



Statement of Corporate Intent 2019-20

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2019-20 Statement of Corporate Intent
Port Authority of New South Wales
Shareholder Agreement

This Statement of Corporate Intent is agreed between Port Authority of New South Wales and its Ministerial voting shareholders:



Robert Dunn
Chairman

for and on behalf of
Port Authority of New South Wales

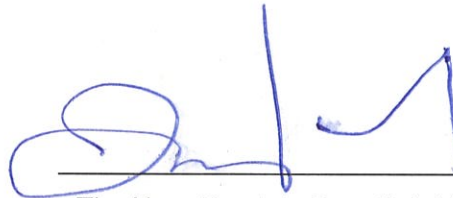
Date: 23 September 2019



Grant Gilfillan
Chief Executive Officer and
Director

for and on behalf of
Port Authority of New South Wales

Date: 23 September 2019



The Hon. Dominic Perrottet, MP
Treasurer

Date: 17/11/19



The Hon. Damien Tudehope, MLC
Minister for Finance and Small Business

Date: 4/11/19.

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1 Objectives

Port Authority of New South Wales (Port Authority) is a statutory State Owned Corporation established under the *State Owned Corporations Act 1989* and *Ports and Maritime Administration Act 1995*, and operates in accordance with those Acts. The principal objectives of Port Authority reflect the provisions of both Acts.

Port Authority's principal objectives which derive from the *State Owned Corporations Act 1989* are:

1. To be a successful business and, to this end:
 - a) To operate at least as efficiently as any comparable businesses.
 - b) To maximise the net worth of the State's investment in the State owned corporation.
2. To exhibit a sense of social responsibility by having regard to the interests of the community in which it operates.
3. Where its activities affect the environment, to conduct its operations in accordance with the principles of ecologically sustainable development contained in section 6(2) of the *Protection of the Environment Administration Act 1991*.
4. To exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates.

(The *State Owned Corporations Act 1989* states that each of the above principal objectives is of equal importance.)

In addition to the above, Port Authority's principal objectives, which derive from the *Ports and Maritime Administration Act 1995*, are:

1. To promote and facilitate trade through its port facilities.
2. To ensure that its port safety functions are carried out properly.
3. To promote and facilitate a competitive commercial environment in port operations.
4. To improve productivity and efficiency in its ports and the port-related supply chain.

2 Business Overview and Strategic Summary

2.1 Business Overview

Vision: “We are internationally recognised leaders in the provision of efficient, integrated and innovative port marine services.”

Purpose: “To provide safe, efficient, sustainable, world-class port and marine services whilst retaining and optimising our port assets to deliver the financial and strategic goals of the NSW Government.”

Values: “We will be honest, open, caring and accountable.”

“We will act with courage and integrity and strive for excellence in all that we do.”

Port Authority is responsible for all commercial marine functions in the ports of Sydney Harbour, Port Botany, Newcastle Harbour, Port Kembla, Port of Eden and Port of Yamba, including the statutory Harbour Master’s function, the provision of pilotage and navigation services, and port safety functions as prescribed in the Port Safety Operating Licence (PSOL). Port safety functions include the provision and maintenance of aids to navigation, marine pollution emergency response and administering the legislation concerning the handling, transportation and storage of dangerous goods within the ports’ jurisdiction. Port Authority is also the regulator of the Hunter Coal Export Framework and a participant in the Hunter Valley Coal Chain Co-ordinator (HVCCC).

In Sydney Harbour, Port Authority is responsible for the management of business activities and related assets, predominantly cruise activities at its two facilities, the Overseas Passenger Terminal (OPT) at Circular Quay and the White Bay Cruise Terminal (WBCT) in White Bay. Other business activities include management of dry bulk facilities at Glebe Island.

Section 10 of the *Ports and Maritime Administration Act 1995* states that the principal functions of a Port Corporation are:

1. To establish, manage and operate port facilities and services in its ports.
2. To exercise the port safety functions for which it is licensed in accordance with its operating licence.
3. To facilitate and co-ordinate improvements in the efficiency of the port-related supply chain.

In addition, the *Ports and Maritime Administration Act 1995* states that a Port Corporation may:

1. Provide facilities or services that are ancillary or incidental to its principal functions.
2. Conduct any business (whether or not related to its principal functions) that it considers will further its objectives.

