, MAICD
Andrew George	A/Executive Manager, Strategic Engineering	BE (Hons), MIEAust
Simone Greenaway	Executive Manager, Corporate Systems and Risk	BEC, MEc, EMPA, GAICD
Adrian Langdon	A/Executive Manager, Asset Operations and Maintenance	BAppSc, MEnvMan
Ingrid McAlpin	A/Executive Manager, Information & Communications Technology	BAppSc, Dip Ed, MBA, MIT
Fiona Smith	Executive Manager, Water Quality, Catchment Protection and People & Culture	BSc (Resource Mgt), MBA, GAICD
Brett Tucker	Executive Manager, Asset Development Projects	BRurSc(Hons), GradCertAcct MAICD

Salaries and numbers Executive Managers

Salary range	2013-14 (State Water)			2014-15 (WaterNSW)		
	Average salary	Male	Female	Average salary	Male	Female
\$488,100 +		0	0	\$533,147	1	0
\$299,751 - \$422,500	\$383,288	2	0	\$342,312	1	2
\$238,301 - \$299,750		0	0	\$251,089	2	1
\$167,100 - \$238,300	\$221,958	4	3	\$179,645	14	1

The estimated percentage of total employee related expenditure that relates to senior executives for 2014-15 is 6% compared to 7.07% in 2013-14.

Appendix 2 – Legislative Framework and Legal Issues

Significant Legislation

The *Water NSW Act 2014* was passed by the NSW Parliament and received Royal Assent on 11 November 2014. The Act was commenced on 1 January 2015 by proclamation dated 17 December 2014. The legislation provided for the continuation of the legal entity of State Water Corporation to become Water NSW and to assume the functions of the former Sydney Catchment Authority.

On 1 January 2015 the assets, rights and liabilities of the former SCA were transferred to WaterNSW. The Water NSW Act consolidated, with modifications, into one piece of legislation the provisions of the former *Sydney Water Catchment Management Act 1998* and the former *State Water Corporation Act 1989*.

The objectives and functions of WaterNSW were refined to reflect and consolidate the functions of the SCA and State Water Corporation into a single entity. WaterNSW is responsible for the capture, storage and release of water in an efficient and economical manner, the supply of water, management and protection of declared catchment areas, infrastructure planning, design, modelling, construction and maintenance of works in its areas of operation.

The Water NSW Act continues the separate operating licences of the SCA and State Water Corporation with their respective focus on the management and protection of the Sydney catchment and functions in respect of rural and rural areas.

The legislation contains provisions that carried over the regulatory functions that had previously been imposed on the SCA. These functions are now exercised through a Regulatory Authority. The Regulatory Authority is either the Minister or a statutory body or agency which is nominated by the Minister. On 19 December 2014 the Minister appointed WaterNSW as the Regulatory Authority for the purpose of the Water NSW Act by means of the Water NSW – Appointment of Regulatory Authority Order 2014.

Current legal matters

On 9 March 2015 following approval by the WaterNSW Board and in accordance with WaterNSW's *Prosecution Guidelines*, a prosecution was commenced in the Land & Environment Court against a person who allegedly dumped a quantity of domestic and commercial waste at Kangaloon in the Metropolitan Special Area which forms part of the drinking water catchment. Documents filed in Court allege breaches of the *Protection of the Environment Operations Act 1997* for the transporting of waste to a place that could not lawfully be used as a waste facility and four offences under the *Water NSW Regulation 2013*. The prosecution remains to be finalised by the Court.

Appendix 3 – Access to Information

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. WaterNSW program for the release of information includes:

- Regular reviews of the content and currency of information available on WaterNSW website;
- Regular consultation with WaterNSW Customer Service staff, management and major projects business units to evaluate the type of information the community is seeking access to and whether any of that information can be proactively released; and
- Review of WaterNSW access to information processes.

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

WaterNSW received five formal access applications under the *Government Information (Public Access) Act 2009* between 1 July 2014 and 30 June 2015. Five applications were received from members of the general public. All requests were for information other than personal information. Access was granted in full for four applications and access was granted in part for one application. No applications were refused.

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
Media	-	-	-	-	-	-	-	-
Members of Parliament	-	-	-	-	-	-	-	-
Private sector business	-	-	-	-	-	-	-	-
Not for profit organisations or community groups	-	-	-	-	-	-	-	-
Members of the public (application by legal representative)	-	-	-	-	-	-	-	-
Members of the public (other)	4	1	-	-	-	-	-	-

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
Personal information applications*	-	-	-	-	-	-	-	-
Access application (other than personal information applications)	4	1	-	-	-	-	-	-
Access application that are partly personal information application and partly other	-	-	-	-	-	-	-	-

Invalid applications

Reason application is invalid	No of applications
Application does not comply with formal requirements (section 41 of the Act)	-
Application is for excluded information of the agency (section 43 of the Act)	-
Application contravenes restraint order (section 110 of the Act)	-
Total number of invalid applications received	-
Invalid applications that later become valid applications	-
Total	-

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

	Number of times consideration used*
Overriding secrecy laws	-
Cabinet information	-
Executive Council information	-
Contempt	-
Legal profession privilege	-
Excluded information	-
Documents affecting law enforcement and public safety	-
Transport safety	-
Adoption	-
Care and protection of children	-
Ministerial code of conduct	-
Aboriginal and environmental heritage	-
Total	-

