

TfNSW Structure Considerations - 'TAHE' Business Model Assessment

SENSITIVE: NSW CABINET

Transport for NSW
December 2019



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Executive Summary

- The NSW General Government (GG) Sector is facing an estimated **\$2.4 billion p.a. budget impact** driven by **two new accounting standards**, AASB 1059 - Service Concession Arrangements and AASB 16 – Leases, that present **challenges** for the current **proposed TAHE** business model
- In an attempt to resolve financial impacts, **five business model options** were identified, in addition to the option to **unwind TAHE** (i.e. 'do nothing'). Through collaborative sessions with **TfNSW** and **Treasury** stakeholders, each business model option was evaluated against a framework with nine key criteria, with **Option C, the corporatisation of TfNSW**, identified as the **preferred option** for further exploration.
- A more detailed investigation of Option C, which included the potential corporatisation of TfNSW, identified some **significant challenges** with a high risk that the option is **unfeasible or impractical** to implement. **Potential show stoppers** identified included:
 - The inability to meet ABS commerciality requirements;
 - Accounting hurdles that remain unresolved and may render the model unworkable (e.g. asset impairments and equity injections);
 - An extensive Legislative pathway that would require significant government appetite; and
 - IR implications for existing employees
- Whilst further work is required to understand if these challenges can be overcome, if TfNSW as a SOC is deemed **unfeasible**, then the option to **unwind TAHE** (i.e. 'do nothing') is expected to be the **likely best alternative** although this does not resolve the budget impacts.

Agenda

- **Overview**
- Context and Case for Change
- Business Model Options
- Option Evaluation
- Preferred Option Deep Dive
- Alternative Option and Next Steps
- Appendix A – Detailed Option Evaluations
- Appendix B - Case Study
- Appendix C – Workshop #1 Outputs

PwC was engaged to support TfNSW & Treasury assess structural options across four workstreams...

Workstream	Description
	Business Model
Focus of this pack	
	Accounting and ABS Treatment
	Financial Modelling
	Governance and Legal (TfNSW and Treasury)

- Stress test a number of different business model options available to TfNSW, surfacing operational implications for each
- Evaluate options against an evaluation framework and develop a high-level implementation pathway for the preferred option

- Highlight the division of functions and responsibilities necessary to satisfy accounting requirements
- Assess ABS requirements, assisting TfNSW in determining a plan for continued PNFC classification

- Develop a detailed financial model to assess the financial implications of identified business model options and scenarios

- Detail likely legislative requirements and legalities, including associated timeframes for any required changes
- Determine the required governance structures for identified business model options

...with the Business Model focused on evaluating options through collaborative stakeholder sessions

Business Model Workstream Methodology Overview

	Workshop 1 – Surface operational implications	Small working group sessions	Workshop 2 – Validate option evaluation and implementation pathway(s)
Areas of Focus	<ul style="list-style-type: none"> ✓ Align around the problem statement, objectives and case for change; ✓ Confirm functional movements across options - what remains in GGS, what moves to PNFC; ✓ Surface high-level implications across key functions including planning, services, assets, safety, legal and IR; and ✓ Confirm there are no other structural arrangements not yet identified 	<ul style="list-style-type: none"> ✓ Meet with functional SMEs across Transport and Treasury to: <ul style="list-style-type: none"> ✓ Test and validate outputs surfaced in Workshop #1; ✓ Develop a further understanding of the implications across functions; ✓ Build out the required perspective to facilitate option evaluation; and ✓ Discuss option evaluation framework and obtain input as required 	<ul style="list-style-type: none"> <input type="checkbox"/> Test and validate option evaluation; <input type="checkbox"/> Facilitate a detailed discussion around the preferred option, including outstanding issues for resolution; <input type="checkbox"/> Validate high-level implementation pathway for preferred option – what are the necessary activities and next steps
Outputs	<ul style="list-style-type: none"> ✓ Matrix capturing high-level implications of each option across TfNSW functions (e.g. safety, legal, IR etc.) 	<ul style="list-style-type: none"> ✓ Evaluation framework ✓ Option evaluation 	<ul style="list-style-type: none"> <input type="checkbox"/> Validated option evaluation <input type="checkbox"/> Validated option pathway
Attendees	<ul style="list-style-type: none"> ✓ TfNSW ✓ PwC 	<ul style="list-style-type: none"> ✓ Functional SMEs ✓ PwC 	<ul style="list-style-type: none"> ✓ TfNSW ✓ Treasury ✓ PwC
PwC Role	<ul style="list-style-type: none"> ✓ Facilitate workshop and capture outputs ✓ Develop functional matrix to guide and track the discussion 	<ul style="list-style-type: none"> ✓ Facilitate small working group sessions and capture outputs ✓ Develop initial option evaluation for validation in Workshop #2 	<ul style="list-style-type: none"> ✓ Facilitate workshop ✓ Prepare summary document (PowerPoint) capturing outputs to aid decision making