In fulfilling its role, Port Authority’s main undertakings are:

Logistics and Trade

- Promotion and facilitation of a competitive commercial environment in port operations.
- Trade facilitation.
- Support and facilitation of the passenger cruise industry.
- Facilitation and coordination of improvements in the efficiency of port-related supply chain for Hunter Valley Coal.
- Port promotion and marketing.

Navigation

- Shipping channels and navigation aids.
- Port communications and harbour control.
- Vessel traffic management.

- Emergency response.
- Security patrols.
- Harbour Master.

Berth Services

- Common-user wharves.
- Passenger terminals.
- Monitoring of port security.

Shipping

- Berth allocations.
- Advice on berthing requirements, i.e. pilots, tugs, lines, handling.
- Advice on Dangerous Goods procedures.
- Port operational/e-commerce systems.

Pilotage

- Pilotage of vessels.

Port Assets

- Port estate management and property maintenance.
- Sites for cargo handling.
- Development planning.
- Implementation of its Maritime Security Plans, in accordance with the *Maritime Transport & Offshore Facilities Security Act 2003*.

Port Safety and Environment

- Safe transfer of bulk liquids and Dangerous Goods.
- Emergency response to and subsequent investigations into marine accidents and incidents.
- Emergency environmental protection services for marine pollution incidents.

Port Authority's business is underpinned by the property assets for which it holds title and by the management and control of shipping in accordance with the Port Safety Operating Licence issued to it. The Port Safety Operating Licence establishes conditions to which Port Authority is subject in its role to ensure navigational safety for international and interstate trading vessels in the ports and an appropriate response to marine emergencies.

2.2 Strategic Summary

Port Authority is the amalgamation of the residual entities of Newcastle Port Corporation, Port Kembla Port Corporation and Sydney Port Corporation, following the long term lease transactions completed in 2013 and 2014.

In 2014 Port Authority adopted a strategy of continuous and systematic review of its pricing levels and structures in order to ensure that all activities and business segments contribute towards achieving a target rate of Return on Fixed Assets.

Port Authority's other current strategic priorities focus on:

1. Bays Precinct
2. Creating Cruise Capacity
3. Marine Governance
4. Effective Stakeholder Management

2.2.1 Bays Precinct

The port precinct at Glebe Island and White Bay is a critical asset for Sydney Harbour and for New South Wales. It currently provides:

- Port capacity necessary to service the existing and future demand for the construction material supply chain.
- An award winning cruise terminal, which currently hosts more than 120 cruise ships and 430,000 passengers a year.
- Working harbour capability, including vessel refuelling and pump out facilities, space for marine contractors and event staging (including for the New Year Eve fireworks). These are critical functions to maintaining the strategic value of the Harbour as Sydney's greatest single physical asset.
- Staging areas for major transport projects, including Sydney Metro City and South West, WestConnex, Western Harbour Tunnel and Sydney Metro West.

In the future, the Bays Precinct has capacity for greater economic productivity by increasing the intensity and variety of land uses through urban renewal.

While detailed planning and delivery processes for the Bays Precinct will be ongoing for a number of years, Port Authority has sufficient clarity on Government's strategic objectives to plan and deliver port and working harbour outcomes through a period of major infrastructure delivery before ultimately integrating these outcomes into the future urban renewal.

The WestConnex project has licenced an area of land on Glebe Island to stage construction works for the critical M4-M5 Link, which involves constructing twin tunnels between the New M4 at Haberfield and the New M5 at St Peters, and the Rozelle Interchange and Iron Cove Link. Other major infrastructure projects, including Western Harbour Tunnel and Sydney Metro West, will also licence land from Port Authority in the Bays Precinct to facilitate efficient project delivery. The land will be used for construction staging, truck marshalling and handling dredged material. The main locations include areas of White Bay (berths 1, 2 and 3), the White Bay Power Station, and Glebe Island Berths 3 to 6.

Due to the timing of these major transport projects, urban renewal within Glebe Island and White Bay will not proceed for another ten years (or more). Port Authority will manage the existing and future demands of cruise, port supply chain and working harbour uses through an interim phase that facilitates major transport infrastructure delivery whilst also accommodating port uses.

