Document 1

TAHE
[redacted] to: [redacted] [redacted]@abs.gov.au) 19/06/2015 11:31 AM

From: [redacted] <[redacted]@treasury.nsw.gov.au>
To: "[redacted] [redacted]@abs.gov.au)" [redacted]@abs.gov.au>
History: This message has been replied to.

Hi [redacted]

Just wanted to drop you an updated section from our Budget Papers. I wanted your view on the text in case you had any issues. Please let me know

Cheers
[redacted]

Since November 2011, the Government has undertaken reforms to the delivery of public transport services. These reforms include the establishment of Transport for New South Wales (TfNSW), Sydney Trains and NSW Trainslink for the delivery of transport services to customers. The 2015-16 Budget builds on these reforms with the creation of a dedicated asset manager, the Transport Asset Holding Entity (TAHE), from 1 July 2015. TAHE will hold all of the public transport assets for the State. The Government first flagged its intention to create a TAHE in 2013. In accordance with Government Finance Statistics (GFS) classification, the Australian Bureau of Statistics has classified TAHE as a commercial Public Non-Financial Corporation. This GFS framework applies to all State governments and independently determines in which sector a government entity belongs. Queensland and Victoria have similar entities and with a more commercial focus.

TAHE will procure and sell assets consistent with Government requirements and lease those assets to the operators (both Government and non-Government) under negotiated leases and other contracts. As a result, public transport assets will be managed on a portfolio basis, generating greater efficiencies and synergies.

Until now, the Government has paid recurrent grants to Rail Corporation to deliver its capital program. From 1 July 2015, new funding for capital projects will be provided by equity injections, as TAHE will provide a commercial return. This will result in the recognition of increased revenue in the General Government Sector (GGS) and a reduction in GGS capital expenditure. Table 1.1 provides a detailed reconciliation of the impact of this arrangement across the forward estimates.

NSW GOVERNMENT | The Treasury

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Document 2

Increased dividends by NSW Public Corps

S47F [redacted] to: S47F [redacted], S47F [redacted], [redacted] 11/07/2017 09:03 AM

Cc: Ben Dolman

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The Sydney Morning Herald (Australia) - Online

July 10, 2017 Monday 05:05 PM GMT

LENGTH: 802 words

HEADLINE: **This one accounting trick got the government $1.5 billion**

BYLINE: James Robertson and Jacob Saulwick

HIGHLIGHT:

A simple accounting change will deliver the state government an unpublicised budget boost of $1.5 billion by taking more money out of Sydney Water and its regional counterparts, but one expert says is "irresponsible".

BODY:

Multiple accounting changes used in the state budget have helped swell the government's surpluses by billions - but drawn scrutiny for potentially being unsustainable and "irresponsible".

NSW Treasury has quietly made major changes to the way all state-owned corporations, including the water companies, must manage their finances.

But the result went unnoticed in last month's state budget: a near doubling of the previously estimated "dividend" that state-owned water companies pay the government to reach about $960 million next year.

Over the next four years the extra revenue from Sydney Water, Hunter Water and Water NSW equates to about an extra $1.5 billion for Treasury.

"Buried in the financial jargon is a simple fact, the government is ripping billions out of water companies and in the process leaving them financially weak and more vulnerable," Labor's Water spokesman Chris Minns said.

Treasury argues the move is part of a broader push to free up the flow of money within government, flexibility that can support other essential projects.

But Associate Professor Stuart Khan from the University of NSW and an expert in water safety condemned the move as "thoroughly irresponsible".

"Taking additional revenue from essential water services is short-sighted and will have significant consequences," Dr Khan said.

Dr Khan said agencies including Water NSW, the body set up in response to the Sydney water crisis of the 1990s, had cut their scientific capability "to the bone" and were becoming reliant on outsourcing scientific and engineering water safety work to the cheapest provider.

A similar dispute has arisen over accounting changes made to the classification of rail assets.

Two years ago, the government created the "Transport Asset Holding Entity", which had the effect of removing capital investment in the rail network off the budget balance sheet.

This has improved the budget position by billions - documents leaked to Labor show the TAHE improving the 2015-16 surplus by $1.8 billion, from $700 million to a $2.5 billion surplus.

Labor's treasury spokesman Ryan Park said the "accounting trick" had done nothing to change the real financial position of the government.

Moreover, Mr Park questioned whether the Australian **Bureau** of **Statistics** would continue to allow rail assets to be held in an off-balance sheet entity. If the **ABS** was not satisfied that the off-balance sheet holder of rail assets generated a commercial rate of return - typically 7 per cent - those assets would potentially have to be brought back onto the budget books.

A spokesman for the NSW Treasury said the **ABS** would have to "substantially change its application or interpretation" of government financial **statistics** for the TAHE not to meet the new criteria for an off-balance sheet entity.

In relation to Sydney Water, outgoing Treasury Secretary Rob Whitfield argues state corporations have been running too conservatively, with too many assets compared to their debts.

Under the changes government companies will be forced to lower these assets and their credit ratings, assessments which affect debt repayment bills.

State companies will now achieve a target credit rating of Baa2 which, according to the ratings agency Moody's, is only two grades above the point at which a company's creditworthiness is deemed "speculative" or below investment grade.

Sydney Water currently has about $6.5 billion in debt but a better-than-expected profit last year, something which it attributed to a recent upgrade of its credit rating.

"This decision will lead to higher borrowing costs as the company's credit rating drops, this will undoubtedly lead to higher water prices for regular customers," Mr Minns said.

In 2016 Sydney Water warned, in a submission to the state's pricing regulator, that operating at a lower credit rating "would not provide a buffer to absorb financial risks".

But a spokesman for the Treasury department said the new structure would have no effect on how much infrastructure Sydney Water invested in, or on prices which from July 2016 had fallen in NSW by an average of $100 a year.

Treasurer Dominic Perrottet said Sydney Water's performance had transformed since 2011 when the coalition government took power.

"NSW citizens now enjoy the lowest water prices in Australia and water that meets the highest quality standards in the world," he said.

A Sydney Water spokeswoman said: "Sydney Water's dividend payments to Government will not place additional pressure on prices, services, quality or reliability".

Government debt is generally acquired through the Treasury Corporation, which in turn charges fees to State Owned Corporations based on their credit worthiness.

Correction: An earlier version of this story misstated the Treasury's new target credit rating for State Owned Corporations. It is Baa2.

LOAD-DATE: July 10, 2017

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