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Rodd Staples
Secretary
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257

Our ref TfNSW_TAHE

By email

15 November 2020

Dear Secretary,

Clarification of perceived conflict in KPMG TAHE reports

You sought advice in the context of our long-term operating model engagement, on the difference between KPMG's work for you and our separate work for NSW Treasury. This note is provided to support Cabinet's consideration of the TAHE long-term operating model.

KPMG's two reports:

- 1 Operating and financial model report:** Responds to Cabinet's request of TfNSW to develop a detailed long-term operating model and to undertake detailed financial modelling to understand the financial and fiscal impacts. (June Cabinet Submission ss 1 & 2). We note that the Cabinet Submission specifically notes that KPMG was engaged by TfNSW to undertake the required work and assessment and that our work has been delivered deliberately to respond to Cabinet's request and KPMG's corresponding contract with TfNSW.
- 2 Accounting report:** Our report for Treasury concerns the reasonableness of the budget assumptions developed by the NSW Treasury in relation to the ongoing implementation of the TAHE's reforms. So as to avoid overlap with the report for TfNSW, the report for Treasury expressly does not include longer-term considerations as to TAHE's operating model and commerciality. Instead our approach considered existing facts against the relevant requirements of the financial and budgetary reporting framework (including Australian Accounting Standards, Government Finance Statistics, legislative frameworks, NSW Treasury published frameworks).

Stated purpose of the reports:

- 3 The accounting report** is not designed to provide Cabinet with any forward view about TAHE's financial impacts or effects and notes the material limitations and substantial

256

change that will occur from the Treasury position, as the final TAHE operating model is determined by Cabinet.

- 4 The **operating and financial model report** uses detailed financial modelling to inform Cabinet of the financial impacts of TAHE based on the agreed long-term operating model and the two sets of assumptions preferred by KPMG and by Treasury – as noted in the **operating and financial model report**.

The perceived conflict:

- 5 The conflict appears to be arising over confusion about whether the preliminary views in the **accounting report** contradict the detailed outputs of the financial model underpinning the **operating and financial model report**.
- 6 KPMG asserts that they do not.
- 7 The **accounting report** does not undertake any financial modelling and does not consider the long-term operating model.
- 8 KPMG asserts that the **accounting report** cannot be used to construct alternate financial outcomes to those provided by KPMG in our **operating and financial model report**.
- 9 NSW Treasury sought an assessment of the reasonableness of key assumptions used to calculate accounting estimates (i.e. assumptions underpinning their Financial Impact Statement (FIS)).
- 10 A FIS is used to brief government on the estimated impact on Budget year and three years of Forward Estimates of developments, decisions and other changes in circumstances. A FIS does not reflect potential changes over the long term.
- 11 The budgetary reporting framework and conventions applicable to FIS mean that FIS do not reflect decisions that may occur in the future, and therefore FIS amounts may differ from prospective financial information prepared for other purposes.
- 12 KPMG's assessment excludes any assessment as to the achievability of the results indicated by the FIS.
- 13 The accounting report notes that TAHE's operating model is expected to evolve over time that will impact the findings and conclusions within our deliverable, based on the decisions of Cabinet regarding the long-term operating model.
- 14 Actual results are likely to be different from the FIS since anticipated events or transactions frequently do not occur as expected and the variation could be material.
- 15 KPMG's long-term operating model is agreed with all stakeholders, including NSW Treasury; although we note there will be detailed consideration of the transition pathway over time.
- 16 The detailed 'KPMG TAHE Financial Model' has been subject to detailed internal review and review by NSW Treasury and TAHE stakeholders, who have not raised any errors in the model.
- 17 We note that NSW Treasury has provided substantially different assumptions, which for transparency we have modelled and included in the **operating and financial model report**.



18 KPMG stands by the modelled results in the **operating and financial model** report, which provide the most detailed estimates of TAHE's impacts and effects and respond directly to Cabinet's request.

Conclusion:

- 19 On behalf of KPMG, we hope that this serves to clarify the role and intent of each report.
- 20 KPMG takes its professional reputation seriously and regret that issues have arisen in regard to our work for NSW Treasury and TfNSW on this complex issue.
- 21 KPMG looks forward to continuing to assist the NSW Government with its reform agenda and remain available to provide any further clarification needed.

Yours sincerely

Dávid Heathcote
National Managing Partner