* More than one public interest consideration can apply to a particular 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	-
Law enforcement and security	-
Individual rights, judicial processes and natural justice	-
Business interests of agencies and other persons	-
Environment, culture, economy and general matters	-
Secrecy provisions	-
Exempt documents under interstate Freedom of Information legislation	-
Total	-

Timeliness

	Number of applications
Decided within the statutory timeframe (20 days plus any extensions)	4
Decided after 35 days (by agreement with applicant)	1
Not decided within time (deemed refusal)	-
Total	5

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

	Decision varied	Decision upheld	Total
Internal review	-	-	-
Review by Information Commissioner*	-	-	-
Internal review following recommendation under section 93 of Act	-	-	-
Review by Administrative Decision Tribunal	-	-	-
Total	-	-	-

* The Information Commissioner does not have the authority to vary decisions, but can make recommendations to the original decision-maker. The data in this case indicates that the Information Commissioner has made a recommendation to vary or uphold the original decision.

Applications for review under Part 5 of the Act (by type of applicant)

	Number of applications for review
Applications by access applicants	-
Applications by persons to whom information the subject of access application relates (see section 54 of the Act)	-

Public Interest Disclosure

WaterNSW is committed to encouraging and facilitating the disclosure of wrongdoing related to WaterNSW, by complying with the Public Interest Disclosure Act 1994 (PID Act); and:

1. implementing procedures for making disclosures about wrongdoing;
2. protecting persons from reprisals for validly disclosing wrongdoing; and
3. providing for disclosures of wrongdoing to be properly investigated and managed.

Administration of Public Interest Disclosures (PIDs) is under review at WaterNSW, following the merger. The review recognises the need to step-up procedures to take account of the merged businesses as well as the geographic spread of WaterNSW's operations. In this respect, training of potential "rural" disclosure officers has been undertaken; and a new Public Interest Disclosures Procedure (including a Policy) been prepared and is to be communicated to all staff. The purpose of the Procedure is to establish an internal reporting system for staff to report wrongdoing without fear of reprisal. The Procedure sets out who you can report wrongdoing to in WaterNSW, what can be reported and how reports of wrongdoing will be dealt with by WaterNSW. The PID Policy (embedded in the Procedure) is designed to complement normal communication channels between supervisors and staff. Staff are encouraged to raise matters of concern at any time with their line-managers, but also have the option of making a formal PID report.

No public interest disclosures were lodged during the reporting period.

Public interest disclosure 2014-15	
Number of public officials who made public interest disclosures	NIL
Number of public interest disclosures received	NIL
Primarily about corrupt conduct	NIL
Primarily about maladministration	NIL

Appendix 4 – Workforce Statistics

Overseas visit by staff

Name of officer:	Ian Landon-Jones
Dates of visit:	11-22 June 2015
Destination:	Norway
Event:	ICOLD Annual Meeting, Congress, Technical Committees and study tour
Cost to WaterNSW:	\$8,187.92

Compensable injuries

WH&S Statement

Since the formation of WaterNSW, a strong focus has been placed on developing a comprehensive Work Health and Safety (WHS) Management system for its workers. This involved extensive consultation across all parts of the organisation, while taking into consideration recognised best practices and the practical implementation of mitigation strategies. All Executives were provided with due diligence training and a detailed implementation strategy, targets and objectives have been developed.

There were no prosecutions.

	2011-12	2012-13	2013-14	2014-15
	State Water	State Water	State Water	WaterNSW
Total Compensable Injuries	2	4	4	9
Total Lost Time Days*	77.7	125	37.1	383
Average Lost Days per Compensable Injury	0	5.5	2.4	19.3

* Lost time injury days per year include days lost due to prior year injuries. 2011-12 (77.7 days), 2012-13(103 days), 2013-14 (27.4 days), 2014-15 (221 days)

Workforce numbers

	2011-12	2012-13	2013-14	2014-15
	State Water	State Water	State Water	WaterNSW
Total Employees	321	310	319	650

WaterNSW adjusted salaries and allowances by 3.25% for those employees under the State Water Corporation Enterprise agreement 2012 and by 2.27% for those employees under the Sydney Catchment Authority Consolidated Award 2015-16 for the reporting period in line with NSW Government Wages Policy.

Workforce diversity tables

Percentage of total staff representation

	Benchmark or target (%)	2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)
		State Water	State Water	State Water	State Water	WaterNSW
Women	50	25.3	25.2	24.8	24.1	29.65
Aboriginal people and Torres Strait Islanders	2.6* ¹	1.9	1.9	1.9	2.2	1.7
People whose first language was not English	19*	10.7	8.7	3.5	4.1	12.5
People with a disability	12	1.3	1.2	1.3	1.3	2.25
People with a disability requiring work-related adjustment ²	1.5	0.3	0.3	0.3	0.3	0.6

* Targets changed from December 2009 (previously 2 percent and 20 percent respectively)

¹ Minimum target by 2015

² Minimum annual incremental target set from December 2010 – (2011=1.1, 2012=1.3, 2013=1.5)

Distribution index

	Benchmark or target (%)	2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)
		State Water	State Water	State Water	State Water	Water NSW
Women	100	85	87	89	84	90.5
Aboriginal people and Torres Strait Islanders	100	N/A	N/A	N/A	N/A	N/A
People whose first language was not English	100	119	119	N/A	N/A	105
People with a disability	100	N/A	N/A	N/A	N/A	N/A
People with a disability requiring work-related adjustment	100	N/A	N/A	N/A	N/A	N/A

Workforce diversity statement

The Equity and Diversity Management (E&DM) Plan 2013 - 2015 incorporates a suite of equity and diversity programs including:

- An Equal Employment Opportunity (EEO) Management Plan
- A Disability Action Plan (DAP)
- Multicultural Policies and Services Plan
- Aboriginal Employment Strategy

WaterNSW's commitment to equity and diversity continues to be communicated to workers through new employee inductions, and staff newsletters to coordinate and promote activities and events to support diversity and inclusion in our workplace.