While Port Authority is not anticipating any major change in the current demand profile for cruise or working harbour uses (beyond construction staging demands of the major infrastructure projects), there is significant unmet demand for port capacity to service the concrete supply chain in Sydney. Following extensive market engagement, Port Authority has identified two preferred projects to service the concrete supply chain over the next ten years:

- A multi-user facility (MUF) to allow sand, aggregates and cement to be imported by sea.
- One or two concrete batching plants, potentially involving a relocation of the Hanson batching plant from Blackwattle Bay.

2.2.2 Creating Cruise Capacity

Cruise operations have been the fastest growing and most dynamic segment of Port Authority's business over the past few years. Although growth is expected to continue for the foreseeable future it is impacted by capacity constraints, namely the OPT being at capacity during the peak summer season and the height of the Harbour Bridge limiting the vessels that can berth at WBCT. Port Authority continues to plan for and deliver solutions for additional capacity.

In 2015, the OPT underwent a significant refurbishment and capacity upgrade, followed by the installation of two new bollards the following year. More recently, Port Authority awarded the contract for the design, supply and installation of two new gangways, which will be in place by September 2019. The new gangways will increase passenger flow efficiency, improve safety and reduce operational risk. In October 2018, road improvements were completed on Port Authority land as part of wider works in the Campbell's Cove precinct, which are project managed by Property NSW. The road works improved access to allow more efficient provisioning of ships to the northern end of the wharf.

At the WBCT, Port Authority continues to implement its Noise Impact Mitigation Strategy, which aims to monitor and reduce noise coming from the cruise ships and mitigate impacts. A key part of this is the Noise Attenuation Program. The Program commenced in late 2018 and will be completed in 2023. It involves physical works to homes in the areas surrounding the WBCT, including upgrading or installing new windows, external doors and vents/ventilation systems.

Another core part of the Noise Impact Mitigation Strategy is the White Bay Cruise Terminal Noise Restriction Policy, which Port Authority introduced on 1 October 2018. The policy aims to ensure visiting cruise ships strictly observe restrictions to on-board announcements and music, and that noise from cruise ships using the WBCT does not trigger the need for further noise mitigation. It uses a 'three strikes' approach to penalise cruise ships that create excessive noise.

Following extensive consultation with industry, Port Authority launched its Cruise Booking Policy in November 2017, effective January 2020. The policy sets out the rules of administration for the cruise booking system. Slots are allocated according to a priority system based on individual ships and irrespective of the cruise line to which they belong. On an annualised basis, priority allocation is determined on the basis of business volume, a principle that is globally accepted as industry best practice. Cancellations of confirmed bookings may attract a fee depending on how long in advance they are cancelled and whether or not a replacement has been nominated.

In addition to the annualised Cruise Booking Policy, Port Authority is developing, in consultation with industry, a Long Term Deployment Policy for vessel deployments spanning more than one annual season.

The existing practice of allocating vessels that fit under the Harbour Bridge to the WBCT will continue indefinitely. The recent reduction of the minimum threshold for the Passenger Fee charge from 1,200 to 600 as of 1 July 2018 is expected to increase 'boutique' cruise ship calls in the near future.

In July 2018, the NSW Government released the Cruise Development Plan which identified as a key action that Port Authority, with NSW Treasury, prepare a Strategic Business Case (SBC) testing the feasibility for a third cruise terminal in Sydney. Originally four sites were contemplated, these being Garden Island West, Garden Island East, Yarra Bay and Molineaux Point. However, the Commonwealth Government advised the NSW Government that shared use of Garden Island is not feasible, due to the significant challenges in managing berth space and infrastructure alongside expanding Navy operations. As such, the SBC only considered two locations, these being Yarra Bay and Molineaux Point, both in Botany.

The Government approved that Port Authority, in conjunction with NSW Treasury, proceed to prepare a Detailed Business Case (DBC) to further assess the viability of options for a new passenger cruise terminal in the two locations in Botany. Port Authority is progressing the DBC.

Core parts of the DBC include engaging with the community, key stakeholders and industry, and undertaking detailed geotechnical investigations, hazard and risk analysis, and traffic and transport modelling. These tasks provide critical inputs to the DBC and the assessment of the project viability.