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New standards drive a potential ~\$2.4bn p.a. budget impact, requiring consideration of new business models

Project Drivers and Objectives

Drivers

- Two new accounting standards, AASB 1059 - Service Concession Arrangements and AASB 16 – Leases, **present challenges for the current proposed TAHE business model** and have direct **financial implications** on the General Government (GG) Sector
- Both standards have different requirements, however the general premise is that **an entity must include assets that it controls, regardless of ownership, on its balance sheet**
- Analysis by PwC concludes that based on the current proposed TAHE business model (TAHE Light / Ultra Light):
 - TfNSW may be required to **record the majority** of transport infrastructure on its balance sheet from 1 July 2020 (when AASB 1059 comes into effect); and
 - Subsequently bring the majority of transport infrastructure, and **associated depreciation, back into the General Government Sector**

Project Objectives

Identify and assess **business model options** to ensure they:

- 1 Meet new acct. standards** whilst **minimising**, as reasonably possible, **financial implications**
- 2 Meet ABS requirements** to retain PNFC classification for any new business model
- 3 Support TfNSW Strategic Agenda**

Estimated Impacts of Service Concession Standard

Source: <i>NSW Treasury</i>	FY 20-21 (\$m)	FY 21-22 (\$m)	FY 22-23 (\$m)	FY 23-24 (\$m)	Total - 4 Yrs (\$m)
TAHE depreciation in GG: TfNSW is Grantor	-1,840	-1,921	-1,977	-2,060	-7,798
RMS Toll Roads impact	-639	-683	-726	-876	-2,924
Estimated Net Impact: Service Concession Standard	-2,479	-2,604	-2,703	-2,936	-10,722

To avoid financial impacts, a transfer of sufficient power and control away from the GG is required

- PwC consider the following changes are required to ensure that **assets owned by TAHE are not reflected on the TfNSW balance sheet:**
 - *TAHE must contract directly with transport operators and have control over transport operations;*
 - *TfNSW retains the strategic role of integrated transport planning, execution should be governed by TAHE;*
 - *IPART continues to regulate prices while TAHE will determine pricing within the boundaries provided;*
 - *TfNSW or another General Government Agency can retain protective safety or regulatory functions;*
 - *TfNSW or another General Government Agency or Department should not control or direct TAHE. TAHE should have the **freedom to direct transport operations within safety or regulatory boundaries.***
- In summary, the intent of these changes is to transfer sufficient powers, decision-making rights and control from the General Government Sector into TAHE such that TAHE is seen as grantor in service concession arrangements with operators or as controller of its own assets (TfNSW is not lessee)
- This requires TAHE to have effective control of public transport services albeit with delegation of day to day operations to the operators. TAHE is able to delegate other functions and work collaboratively with other areas of government, however TAHE's control and decision-making rights must be substantive

Treasury has explored alternative avenues to resolve the impact of stds. that have not provided resolution

Solution Explored

Response / Outcome

1

- Discussion with the AASB to have this standard not apply to government to government transactions

- AASB have multiple times re-iterated that government to government transactions are in scope to reduce cross cluster structuring, with no appetite to change their position expected

2

- Reduce the discretion of rail operators (Sydney Trains and NSW Trains), so that AASB1059 does not apply

- Even if AASB1059 does not apply, the Leasing standard (AASB16) will apply, resulting in assets and depreciation being brought back into the GG

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Five operating model options were developed, with key assumptions, for further consideration (1/2)

Operating Model Options

Option A

Implement TAHE Light

Legal / Legislative

Existing legislative framework to implement:
Requires Schedule 2 of the legislation to be triggered by way of proclamation

Budget Impact¹

Subject to detailed financial modelling: Est. -\$2.2b in FY21 (-\$8.3b over FE) impact due to TfNSW (GG) being the Grantor and toll roads coming back to GG

Assets

Current RailCorp assets: property, heavy rail rolling stock, track, buildings, plant and machinery and Country Rail Network

Functions

Asset ownership; Infrastructure Delivery – fee for service with TfNSW; Property – commercialisation and place making