To ensure that our non-English speaking customers are able to access and understand information, a poly-lingual webpage has been developed, directing customers to the Community Relations Commission for translation assistance.

The Equity and Diversity Management plan will be reviewed in the 2015 calendar year in the context of the new organisation with broader customer base and stakeholders.

Personnel and industrial relations policies and procedures

Learning and Development

- Conference Attendance and Presentation - Procedure
- Induction Procedure
- Learning and Development Procedure
- Study Assistance Procedure

Performance Management

- Disciplinary Procedure
- Grievance Resolution Procedure
- Performance Management Procedure

Recruitment Selection

- Job Vacancies Procedure

Staff Welfare

- Employee Assistance Program
- Sick Leave Management Procedure

Employment Conditions and Award

- Breastfeeding at Work Procedure
- Carers Leave Procedure
- Code for Gifts and Benefits
- Code of Conduct Procedure
- Dignity & Respect Charter and Framework
- Excess Staff Procedure
- FACS Leave Procedure
- Flexible Work Arrangements Procedure
- Job Evaluation Procedure
- Maternity Leave Procedure
- Part-Time Work Procedure
- Prevention of Bullying and Harassment
- Public Interest Disclosures Policy - Reporting Unethical or Improper Conduct
- Purchased Leave Procedure
- Recreational Leave Management Procedure
- SCA Consolidated Award 2015-16
- State Water Corporation Enterprise Agreement 2015.
- State Water Human Resource Policy
- Salary Packaging Procedure
- Secondary Employment Procedure
- Unethical or Improper Conduct Procedure
- Work Experience Procedure
- Working Safely from Home Procedure

Appendix 5 – Complaints received

Complaints received 2014-15

During the year, 55 customer complaints were received. This is comparable to the number of complaints received last year (53).

Of these, WaterNSW received 8 complaints on behalf of other agencies. These were directed to those agencies for resolution.

The number of complaints by category are summarised in the following table:

Number of Customer Complaints to WaterNSW by Type

Complaint Type	Count
Asset Management	7
Customer Service Charter	2
Employee Performance	10
Environmental management	-
General	7
iWAS	-
Metering Project - Murray	4
Metering Project- Murrumbidgee	5
WaterNSW Billing	5
Trade	1
Water Account balances	-
Water Delivery	2
Water Metering general	3
Water Ordering	1
Total	47

WaterNSW resolved 43 of these complaints.

Complaints to other bodies

WaterNSW received four Referrals to Higher Level (RHLs) from the Energy & Water Ombudsman NSW (EWON) regarding customer complaints during the year. All four complaints were closed, with two dismissed as they were related to other parties, and two were for WaterNSW billing and asset management. All were resolved to the satisfaction of the customer.

WaterNSW had five Level 1 Investigations from EWON during the year. One investigation was raised to Level 1 from a RHL, the second was due to a pending “service disconnection” while the remaining three Investigations were raised with WaterNSW separately. All investigations were closed with customers satisfied.

EWON made no determinations for any WaterNSW matters during 2014-15.

Appendix 6 – Financial performance

Financial outcomes

Performance in relation to budget 2014-15

To enable a comparison of budget to actual financial results for 2014-15, the table below shows the combined full year WaterNSW and former SCA financials for 1 July 2014 to 30 June 2015.

	Actual \$M	Budget \$M	Variance \$M	Comments
Revenue	323	356	(33)	Lower revenue driven by lower than expected usage volumes across most rural valleys, the rebate of carbon tax to Sydney Water and reduction in scope of the Commonwealth metering project.
Operating expenditure	(156)	(189)	33	Operating expenses were lower than expected mainly due to lower contractor costs, lower salary and wages, expected pumping costs not materialising and management initiatives to drive a more financially responsible culture.
Profit before tax	168	168	0	Lower revenues were offset by lower operational expenditure
Depreciation	(54)	(52)	(2)	Within expectations
Net interest expense	(32)	(44)	12	The January 2015 restructure of the IPART benchmarked debt portfolio and lower than expected capital expenditures resulted in lower interest costs.
Non-recurring items	(168)	(20)	(148)	One off expenses for 2014-15 year included a fair value of assets adjustment, fair value of debt on transfer, Wyangala bridge write down, write down of Shoalhaven scheme capitalised costs, DTIRIS actuarial liability re-measurement on transfer of SCA staff, redundancy provision and Green State Power risk compensation contribution.
Profit after tax	(7)	36	(43)	Driven by the non-recurring items. On a normalised basis, full year profit after tax was \$41 million, \$5 million higher than budget forecast of \$36 million.
Capital expenditure	(75)	(128)	53	A revised capital program was implemented following a lower than expected capex allowance in the 2014 ACCC final determination for the rural valleys. Delays and deferrals in a number of projects drove the lower than expected capital expenditure.