In Eden, the NSW Government, the Federal Government and the local council have jointly funded an extension of the existing wharf used for cruise ship berthing in the Snug Cove

precinct of Crown Lands. The project is managed by Crown Lands and the new wharf is expected to be completed in April 2019. In July 2019, Port Authority expects to assume ownership of the dry and submerged land from Crown Lands. To further support the growing cruise market, Port Authority will also build a Welcome Centre, which, together with the wharf extension, will deliver a number of economic benefits to the Eden community.

In July 2018, the NSW Government released the Cruise Development Plan to support the growth of cruise related tourism in NSW, with Destination NSW being the lead agency for the program. As part of the wider program, Port Authority has been tasked with leading the technical analysis for the NSW Regional Cruise Port Development Project. Working closely with RMS and local councils, Port Authority's first project task is to conduct a Port Audit at a number of regional ports, after which a cross agency team will undertake a series of other project tasks to help activate cruise activities in regional NSW. Port Authority anticipates maintaining an ongoing and leading role in this project over the coming years.

2.2.3 Marine Governance

Within its charter to unlock efficiency and commercial potential through the management of port operations, facilities and services under public ownership, Port Authority is well placed to capitalise on an opportunity for structural reform within the port and marine sector. There are obvious synergies and benefits from further consolidation around the core safety, environment and regulatory functions that will safeguard our working harbours as a productive and integral part of an engaged port community.

For its part, Port Authority remains focussed on the statutory responsibilities of the Harbour Master, including operational excellence in safety of navigation and environmental protection along with developing cruise capacity and the Bays Precinct to accommodate growing trade in our growing cities. Current initiatives designed to build on existing policy in collaboration with other Agencies include investment in Vessel Traffic Services, the introduction of towage licencing and extensive work on booking, rostering and scheduling solutions that embrace technical innovation ahead of the advancing digital revolution.

As a recognised industry leader, Port Authority remains committed to working closely in partnership with key stakeholders to effectively manage any future change in marine governance that will frame the highly strategic nature of our working harbours. Of note, the current collaboration with TfNSW on the Sydney Working Harbour Study and UrbanGrowth NSW in respect to development of an integrated White Bay Master Plan will lay the foundation for future decisions in regard to regulatory oversight over the commercial and recreational use of Sydney Harbour.

2.2.4 Effective Stakeholder Management

Port Authority's Stakeholder Satisfaction Survey was completed in 2018. The first phase was a web-based survey, sent to over 200 senior level executives. The second phase was a series of one on one interviews exploring key trends and themes from phase one. Port Authority is focused on improving stakeholder satisfaction through:

1. Demonstrating care for the local port communities we operate in:
 - Developing a community engagement strategy that sets out our organisation's engagement principles/values.
 - Developing communication strategies that considers community/stakeholder impacts and involves them in decision-making where appropriate (e.g. multi-user facility co-design with community for visual aesthetics).
 - Regular meetings/relationship 'owner' approach to stakeholders across the business e.g. cruise industry, shipping lines, Minister's Office, community, tenants etc.
 - Hosting and/or participating in community liaison group meetings.

- Handling community complaints sensitively and incorporating feedback into business operations.
 - Sponsoring initiatives in port communities we operate e.g. Eden Whale Festival, Hunter Business Awards etc.
 - Policy development to address community impacts such as the Noise Mitigation Strategy or air quality monitoring.
 - Providing community notifications on changes to shipping movements.
 - Ongoing stakeholder and community surveys in our port communities.
2. Being consultative and collaborative.
 - Participating in industry and government workshops and steering committees.
 3. Providing services to a high standard of reliability.
 - Managing community complaints/enquiries in accordance with the community complaints procedure.
 4. Delivering on what we promise.

The next Stakeholder Satisfaction Survey is proposed to be conducted in the last quarter of 2020.

3 Financial Summary

The year on year increase to EBITDA and Net Profit Before Tax for the financial years FY21 compared to FY20 reflect the growth in revenue at Glebe Island resulting from the initial year increase in trade and rental income from sand and aggregates, increased rental income from infrastructure projects and the reduction of costs for the Noise Attenuation Program at White Bay. The FY22 continues the growth in revenue including the full year operation of trade and rental income from sand and aggregates and rental revenue from infrastructure projects at Glebe Island.