Option B

Corporatise TfNSW, reclassify TfNSW into PNFC and transferring certain functions into a GG entity

Legal / Legislative

Legislation required to convert TfNSW from a Statutory Authority into a SOC;
Further amendments to a number of Acts required

Budget Impact¹

Subject to detailed financial modelling:
Est. -\$0.6b in FY21 (-\$2.7b over FE) impact

Assets

All public transport assets + road assets (inc toll roads)

Functions

Corporatised TfNSW: All current functions, excluding safety and regulatory functions
GG entity: Safety and Regulatory functions

Option C

Corporatise TfNSW, reclassify TfNSW entity into PNFC wholesale and convert TfNSW into a SOC

Legal / Legislative

Legislation required to convert TfNSW from a Statutory Authority into a SOC;
Further amendments to a number of Acts required

Budget Impact¹

Subject to detailed financial modelling:
Est. -\$0.6b in FY21 (-\$2.7b over FE) impact

Assets

All public transport assets + road assets (inc toll roads)

Functions

All current functions of TfNSW
(Regulatory functions may remain in a GG entity)

Source: NSW Treasury

Five operating model options were developed, with key assumptions, for further consideration (2/2)

Operating Model Options Continued

Option D

TAHE SOC – Heavy Build, Maintain & Commercial

Legal / Legislative

Proclaim Schedule 2 of the existing TAHE Act, converting RailCorp into a SOC; further legislative amendments required to a number of other acts

Budget Impact¹

Subject to detailed financial modelling: Est. -\$2.2b in FY21 (-\$8.3b over FE) impact due to TfNSW (GG) being the Grantor and toll roads coming back to GG

Assets

All public transport assets
Option for roads and toll roads (subject to legislation)

Functions

Asset ownership; Infrastructure Delivery; and Property – commercialisation and place making

Option E

TAHE SOC – Heavy Build, Maintain, Operate & Commercial

Legal / Legislative

Proclaim Schedule 2 of the existing TAHE Act, converting RailCorp into a SOC; further legislative amendments required to a number of other acts

Budget Impact¹

Subject to detailed financial modelling:
Est. -\$1.1b in FY21 (-\$4.5b over FE) impact due to TfNSW (GG); reduced impact due to some depreciation transferring from GG to PNFC

Assets

All public transport assets
Option for roads and toll roads (subject to legislation)

Functions

Asset ownership; Infrastructure Delivery; Contract for Services; and Property – commercialisation + place making

Source: NSW Treasury

For each option, the location of key functions were mapped to illustrate changes (1/3)

Functional Distribution by Option

Function		TAHE Light		TfNSW as a SOC				TAHE Alternatives			
		Option A		Option B		Option C		Option D		Option E	
		GGG	PNFC	GGG	PNFC	GGG	PNFC	GGG	PNFC	GGG	PNFC
Planning	Policy	X			X		X	X		X	
	Strategy	X			X		X	X		X	
	Network Integration	X			X		X	X		X	
Services	Service Development	X			X		X	X			X
	Service Procurement	X			X		X	X			X
	Service Contracting	X			X		X	X			X
Asset Delivery	Infrastructure Delivery (Build)	X			X		X		X		X
	Fleet Procurement	X			X		X		X		X
Asset Management	Asset Management Strategy	X			X		X		X		X
	Asset Maintenance	Asset maintenance carried out by O&Ms									
	Asset Disposal	X			X		X		X		X
	Standards Development (PT + Roads)	X			X		X		X		X

Legend	 Function within GGS	 Function within PNFC
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For each option, the location of key functions were mapped to illustrate changes (2/3)

Functional Distribution by Option

Function		TAHE Light		TfNSW as a SOC				TAHE Alternatives			
		Option A		Option B		Option C		Option D		Option E	
		GGG	PNFC	GGG	PNFC	GGG	PNFC	GGG	PNFC	GGG	PNFC
Safety	Safety Accountability		X	X			X		X		X
	Incident Response	X			X		X	X			X
	Accreditation	X			X		X		X		X
	Regulatory Oversight	X		X		X		X		X	
Commercial	Ticketing	X			X		X	X		X	
	Access Agreements		X		X		X		X		X
	Access Fees		X		X		X		X		X
	Advertising		X		X		X		X		X
	Leasing & Retail		X		X		X		X		X
Property	Acquisitions, Development, Disposals		X		X		X		X		X
	Placemaking		X		X		X		X		X
	Corridor Development		X		X		X		X		X