Budget Outline 2015-16	\$M
Revenue	354.4
Expenses	184.9
EBITDA	169.6
Depreciation & Amortisation	57.2
EBIT	112.3
Net Interest	36.6
Profit before Tax	75.8
Tax	5.1
Net Profit after Tax (normalised)	70.7
Significant items	1.2
Net Profit after Tax	69.5
Capital Expenditure Budget	124.4

Economic factor affecting performance

WaterNSW's operating expenditure budget contains a component for energy costs that may be incurred if it is required to pump from the Shoalhaven system. These costs were significantly lower than forecast due to no pumping transfers taking place as the total dam storage level remained above the 75 percent trigger for transfers from the Shoalhaven. Additionally, lower energy costs were incurred due to the Clean Energy Legislation (Carbon Tax Repeal) Bill 2014 being passed by Federal Parliament on 17 July 2014, with backdated effect to 1 July 2014.

Investment performance

WaterNSW invests surplus cash with TCorp's Hour-glass cash facilities. At the end of June 2015, \$41.088 million is held in the Hour-glass facility. The table below provides an annualised return on the investment facilities as at 30 June 2015.

Term of underlying liability	T-Corp facility	1 year	3 year	5 year	7 year
0-2 years	Hour-glass cash facility trusts	2.73	3.11	3.92	4.20
2-4 years	Hour-glass strategic cash facility trust	2.88	3.42	4.17	4.46
4-7 years	Hour-glass medium term growth facility trust	7.37	8.58	7.42	6.61
7+ years	Hour-glass long term growth facility trust	12.68	15.52	10.67	7.48

The following table reports the annualised performance of this facility against benchmark, the USB Bank Bill Index.

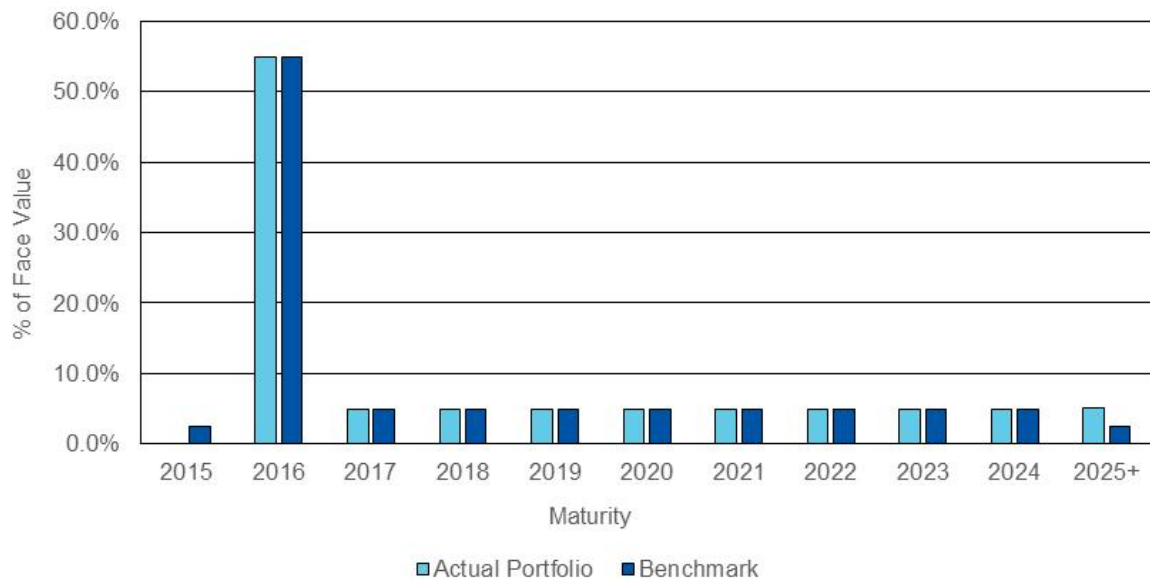
	1 year	3 year	5 year	7 year
Actual performance	2.73	3.11	3.92	4.20
Benchmark performance	2.60	2.85	3.65	3.94
Variance	0.13	0.26	0.27	0.26

Liability management

WaterNSW has in place a Treasury Risk Management Policy (TRMP) to monitor and control its liability exposure. The TRMP was revised during the year to reflect the debt allowance calculation methodology set by pricing regulators such as IPART and the ACCC. WaterNSW's debt portfolio is structured in two sub-portfolios to reflect the different methodology used by IPART and the ACCC. The key risks monitored by the TRMP are interest rate repricing risk, debt mix risk and liquidity limits.