Numbers quoted in the table below may include roundings, but without material impact.

| | FY20 SCI | FY21 | FY22 |
|------------------------------------------------------|-------------|---------|---------|
| 1. Financial Performance Indicators (\$'000s) | | | |
| Total Revenue ^{Note 1} | 170,385 | 188,606 | 205,270 |
| Total Expenses ^{Note 2} | 126,991 | 126,796 | 129,200 |
| EBITDA ^{Note 3} | 36,372 | 61,535 | 76,083 |
| EBIT ^{Note 4} | 9,789 | 31,695 | 45,433 |
| Net Profit (Loss) Before Tax | 9,640 | 30,536 | 43,635 |
| Income Tax Equivalent (Income) Expense | 883 | 6,965 | 10,743 |
| Net Profit (Loss) After Tax | 8,757 | 23,571 | 32,891 |
| Capital Expenditure | 60,633 | 26,489 | 11,623 |
| 2. Financial Performance Indicators (\$'000s) | | | |
| Income Tax Equivalent Paid | 3,131 | 9,768 | 14,142 |
| Dividends Paid | 9,000 | 13,500 | 37,000 |
| Government Guarantee Fees Paid | 1,140 | 1,778 | 2,073 |
| 3. Profitability Ratios (%) ^{Note 5} | | | |
| Growth in Operating Costs | 5.4% | -0.2% | 1.9% |
| Return on Average Assets | 1.9% | 5.7% | 8.2% |
| Return on Fixed Assets | 1.9% | 6.2% | 9.1% |
| Return on Average Equity (%) | 2.7% | 7.2% | 10.2% |
| Dividend Payout Ratio (%) ^{Note 6} | 663.0% | 225.9% | 168.6% |

Note 1: Total Revenue excludes Finance Lease Income, Recoverable Income (security, cleaning, novated leases), Interest Income and accounting recognition of recovery from NSW Ports for Foreshore Beach Groynes.

Note 2: Total Expenses excludes Depreciation, Recoverable Expenses (security, cleaning, novated leases), Financial Expenses,

Note 3: Earnings Before Interest, Tax, Depreciation and Amortisation excludes Depreciation and Amortisation, Interest Income, Finance Lease Income and Financial Expenses.

Note 4: Earnings Before Interest and Tax excludes Interest Income, Finance Lease Income, recovery of capital costs, Financial Expenses and Income Tax Equivalent.

Note 5: All Profitability Ratios and Cash Flow Adequacy Ratios exclude asset revaluation adjustments, Finance Lease Income and Finance Lease Receivable.

Note 6: 'Dividend Payout Ratio' is calculated based on the NPAT less the Finance Income divided by the Declared Dividend of the period. This ratio relates to the year in which dividends are provided for (not the year in which they are paid).

Port Authority is included in the National Tax Equivalent Regime (NTER). NTER and any dividend payments to the Government are consistent with taxation rulings and the NSW Financial Distribution Policy for Government businesses.

Port Authority's financial distribution policy is consistent with NSW Treasury's Policy and Guidelines Paper TPP16-03 Capital Structure Policy for Government Businesses.

Port Authority was assessed in January 2019 by Moody's and awarded a credit rating of Baa2 (Standard&Poor's BBB). This rating has been applied in the financial projections from March 2019 to June 2022. As per existing arrangements with NSW Treasury a dividend of \$200m was paid in 2018-19 and met by new borrowings and cash flows from operating activities. The financial projections assume retention of borrowings and a sufficient level of working capital funds resulting in maximum dividend payouts. Dividends paid are forecast to be \$9.0m in 2019-2020. Should whole of Government initiatives result in a requirement for Port Authority to fund major port infrastructure, it may be required to borrow additional funds.