Legend	 Function within GGS	 Function within PNFC
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For each option, the location of key functions were mapped to illustrate changes (3/3)

Functional Distribution by Option

Function		TAHE Light		TfNSW as a SOC				TAHE Alternatives			
		Option A		Option B		Option C		Option D		Option E	
		GGG	PNFC	GGG	PNFC	GGG	PNFC	GGG	PNFC	GGG	PNFC
Balance Sheet Ownership <i>(Legal ownership remains within PNFC)</i>	Heavy Rail	X			X		X		X		X
	Heavy Rail Infrastructure		X		X		X		X		X
	Light Rail	X			X		X		X		X
	Ferries	X			X		X		X		X
	Buses	X			X		X		X		X
	Sydney Metro	X			X		X		X		X
	State Roads	X			X		X	<i>Optional</i>		<i>Optional</i>	
	Toll Roads	X			X		X	<i>Optional</i>		<i>Optional</i>	
Legislative	Road Authority powers from Roads Act	X			X		X	Option to include if assets transferred	X	Option to include if assets transferred	
	Service Contracting powers from Passenger Transport Act	X			X		X			X	

Assumes political appetite for legislative amendments

Legend Function within GGS Function within PNFC




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Each business model option has been assessed against an evaluation framework with nine key criteria

Evaluation Framework

Item	Evaluation Criteria	 Preferred – Minor effort and/or limited barriers	 Moderate effort and/or some barriers	 Significant effort and/or extensive barriers
1	Financial impact to Govt.	\$ Impact		
2	ABS Pathway	<ul style="list-style-type: none"> Likely to meet ABS requirements for a PNFC with limited hurdles identified 	<ul style="list-style-type: none"> Potential to meet ABS requirements for a PNFC, with moderate to significant hurdles identified (subject to the commercialisation plan) 	<ul style="list-style-type: none"> May not meet ABS requirements for a PNFC due to extensive hurdles identified and likely timeframe to overcome
3	Level of Accounting Structuring Required	<ul style="list-style-type: none"> Option is expected to require minimal accounting structuring 	<ul style="list-style-type: none"> Option is expected to require moderate to significant structuring, but with workable outcomes 	<ul style="list-style-type: none"> Option is expected to require extensive structuring, with potentially unworkable outcomes
4	Alignment to TfNSW Strategic Direction	<ul style="list-style-type: none"> Supports the strategic direction of TfNSW and implementation of the 10yr blueprint 	<ul style="list-style-type: none"> Expected to drive only minor to moderate impacts to the strategic direction of TfNSW and implementation of the 10yr blueprint 	<ul style="list-style-type: none"> Does not support the strategic direction of TfNSW and implementation of the 10yr blueprint, with potentially significant impacts
5	Implications for Customers	<ul style="list-style-type: none"> Expected to have no notable impact or drive improved customer outcomes and/or customer centricity 	<ul style="list-style-type: none"> Expected to drive minor to moderate impacts on customer outcomes and/or customer centricity 	<ul style="list-style-type: none"> Expected to significantly impact to customer outcomes and/or customer centricity
6	Implications for Safety and Regulation	<ul style="list-style-type: none"> Expected to have no notable impact on safety or regulatory functions, with existing systems, processes and/or activities carried forward 	<ul style="list-style-type: none"> Expected to have minor to moderate impacts safety or regulatory functions 	<ul style="list-style-type: none"> Expected to drive significant risks of reduced safety outcomes and/or changes to regulatory functions, driving extensive changes to existing systems and processes
7	Legislative Pathway	<ul style="list-style-type: none"> Aligned to existing Legislation 	<ul style="list-style-type: none"> Requires minor amendments to existing Legislation 	<ul style="list-style-type: none"> Requires significant amendments to existing Legislation and/ or introduction of new Legislation
8	IR and HR Impacts, including Structural Changes	<ul style="list-style-type: none"> No to minimal separation of functions, movement of employees and/or creation of new interfaces; and No significant changes to existing EA(s) required 	<ul style="list-style-type: none"> Moderate separation of functions, movement of employees and/or creation of new interfaces; and/or Moderate amendments to existing EA and/or minor consultation 	<ul style="list-style-type: none"> Extensive separation of functions, movement of employees and/or creation of new interfaces; and/or Extensive consultation/ changes to current EA(s) or creation of new agreements required
9	Governance Outcomes	<ul style="list-style-type: none"> Governance approach is expected to have no notable impact or drive improved governance outcomes 	<ul style="list-style-type: none"> Governance approach is expected to drive minor to moderate reductions in governance outcomes 	<ul style="list-style-type: none"> Governance approach is expected to drive significant reductions in governance outcomes