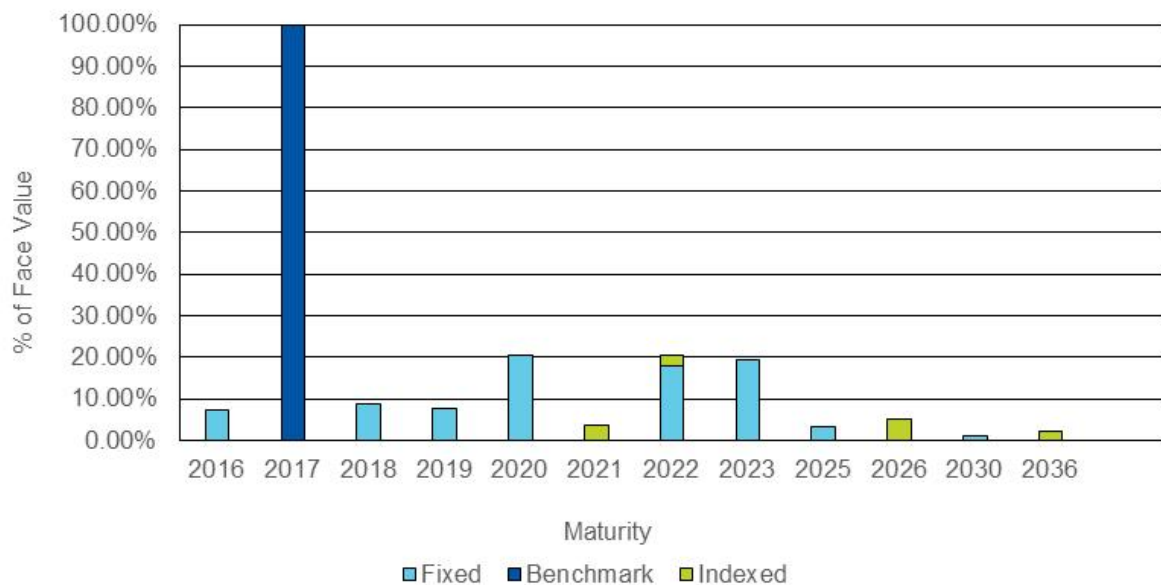
IPART Portfolio

The chart below shows the maturity (or physical debt refinancing) profile of the portfolio against the IPART benchmark.



ACCC portfolio

The chart below shows the maturity (or physical debt refinancing) profile of the ACCC portfolio against its regulatory benchmark.



Consultancies

Over \$50,000	Work Health & Safety Name: Advisian Pty Ltd Consultancy: High Level Review of Water NSW WHS System and Procedures, and Preparation of WHS Procedures Cost: \$273,441 Engineering Name: Advisian Pty Ltd Consultancy: Maintenance Contract Performance Review Cost: \$85,114 Total consultancies equal to more than \$50,000: \$358,555
Less than \$50,000	During the year, six other consultancies were engaged in the following areas: Information Technology: \$33,925 Science: \$32,218 Legal: \$59,451 Management services: \$41,306 Total consultancies equal to less than \$50,000: \$166,900

Land disposals

WaterNSW did not dispose of any property in 2014-15

Funds granted to non-government community organisations

Organisation	Project funded	Amount
ANCOLD Australian Dam Owners Forum	Sponsorship for the ANCOLD Australian Dam Owners Forum 28-29 May 2015	\$2,700.00
Grassland Society of NSW 2015	Grasslands NSW 2015 Conference	\$1,350.00
Local Government NSW	LGNSW Water Management Conference	\$2,000.00
Wollongong Police Special Grant	Provision of protective equipment to facilitate joint operations to enforce special area regulations	\$7,419.27

Credit card certification

As required by Treasurer's Direction 205.01, the Chief Executive Officer of WaterNSW certifies that credit card usage was in accordance with the relevant government policy, Premier's Memoranda and Treasurer's Directions.

Cost of Annual Report

There were no external costs incurred in the production of the Annual Report.

Payment of accounts

Aged analysis at the end of each quarter 2014-15

	<30 days overdue \$'000	30 to 60 days overdue \$'000	61 to 90 days overdue \$'000	> 90 days overdue \$'000	* Retention Value \$'000
All Suppliers					
Sep	472	19	5	550	556
Dec	3,092	0	19	539*	8
Mar	1,809	429	0	8	8
Jun	3,535	256	43	18	69

**Retention amounts included.*

Retention monies are held for the 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 2014-15

Measure	Sep	Dec	Mar	Jun	Total
All suppliers					
Accounts due for payment (number)	1,239	1,056	2,160	2,564	7,019
Accounts paid on time (number)	905	781	1,808	2,160	5,654
Number of accounts paid on time (percentage)	73.04%	73.95%	83.70%	84.24%	80.55%
Accounts due for payment (\$)	37,290,148	37,981,240	34,499,072	69,203,787	178,974,247
Accounts paid on time (\$)	25,786,013	36,046,029	28,546,169	59,293,722	149,671,933
Dollar accounts paid on time (percentage)	69.14%	94.90%	82.74%	85.67%	83.62%
Accounts with interest overdue (number)	0	0	0	0	0
Interest paid on overdue accounts	0	0	0	0	0

Invoices from creditors are sent to sites, processed and posted to Accounts Payable in Head Office, Dubbo.

Purchase orders must be actioned by the site in order for Accounts Payable to enter the invoice and process payments to creditors. WaterNSW sites are remote and are not all manned by administrative staff. Site staff may also only visit a post office once a week to collect/send mail.

Invoices <\$3,000 must be paid by purchase card where possible. This should allow sites to process low value invoices promptly.

Appendix 7 – Compliance activities

WaterNSW treats compliance issues seriously, so to ensure business revenue protection, equitable access to water for customers and maintenance of the water's market value as a business asset.

WaterNSW submits alleged breaches to the NSW Office of Water, the Regulator. WaterNSW reported 44 alleged breaches and 251 instances of over extraction during the year. As a result of these investigations, NSW Office of Water subsequently issued penalty infringement notices and stop-work orders, they also pursued prosecutions and issued formal warnings to customers.

Breaches included:

- Over extraction of water
- Excavation of a hole in a creek bed plus taking water from the creek using a groundwater pump
- Illegally taking water on a zero share licence without first purchasing allocation
- Taking of water in breach of water order conditions
- Enabling water to bypass the meter when the river flow was high
- Taking of water without a licence linked to the work approval
- Tampering with state owned meter

WaterNSW works closely with customers to ensure invoices are paid and any necessary payment plans are established where customers are experiencing hardship. Non-payment of invoices resulted in 20 licence suspensions under Section 78 of the *Water Management Act 2000* and of these, 5 suspensions have since been lifted.

