

TRANSPORT\_TENDER\_001



# Public Transport Asset Holding Corporation (AssetCo) Establishment

## Joint Briefing to Minister for Transport and Treasurer

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CABINET IN CONFIDENCE



## Background



- ▶ As part of Public Transport reform, the Government approved the re-organisation of Public Transport entities, including Rail Corporation (RailCorp), by separating the operators from asset ownership. Whilst being consistent with the Government policy of centralising overarching control within TfNSW.
- ▶ The intent of this re-organisation is to optimise the management of public transport assets in delivering efficient and effective operations and services by eventually bringing under one controlled entity all of the public transport assets.
- ▶ Treasury supports this initiative, but Government added a further objective of creating an asset structure that, where feasible, improves the State's short and medium term fiscal results.
- ▶ In September 2013, Transport for NSW (TfNSW) and NSW Treasury agreed to:
  1. Fully investigate structural options, which facilitate efficient and effective budget and accounting treatment and financial reporting of all public transport assets, liabilities and capital expenditure.
  2. Determine the most appropriate governance structure to deliver an arrangement that supports the new transport operating model, whilst maintaining current 'vertical integration' management and control arrangements, which are particularly essential for safety considerations.
- ▶ TfNSW and Treasury executives conducted site visits in Victoria and Queensland, documenting their structure and practices for consideration in NSW AssetCo design.



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## Victorian Public Transport Asset Ownership



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### Key Features:

- ▶ *VicTrack is a state owned GBE*
- ▶ *VicTrack is the public transport rail asset owner and custodian of \$23billion in asset value*
- ▶ *Governed by independent Board and CEO*
- ▶ *Treasury & Transport Ministers are joint shareholders*
- ▶ *Legislative structure (Transport Integration Act 2010) keeps VicTrack operations within Transport*
- ▶ *PTV owns Operator relationships (≅ TfNSW TSD)*
- ▶ *VicTrack operates via a head-lease with PTV in relation to use of rail assets for public transport operations only; it has relative autonomy on its other non-transport commercial pursuits*

### Key Benefits:

- ▶ *VicTrack enables Treasury to achieve fiscal objectives, including as depreciation vehicle*
- ▶ *Centralisation of rail assets*
- ▶ *Achieves commercial returns in specific areas including telecommunications and property development in joint-use areas (self-funded for non-public transport activity)*

### Key Risks:

- ▶ *Reliant on Treasury grants via DTPLI/PTV to cover Capital Access Charge (CAC, circa \$1billion per year)*
- ▶ *Commercial sustainability of VicTrack, potential risk to its ABS classification*
- ▶ *Indications of increasing Auditor General focus*
- ▶ *Potential for PTV to be practical owner due to level of control over VicTrack public transport asset use and it receives economic benefits from the assets*
- ▶ *Interface management issues between DTPLI, PTV, VicTrack & Operators*
- ▶ *Currently minimal integration in corporate planning and investment decision-making, potentially leading to sub-optimal prioritisation and outcomes*

*Note: VicTrack also has a wholly owned subsidiary, "Rolling Stock Holding Company", which leases rolling stock to Operators*



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## Queensland Transport Asset Ownership



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### Key Features:

- ▶ *Vertically integrated rail transport model; estimated \$6billion rail asset portfolio*
- ▶ *Rail Operator is the asset owner, with 2 key entities associated with the "Queensland Rail" brand, viz:*
  - ▶ *Queensland Rail Transit Authority – statutory authority, receives 100% NPAT from QRL, passes on 80% NPAT to joint ministerial shareholders (Treasury and Transport)*
  - ▶ *Queensland Rail Limited (Corp Act) – rail asset owner, operator and maintainer, 100% owned subsidiary of QRTA; no staff, all FTE in QRTA*
- ▶ *QRTA and QRL have their own Boards and CEOs, however the roles are fulfilled by the same people*
- ▶ *Department of Transport and Main Roads (DTMR) fulfils 3 key roles: i) Safety Regulator, ii) Shareholder and iii) Procurer of transport services*
- ▶ *Treasury policy on Return on Assets is defined, and managed by DTMR through Trains Services Contracts*

