

TREASURY_TENDER_002

Public Transport Asset Holding Corporation (AssetCo) Establishment

Joint Briefing to Minister for
Transport and Treasurer

29 September 2014



Transport
for NSW



The
Treasury

Key progress since last ministerial briefing

- Ongoing engagement with ABS to test design assumptions to confirm the minimal economic and design characteristics for proposed AssetCo.
- Documentation of the 'end state' for AssetCo if it was classified as a General Government Agency or a for-profit Public-Trading Entity (PTE) or a not-for-profit PTE, including any transitional requirements.
- Refinement of accounting advice for AssetCo to confirm accounting and reporting standards for both TfNSW and the Total State Sector Accounts (TSSA), including the requirements of the NSW Auditor-General.
- Continuing to develop basis of design and mapped the AssetCo objectives against potential entity types.

Impact of maintaining existing structure

- The Australian Bureau of Statistics (ABS) is examining the sector classification of all rail entities due to the restructure of Rail Corporation (RailCorp) in 2013.
- At this time, Treasury obtained an interim ruling that maintained the status quo, being rail entities recognised in the not-for-profit PTE sector.
- This ruling expires on 31 December 2014. Without some structural changes, all rail entities might be classified in the General Government Sector (GGS) from 1 January 2015.

TfNSW advice for Minister for Transport

- If this occurs, all rail entities will need to comply with GGS financial reporting requirements. As a result:
 - GGS annual net cost of services would increase (estimated at around \$0.8 billion), mainly through the addition of non-cash expenses, mainly depreciation and some unfunded employee entitlements.
 - State Budget result would improve over the forward estimates but improvement may gradually diminish over the longer term depending upon the level of depreciation increase versus annual capital spend.
 - However, estimated aggregated improvement to the State Budget result over the forward estimate period commencing 2015-16, would be in the order of \$6 billion (\$9 billion in current level of capital related grant expense less aggregate depreciation of around \$3 billion).

ABS Characteristics

- To classify a government entity, the ABS uses three tests – a control test, a market test and a revenue test

General Government	Not for Profit, (NfP) PTE	NfP PTE transitioning to for profit PTE	For Profit, PTE
Control			
<ul style="list-style-type: none"> - Controlled by Government through legislative or judicial authority 	<ul style="list-style-type: none"> - Controlled by Government as it has the ability to appoint key officers, and the control of significant aspects of corporate strategy 	<ul style="list-style-type: none"> - Current controls remain during transition until PTE control provisions are in place 	<ul style="list-style-type: none"> - Majority independent Board, appointed by the Government, who develops the strategy and operations of the organisation - Operates within a commercial environment
Market			
<ul style="list-style-type: none"> - Provides goods or services to Government organisations and/or the open market - Redistributes income and wealth by means of transactions - Do not charge an economically significant price 	<ul style="list-style-type: none"> - Provides most of their goods or services to customers who are free to purchase and make that decision based on economically significant prices charged - Can not distribute surpluses to Government 	<ul style="list-style-type: none"> - Provides most of their goods or services to customers who are free to purchase and make that decision based on economically significant prices charged - Can not distribute surpluses during transition. 	<ul style="list-style-type: none"> - Provides goods or services with customers who are free to purchase and make that decision based on economically significant prices charged - Can distribute surpluses
Revenue			
<ul style="list-style-type: none"> - Funding directly or indirectly through taxation and potentially limited charging of customers 	<ul style="list-style-type: none"> - Has the ability to recover the majority of costs through prices charged, but prices are modified for public policy purposes. 	<ul style="list-style-type: none"> - Current Government grants (subsidies) are reduced as it transitions to a economically significant pricing in an open market 	<ul style="list-style-type: none"> - Recovers the majority of its costs through sales revenue over a sustained multiyear period

Operational end state

General Government	Not For Profit (NfP) PTE	NfP PTE transitioning to for profit PTE	For Profit, PTE
<ul style="list-style-type: none"> - Entity controlled by Government through legislative or judicial authority - CEO reports to Minister / Secretary of TfNSW - Agency Budget controls and funding approvals required (Monthly reporting/PTAs/New Policy / ERC) - Sydney Trains / NSW Trains becomes General Government agencies as long as they remain subsidiaries of RailCorp - If Sydney Train / NSW Trains transitioned to standalone statutory entities could maintain NfP PTE status of the two entities. 	<ul style="list-style-type: none"> - Entity controlled by Government via either a Government appointed Board or CEO - Merge RailCorp and Sydney Trains. - Rail fares to increase to the IPART recommended rate (~30% of efficient costs) - Cost reduction initiatives to move cost base towards IPART's efficient cost benchmark - Budget controls similar to a general government agency 	<ul style="list-style-type: none"> - CEO only - Government Employee majority independent (separate from TfNSW) Board - Rail fares to increase to the IPART recommended rate (~30% of efficient costs) - Transition to commercial access arrangements over the medium term with approved milestones - Cost reduction initiatives - Cannot distribute surpluses during transition - Sydney Trains and NSW Trains remains as NfP PTEs - Budget controls similar to a general government agency transition across to complying with the Commercial Policy Framework and negotiates a Statement of Business Intent 	<ul style="list-style-type: none"> - Majority independent from Government Board, appointed by the Government, who develops the strategy and operations of the organisation - Operates within a commercial environment (i.e. fully commercial access agreements with market operators) - Rail fares to increase to a rate of majority of cost recovery - Cost reduction initiatives - Can distribute surpluses - Sydney Trains and NSW Trains remains as NfP PTEs - Complies with the Commercial Policy Framework and negotiates a Statement of Business Intent

Discussion Points

- Update from Treasury on continuing conversations with the ABS regarding the PTE status of RailCorp, Sydney Trains and NSW Trains.
- Subject to further ABS feedback, discussion of any other potential options available to Ministers.

TfNSW advice for Minister for Transport

- Should ABS advice confirm that Sydney Trains / NSW Trains could maintain their current not-for-profit PTE status on the understanding that they will be transitioned to standalone statutory entities, the interim way forward that delivers both ERC and Transport objectives with minimal disruption and change for a 1 July 2015 commencement, is for AssetCo (residual RailCorp) to be classified as a General Government Agency and for Sydney Trains / NSW Trains to continue to be classified as not-for-profit PTEs.
- Should this not be achievable, then the recommended fallback, is for all entities to be classified as general government agencies, as this maintains the status quo from a public transport delivery, governance and reform perspective, whilst delivering significant State Budget benefit over the budget forward estimate period. This does not restrict Government from reassessing corporate structures in future that can be classified as a mix of for-profit PTE, not-for-profit PTE or general government.