Three licences that were suspended prior to this year were also lifted. As at 30 June 2015, there are 40 suspended licences.

Under Section 91i (S91i) of the *Water Management Act 2000* it is an offence to take water from a water source when metering equipment is not operating properly. A total of 142 S91i applications were received in this year, and of these, only one application was rejected.

Illegal water extraction has reduced further due to introduction of telemetered meters. These meters have improved monitoring and reporting of time-stamped customer usage. Education of customers through verbal and written communications plus regular communication with DPI Water has also helped.

Development applications assessed

	2011-12	2012-13	2013-14	2014-15
Number of development applications assessed	171	176	191	188
Proportion (of total received) of development proposals assessed by WaterNSW within statutory timeframes (%)	96.5	99	97.9	100
Proportion (of total received) of development proposals where WaterNSW concurrence withheld (%)	-	-	-	-

Section 61 (8), Water NSW Act 2014

The following information is required to be reported to the Minister under section 61 of the WaterNSW Act 2014:

Section 61 (8), Water NSW Act 2014 – Annual reports by persons appointed to exercise regulatory functions - 1 January to 30 June 2015

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

	Function Exercised	Number of times exercised	Outcome
Section 61 (10) (a)(i)	The number of times authorised officers entered onto land - section 68	0	
	10 (a)(i) The number of times authorised officers issued search warrants - section 69	0	
Section 61(10) (a)(ii)	The number of times authorised officers exercised the power to require a person to answer questions -section 70 (1) and (5)	2	Two records of interviews (ROIs) were conducted and completed as part of an investigation.
	The number of times authorised officers exercised the power to issue a notice requiring a person to provide information and records - section 71	1	
	The number of times authorised officers exercised the power to require a person to state name and address or produce drivers licence -section 73	0 ⁱ	
Section 61(10) (a)(iii)	The number of times authorised officers issued penalty notices under section 102	33 ⁱⁱ	The recipient of two penalty notices elected to have them heard in a local court. The individual pleaded guilty. The magistrate convicted the individual for both offences and reduced the penalty amounts given the individuals personal circumstances.
Section 61(10) (a)(iv)	The number of times authorised officers exercised functions with respect to the commencement of prosecutions for offences against the Water NSW Act or regulations and the outcomes of the prosecutions	0	

Section 61(10)(b) powers exercised by Water NSW under delegation

Function	Exercised	Outcome
Section 70 (2) The power to issue a notice requiring a corporation to nominate a person to answer question	2	Persons nominated and record of interview carried out.
Section 71 The power to require a person to provide information and records.	1	
Section 74 The power to require an owner of a motor vehicle and others to give information.	0	The power to require an owner of a motor vehicle and others to give information
Section 77 The power to issue a catchment correction notice.	1	Notice in force
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	

ⁱ *Authorised Officers are trained to use their powers under Part 6 of Division 3 only in circumstances where it is required and 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 Compliance and Investigations section for further investigation using investigation powers under Division 3, if appropriate.*

ⁱⁱ *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.*

ⁱⁱⁱ *This is not required to be reported but is being provided for transparency*

Section 61(10)(c) the Minister has not requested any other information

Regulatory compliance

WaterNSW 'half' year annual report – 1 January to 30 June 2015

Protection of the Environment Operations Act 1997	2014-15
Clean-up notices (s91)	2
Prevention notices (s96)	4
Compliance cost notices (s104)	0
Requirements to provide information and records notices (s192 & s193)	1
Prosecutions commenced	0
Penalty infringement notices	2
Warning letters	1

Water NSW Act 2014	2014-15
Notices attend and answer questions (s70)	4
Notices requiring information and records (s71)	1
Owner of motor vehicle and others to give information (s74)	0
Catchment correction notices (s77)	1
Catchment protection notices (s81)	0
Compliance cost notices (s86)	0
Prosecutions commenced	1
Penalty infringement notices	33
Warning letters	49

Authorised Officers are trained to use their powers under Part 6 of Division 3 only in circumstances where it is required and 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 Compliance and Investigations section for further investigation using investigation powers under Division 3, if appropriate.

ⁱⁱ 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.

ⁱⁱⁱ This is not required to be reported but is being provided for transparency

Risk management and insurance

Risk Management

WaterNSW continued to implement a risk management framework which provided a basis for consistently managing risk to support achievement of business objectives. The framework reflected ISO 31000:2009 the international risk management standard and NSW Treasury Policy TPP09-05 Internal Audit and Risk Management. In 2014-15, WaterNSW reviewed and redeveloped the Framework to ensure a harmonised framework and maintained certification under the international information security management standard ISO 27001:2005 and its focus on continual improvement.

WaterNSW enterprise risk management framework has identified the following major risks. Mitigations and controls have been implemented to manage the risks.