Option C represents the preferred option, although key challenges would require resolution to implement

Preliminary Option Evaluation

Preferred Option

Preliminary financial impacts included only

Item	Criteria	Unwind TAHE	Option A	Option C	Option E	Option B	Option D
1	Financial impact to Government ¹	● -\$2.2b in FY21 -\$8.3b over FE	● -\$2.2b in FY21 -\$8.3b over FE	● -\$0.6b in FY21 -\$2.7b over FE	● -\$1.1b in FY21 -\$4.5b over FE	● -\$0.6b in FY21 -\$2.7b over FE	● -\$2.2b in FY21 -\$8.3b over FE
2	ABS Pathway	● ABS classification not required. Assets and entities move back to GG	● Broadly aligned to agreed pathway, but with ABS dialogue / negotiation required	● Significant challenges identified, incl. potential insufficient comm. revenue	● Significant challenges identified, incl. potential insufficient comm. revenue	● Significant challenges identified, incl. potential insufficient comm. revenue	● Most aligned to agreed pathway with ABS; ABS dialogue / negotiation still required
3	Level of Acct. Structuring Required	● Continuation of current state. No impact	● No structuring required	● Significant structuring required, with potentially unworkable outcomes	● Significant structuring required, with potentially unworkable outcomes	● Significant structuring required, with potentially unworkable outcomes	● Minimal structuring required; Similar to A from a acct. perspective
4	Alignment to TfNSW Strat. Direction	● Continuation of current state. No impact	● Preserves cluster integration; Supports strategic direction	● TfNSW remains integrated; increases commerciality; Supports strategic direction;	● Separates functions; misaligned to 'integrated transport'	● Aligned to C; Supports strategic direction	● Aligned to E; Separates functions; misaligned to 'integrated transport'
5	Implications for Customers	● Continuation of current state. No impact	● Maintains status-quo; No expected adverse impacts	● No expected adverse impacts to customer outcome	● Separation of functions may reduce integrated view of cust.	● Aligned to C; No expected adverse impacts	● Aligned to E; Separation of functions may reduce integrated view of cust.
6	Implications for Safety and Regulation	● Continuation of current state. No impact	● Maintains status-quo; TAHE has not decision rights	● Potential comm. and safety conflict driven by increased comm. remit	● Separates safety acct. from asset owner; May drive loss of acct.	● Separates safety acct. from asset owner; May drive loss of acct.	● Aligned to E; Separates safety acct. from asset owner
7	Legislative Pathway	● Continuation of current state. No impact	● Minor amendments expected to current legislation	● Extensive legislative pathway required	● Extensive legislative pathway required	● Aligned to C; Extensive legislative pathway required	● Aligned to E; Extensive legislative pathway required
8	IR and HR Impacts,	● Continuation of current state. No impact	● Limited impact expected; ~20-50 emp. To TAHE	● Transfers TfNSW from state to fed. jurisdiction; Limits emp. Mobility	● Drives largest impact to existing structures	● Aligned to C; Transfers TfNSW from state to fed. jurisdiction; Limits emp. Mobility	● Aligned to E; Large impact to existing structures
9	Governance Outcomes	● Continuation of current state. No impact	● No impact expected; No transfer of decision rights to TAHE	● Requires change in gov. approach; Not expected to reduce outcomes	● Separation of decision rights may drive uncertainty in acct.	● Aligned to C; Requires change in gov. approach; Not expected to reduce outcomes	● Aligned to E; Separation of decision rights may drive uncertainty in acct

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Source: 1) NSW Treasury

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Our work to date surfaced five key considerations to make the preferred Option C feasible

		Description
1	ABS Pathway Challenges	<ul style="list-style-type: none"> Current TfNSW funding flows present considerable challenges in meeting ABS requirements for a PNFC classification Challenges have been identified in meeting ABS commerciality requirements, including the current highly subsidised farebox, significant taxation revenue, and federal grants
2	Accounting Hurdles	<ul style="list-style-type: none"> Further work is required to understand and navigate accounting hurdles and implications of the TfNSW SOC Challenges identified include the impairment of assets, treatment of equity injections, and potential transfer of Sydney Metro assets
3	Change in Governance Approach	<ul style="list-style-type: none"> A deviation in governance approach is required, with key mechanisms to be stood-up including an independent board, Operating License, Statement of Corporate Intent, and a diminished role of the Minister(s) Despite changes, the new approach provides a robust governance approach, aligned to that used extensively in the private sector
4	Extensive Legislative Pathway	<ul style="list-style-type: none"> Large legal and legislative hurdles are expected, with extensive legislative change required The pathway is expected to include new or amended legislation to convert TfNSW into a SOC along with potential amendments to acts including Trans. Admin Act, Pass. Trans. Act
5	IR Implications	<ul style="list-style-type: none"> TfNSW SOC drives implications for industrial relations, including; <ul style="list-style-type: none"> Currently, there is no mechanism to transfer employees from TfNSW Govt. Agency to TfNSW SOC; and Removes current legislative ability to transfer employees across agencies