### Key Benefits:

- ▶ *Vertically integrated model is maintained*
- ▶ *No duplication of resourcing between Service Contract Manager (DTMR) and Asset Owner (QRL)*
- ▶ *QRTA and QRL are commercial entities, achieving State fiscal benefits in asset ownership and depreciation*

### Key Risks:

- ▶ *Multiple roles of DTMR adds complexity and impacts efficiency of working relationships with Operators*
- ▶ *Process for managing investment and delivery of new assets (e.g. via DTMR, or via Operator) is not proven*
- ▶ *Queensland is in earlier stage of contestability model lifecycle compared to NSW*
- ▶ *ABS classification is currently being reviewed*

**Safety Case:** Ensure overall risk profile and safety case for transport portfolio is not compromised

## Public Transport Asset Management & Operations

- ▶ Optimise asset utilisation and performance (incl. capacity & capability) aligned with transport service KPIs
- ▶ Improve asset data quality, visibility of end-to-end costs and access to performance benchmarking information
- ▶ Build whole-of-life asset strategies and streamline interfaces throughout the lifecycle to enhance value-for-\$

## Financial & Commercial

- ▶ Achieve positive State budget position by way of equity injection or vesting/asset transfer instead of recurrent grant funding (and associated depreciation expense impact)
- ▶ Improve flexibility in execution of public transport service delivery through optimal commercial arrangements, whilst ensuring primary focus being the delivery of efficient, effective, safe and customer focussed public transport services is not compromised
- ▶ Enhance commercial outcomes through transport-cluster-wide perspective on assets (e.g. real estate / property utilisation)

## Transition and Ongoing Operations Management

- ▶ Minimise impact on customer service delivery (including operations, cost, safety, environment, legal)
- ▶ Optimise dependency management across the portfolio and enable smooth transition between Operators
- ▶ Leverage the best available practices from other Australian and international jurisdictions





## Transport for NSW Items for Noting and Next Steps

### Items to Note

- ▶ Key issue is one of Control;
  - ▶ Purpose of TFNSW and amendments to Transport Administration Act 1988 that ensure overarching control rests with the integrated transport agency - TfNSW
  - ▶ Moving to a PTE for Profit would most likely change the level of risk over public transport assets (particularly around safety, customer benefits, service and network planning and development, performance and delivery, etc)
  - ▶ This needs to be tested – Treasury liaising with Accounting experts and ABS
- ▶ Neither the Victorian or Queensland models deliver the fiscal, economic or operational requirements.
- ▶ The commercial sustainability of both models are at risk of reclassification by the Australian Bureau of Statistics (ABS) from the Public Non-Financial Sector to the General Government Sector.
- ▶ The implementation of the new standards from 1 July 2015 increase this risk of an adverse classification due to changes in the standard. Under these changes, it is highly likely that both the Queensland and Victorian models will be classified as General Government Sector.
- ▶ Treasury and TfNSW continue to explore the structures to for AssetCo to be classified as either a Non-commercial or Commercial PTE (commercial would be subject to funds flow and asset valuation considerations and no degradation in current control/vertical integration arrangements). However, a Non-Commercial PTE, whilst meeting Transport's objectives, is unlikely to deliver Treasury's fiscal objective and because 'control' is an important factor in ABS Commercial PTE classification, the likelihood is that this option will not be viable from a Transport perspective.
- ▶ General Government Agency, which is the secondary recommended entity type to meet AssetCo objectives, may therefore be the fallback position if all else fails.

### Proposed Next Steps

- ▶ Treasury to engage with the ABS and accounting experts to confirm whether proposed AssetCo classification meets both objectives and accounting and reporting standards
- ▶ Developed Basis of Design and mapped the AssetCo objectives against potential entity types (General Government, PTE for-profit, PTE not-for-profit, Current State)



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