Risk	Risk category	Risk description
1	Safety	Health and safety systems, processes or management fail to protect WaterNSW from harm
2	Capability/Service Delivery	Critical Asset failure or deterioration affects service capability
3	Capability/Service Delivery	Deterioration in raw water quality and/or reduction in service being delivered to customers
4	Capability/Service Delivery	Failure to provide the skills and resources required to deliver corporate strategies
5	Capability/Service Delivery	Business systems fail to meet WaterNSW needs adversely impacting business performance
6	Capability/Service Delivery	Inadequate planning to meet long term water demand
7	Environment	WaterNSW causes significant environmental damage
8	Compliance	Material breach of legislation or licence or a dispute
9	Reputation	Water NSW fails to meet the expectations of customers, shareholder, regulator or community

Insurance

WaterNSW has a comprehensive insurance program as part of its risk management strategy. WaterNSW is continuing to use the Treasury Managed Fund (TMF) to provide cover for all general insurance including worker's compensation as per current NSW legislation.

Government Resource Efficiency Policy

Key actions implemented since the 2013 audit include:

- the proposed actions to reduce waste to landfill
- a communications / waste education plan has been drafted
- waste education in public spaces and liaising with building managers and cleaning staff to ensure correct recycling for office waste
- development of a waste process table for effective waste data collection and reporting
- communicating actions such as providing a summary of waste audit findings to staff, publishing articles on waste management initiatives on the WaterNSW intranet and in iSCAN/NewsStream and development of WRAPP fact sheets
- development and implementation of integrated waste management contracts for the Penrith Office building to help reduce contamination levels in waste streams and improve resource recovery.
- implementation of the new office recycling system to the Penrith office building
- establishment of a green lease office working group for the Penrith building, comprised of the building manager and tenants
- implementation of waste management initiatives under the Penrith building's green lease plan (in line with NSW Government best practice)

The WRAPP plan was not revised during 2014-15 given the changes to the WRAPP reporting requirements and the introduction of the Government Resource Efficiency Policy (GREP).

It is intended to develop a Sustainability Management Plan for WaterNSW by the end of 2015.

Implementation of price determinations

As a monopoly supplier of raw water to rural NSW and Greater Sydney, WaterNSW is subject to pricing regulation by the Independent Pricing and Regulatory Tribunal (IPART) of NSW and the Australian Competition and Consumer Commission (ACCC).

The current IPART and ACCC determination sets out the maximum prices WaterNSW can charge its customers as well as the methodology to be applied for annual price change. WaterNSW has implemented the outcomes of the pricing determinations through its budget. Financial targets in the annual Statement of Corporate Intent are also set to ensure the determination outcomes are met. WaterNSW has robust processes in place to ensure that over the period of ACCC and IPART determinations, it will not exceed the capital and operating expenditure allowance while meeting or exceeding NSW Treasury's financial targets.

Response to Audit Office Client Service Report significant matters – Land Contamination

The Client Service Report for the year ended 30 June 2015 included 'Contamination' as a 'significant matter' in the audit findings. This finding was based upon a WaterNSW report entitled "Contaminated Sites Management Strategy for WaterNSW Land and Infrastructure with the Metro Area of Operations 2015-2018" ("the Strategy Report").

WaterNSW is of the view that the inclusion of 'Contamination' as a 'significant matter' incorrectly and unjustifiably implies that WaterNSW is not meeting its obligations to report and manage contaminated land under the *Contaminated Land Management Act 1997* ("CLM"). This is not the case. Nor does the Strategy Report provide a basis for such implication.

WaterNSW has responded to the Audit Office in writing and provided the following clarification on the content of the Strategy Report:

- With respect to former Sydney Catchment Authority ("SCA") land, there is, and has been since 2002, a program for the management of contaminated sites and the SCA's (now WaterNSW's) compliance with its obligations under the CLM.
- The SCA land is all of the land within the 'Metro Area' of WaterNSW's operations.
- Of the SCA land, to date, only two sites have been considered 'reportable' under section 60 of the CLM Act. In 2009 they were duly reported.
- As part of the SCA's ongoing program for the management of contaminated sites, WaterNSW recently prepared the Strategy Report. What the Strategy Report does, amongst other things, is address specifically the key recommendations of the NSW Auditor-General's Report into Managing Contaminated Sites (NSW Audit Office 2014), including:
 - "ensuring comprehensive, risk-based policies and procedures are in place to identify and manage contaminated sites"; and
 - "developing a comprehensive plan for known and suspected contaminated sites including prioritisation processes and notification of sites that meet the reporting requirements under Section 60 of the CLM Act".
- In so doing the Strategy Report:
 - confirms that WaterNSW has developed a contaminated site register which lists 111 sites which:
 - are currently contaminated;
 - have been the subject of environmental assessments; and/or
 - have been remediated;
 - it ranks each site according to risk; and
 - proposes a comprehensive plan of further actions in respect of each site (dependent upon risk rating).
- Importantly, the Strategy Report provides that:
 - "WaterNSW (as the former SCA) currently has two sites notified to the EPA, and does not anticipate more will be required to be submitted for the known sites".

In short, the Client Service Report findings are not supported by the Strategy Report. WaterNSW has requested the deletion of that section of the Client Service Report dealing with 'Contamination' as a 'Significant Matter'.