4 Performance Target Summary

The objectives and measures summarised in this table are directly linked to the strategic initiatives detailed in Section 2.2.

| FOCUS | OBJECTIVE | MEASURE | FY20 |
|--------------------------------|------------------------------------------------------------------------------|-------------------------------------------------------|---------------------------|
| 1 Financial | Optimise Shareholder Returns | Return on Fixed Assets | 1.9% |
| | Grow Profits | EBITDA | \$36.4m |
| | Manage Debt | Gearing Ratio | 36.8% |
| | Cost Control | % Growth Rate | < CPI |
| 2 External Stakeholder | Positive and effective relationship with Ministers and Staff | Chairman / Board Feedback <i>Note 1</i> | 7/10 |
| | Positive and effective relationship with Customers and Industry Stakeholders | Survey <i>Note 2</i> | 7/10 |
| 3 People & Culture | A Safe Workplace | LTI's – Target / (Improvement on previous) | 0 / (<7) |
| | | Number of High Potential Incidents | 0 / (<4) |
| | | Safety Culture - % Favourable on Survey <i>Note 3</i> | >70% |
| | | Safety Management System | Established |
| | | Safety Conversations | As per plan <i>Note 4</i> |
| | Safety Leadership Training | 100% to plan <i>Note 4</i> | |
| | Highly Engaged Staff | % Favourable on Survey <i>Note 3</i> | 80% |
| Effective Leadership | % Favourable on Survey <i>Note 3</i> | 65% | |
| 4 Internal Processes | Excellence in our Marine Operations | Adherence to Sailing Window Times | 90% on time |
| | | Shipping Line/Agent Satisfaction <i>Note 5</i> | >70% |
| | | Emergency Response NPS <i>Note 6</i> | 30 – 60 |
| | | VTS NPS | 30 – 60 |
| | Pilotage NPS | 30 – 60 | |
| Systems Review and Improvement | Systems Reviewed Annually <i>Note 7</i> | 3 | |

Note 1 – meeting between Minister and Chairman, followed by Board meeting and assessment

Note 2 – 3rd party Survey consisting of interviews and online questionnaire

Note 3 – biannual employee survey conducted by 3rd party via online questionnaire

Note 4 – the plan includes detail relating to management level, frequency, timing, method etc.

Note 5 – to be measured by real time online survey

Note 6 – Net Promoter Score is a management tool that gauges customer relationship loyalty

Note 7 – internal review by management

5 Representation and Commitment Statement

The Board of Port Authority confirms that:

- a) Performance targets within the 2019-20 SCI are based on and supported by Port Authority's Business Plan.
- b) The voting shareholders will be provided with financial and other information, including information on major capital expenditure projects, on a quarterly basis to assess the performance against commitments in this SCI and to assess the value of the shareholders' investment in the business.
- c) Asset maintenance policies and processes are adequate and appropriate to manage and control risks associated with physical assets.
- d) All known 'key risks' and 'major emerging contingent liabilities' which could materially impact the current and future results of Port Authority for the coming year have been disclosed.
- e) Internal audit and risk management practices are consistent with standards recommended for Australian Securities Exchange (ASX) listed companies and where appropriate, has applied any additional requirements that are set out in NSW TPP15-03 Internal Audit and Risk Management Policy for the NSW Policy Sector.
- f) The Chief Executive Officer has an employment contract and performance agreement. The employment contract is appraised annually with the next appraisal scheduled for July 2019. The current contract expires on 30 September 2019 and a review is currently underway.

Port Authority adheres to *Commercial Policy Framework* policies, as listed in *State Owned Corporations: Applicable TPPs under the Commercial Policy Framework* (issued as at December 2018).

Port Authority complies with NSW Treasury accounting circulars and policies applicable for SOCs, as listed in the *State Owned Corporations Mandatory Accounting Policies – NSW Treasury Circulars and Treasury Policy Papers* (issued as at December 2018).

Port Authority agrees to provide information during the year to NSW Treasury, as the representative of the Voting Shareholders, as specified in the *State Owned Corporation Reporting Obligation Requirements* (issued as at December 2018).

Port Authority has agreed to comply with the requirements of *Premier's Memoranda M2012-04 Application of NSW Public Sector Wages Policy 2011 to State Owned Corporations* and further guidance contained in the Treasurer's January 2015 letter.

Port Authority has agreed to comply with the requirements of:

- a) Premier's Memoranda M2012-08 Application of Biofuels.
- b) Premier's Memoranda M2013-04 Implementation guidelines for procurement of publicly funded construction services.