Treasury compliance checklist

Requirement	Legislative Reference	Reporting Requirement for Statutory Bodies	Annual Report Reference
Letter of Submission	ARSBA s9A	- 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 2 members of statutory body or, if without members, by the CEO	Pg.1
Charter	ARSBR Sch.1	- Manner in which and purpose for which agency was established - Principal legislation under which statutory body operates	Pg.5
Aims and objectives	ARSBR Sch.1	- What agency sets out to do - Range of services provided - Clientele/community served	Pg.5
Access	ARSBR Sch.1	- Address of principal office/s - Telephone number of principal office/s - Business & service hours	Back Cover
Management and structure	ARSBR Sch.1	- 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	App.1,Pg.80-84
Summary review of operations	ARSBR Sch.1	- Narrative summary of significant operations - Financial and other quantitative information for programs or operations	Pg.8 Pg.10-12
Funds granted to non-government community organisations	PM 91-34 ARSBR Sch.1	- 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	App.6, Pg.97
Legal Change	ARSBR Sch.1; ARSBA s9(1)(f)	- Changes in Acts and subordinate legislation - Significant judicial decisions affecting agency or users of its services	App.2, Pg.85
Economic or other factors	ARSBR Sch.1	- Affecting achievement of operational objectives	App.6, Pg.95
Management and activities	ARSBR Sch.1	- 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 mgt. 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 / deferments / cancellations	Pg.8-12
Research and development	ARSBR Sch.1	- Completed and continuing research and developmental activities including resources allocated - Unless will adversely affect business	Pg.8

Human Resources	ARSBR Sch.1	- 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	App.4, Pg.90-92
Consultants	PM 2002-07 ARSBR Sch.1	- For each engagement costing equal to or greater than \$50,000: • 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: • 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	App.6,Pg.97
Workforce Diversity	PSC Circular 2014-09 ARSBR Sch.1 ARSBR c18 TC15/18	- Statutory bodies must report 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. - Additionally, statutory bodies must report on the workforce diversity achievements during the reporting year and the key workforce diversity strategies proposed for the following year. - Small statutory bodies need only report on a triennial basis	App.4, Pg.91
Disability Inclusion Action Plans	DIA s12n and 13, ARSBR Sch.1 ARSBR c18 TC15/18	- If the statutory body is required to have a disability inclusion action plan under the Disability Inclusion Act 2014, a statement setting out the progress during the reporting year in implementing the plan. - Small statutory bodies need only report on a triennial basis	App.4, Pg.91
Land Disposal	ARSBR Sch.1	- If value greater than \$5,000,000 & not sold by public auction or tender - 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.	App.6, Pg.97
Promotion	ARSBR Sch.1	- Overseas visits by employees and officers with main purposes highlighted	App.4, Pg.90
Consumer Response	ARSBR Sch.1	- Extent and main features of complaints - Services improved/changed in response to complaints/suggestions	App.5, Pg.93
Payment of Accounts	TC 11/21 ARSBR Sch.1	- Details of performance in paying accounts for each quarter: • 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	App.6, Pg.98
Time for Payment of Accounts	ARSBR Sch.1; TC 11/21	- Where interest was paid due to late payments, list of instances and reasons for delay which caused late payment.	App.6, Pg.98
Risk management and insurance activities	ARSBR Sch.1	- Report on the risk management & insurance arrangements and activities affecting the agency.	App.7 Pg.102-103

Multicultural Policies and Services Program (formerly EAPS)	ARSBR Sch.1 ARSBR c18 TC15/18	- Statement setting out the key multicultural strategies proposed for the following year - Progress in implementing the statutory body's multicultural policies and services plan - Information as to the multicultural policies and services plans of any bodies reporting to the agency - Small statutory bodies need only report on a triennial basis	App.4, Pg.91
Work Health and Safety (WHS)	ARSBR Sch.1 ARSBR c18 TC15/18	- Statement setting out WHS performance - Details of injuries and prosecutions under Occupational Health and Safety Act 2011 - Small statutory bodies need only report on a triennial basis	App.4, Pg.90
Budgets	ARSBA s7(1)(a)(iii) ARSBR c7(1)	- Detailed budget for the year reported on, including details of: • If this is the first budget approved • Adjustments to first budget approved - Outline budget for following year	App.6, Pg.94
Financial Statements	ARSBA s7(1)(a) (i) - (iia)	- Inclusion of Financial Statements - Controlled Entities' Financial statements - Audit Opinion on Financial Statements - Response to significant issues raised by Auditor-General	Pg.14
Identification of audited financial statements	ARSBR c5	- At start and finish	Pg.14, Pg.78
Additional matters for inclusion in annual reports	ARSBR c8	- After balance date events having a significant effect in succeeding year on: • 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).	App.7 Pg.104 App.6, Pg.97
Investment performance	ARSBR c10; TC 14/13	- 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	App.6, Pg.95
Liability management performance	ARSBR c11; TC 14/13	- 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	App.6, Pg.95-96
Numbers and remuneration of senior executives	ARSBR c12 PSC Circular 2014-09	- 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	App.1, Pg.84

Implementation of Price Determination	IPARTA s18(4)	- If agency subject to determination or recommendation of Tribunal then: • Statement that it was implemented and details of implementation; or • Reasons for not being implemented.	App.7, Pg.103
Credit card certification	TD 205.01	- Credit Card certification to be attached	App.6, Pg.97
Government Information (Public Access) Act 2009	GIPAA s125(4), (6) GIPAAR c7, Sch 2; c12, Sch 3	- 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 Sch 2 - Each agency referred to in Sch 3 of the Regulation (subsidiary agency) is declared to be part of and included in the parent agency specified in Sch 3.	App.3, Pg.86-89
Public Interest Disclosures (PID)	PIDA s31, PIDR c4, PM2013-13	- Separately report on: • 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. - For each PID, a public authority should disclose the following information: • 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 received by the public authority relating to each of the following: ○ 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 • Actions taken to ensure staff awareness responsibilities under s6E(1)(b) of the PIDA have been met.	App.3, Pg.89

Contact Information

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