Challenges meeting ABS commerciality requirements have been identified and require further examination

ABS Considerations

Overview

- To obtain ABS classification for a PNFC, a key requirement is an entity should exhibit a **commercial entity and charge economically significant prices**. The majority of the cost base should be financed through sales to the consumers of the goods and services rather than being financed from the general taxation revenue of government
- Additionally, ABS is likely to expect a dividend stream and demonstration the entity is able to support a portion of capital funding and maintenance spend
- Whilst Government subsidies, for example, in the provision of 'community service obligations' are allowed, **the nature of current revenues into TfNSW present considerable challenges that may be unresolvable**

Key ABS Challenges

User Fees

- Currently, TfNSW Farebox is heavily subsidised, with services provided well below the cost of provision (~30% cost recovery). This may be interpreted that economically significant prices are not being charged and indicate a GG entity
- TfNSW reform program (see next slide) to improve cost recovery may provide some support for ABS classification, however the 10 year target of 50% is not expected to be sufficient, both in magnitude and timing

Motor Vehicle Weight Tax

- TfNSW currently receives significant MVW tax revenue; The revenue is likely required to support commerciality for ABS classification, however challenges in achieving this exist:
 - a SOC is unable to directly collect taxation;
 - A tax represents a flat fee. For ABS, user charges should be in an amount proportionate to use; and
 - The GG cannot collect on TfNSW behalf and appropriate. For ABS, revenue is required to be sourced directly from users / consumers
- Road pricing reform, moving from a tax to user payments, is expected to be required to resolve this challenge

Federal Government Grants

- Current Federal funding appropriated to TfNSW is not able to be treated as 'revenue'
- Additionally, Federal appropriations may not be able to be equity injected, driving potential implications for funding flows and adverse impacts to budget results
- Note:* Further work is required to understand implications

TfNSW's program to improve their financial position is essential for ABS compliance, but may be insufficient

Targeted 50% cost recovery over 10 years is not expected to be sufficient alone to support ABS classification, both in magnitude and timing

Focus areas to support improved financial position

Areas	Description	Potential improvement in FY28
Building the Workforce of the future	<ul style="list-style-type: none"> Renew the workforce while holding the headcount largely steady at 2018 levels, embracing new skills, new technology and improving customer service and cost recovery 	Up to \$1.9bn p.a.
Commercialising property and non-farebox revenues	<ul style="list-style-type: none"> Decide to sell, rezone, develop or retain (as successful places that enhance public amenity) ~ 350 property sites with strong commercial potential, and license the use of Transport advertising space, intellectual property and data 	Up to \$2.3bn p.a.
Fairly pricing customer services	<ul style="list-style-type: none"> Reform road levies and taxes, adjust benefits and concessions for public transport and introduce tiered pricing for enhanced services to reflect a more equitable user-pays framework 	Up to \$2.1bn p.a.
Improving external spend effectiveness	<ul style="list-style-type: none"> Embrace strategic sourcing through centres of excellence for procurement and capital expenditure, consolidating all of Transport's buying power for better goods and services at lower costs 	Up to \$0.7bn p.a.
Optimising the integrated network	<ul style="list-style-type: none"> Establish a virtuous funding cycle (better service and more patronage), taking advantage of new transport modes, better digital system integration and more real-time data 	Up to \$0.2bn p.a.

Further work is required to understand and navigate key accounting barriers to implementation

Accounting implications overview

Key Accounting Challenges

Impairment of Assets

- TfNSW Profitability will only be feasible with lower depreciation from a significant write down of the transport asset base
- Further work is required to understand if assets can be impaired, including:
 - Allowable valuation method (DCF or CRC) and timing (e.g. day 0, day 1 etc.);
 - Ability to impair non-toll road assets; and
 - Implications for both Transport and RailCorp, including the impact on future dividends

Treatment of Equity Injections

- Required equity injections from the GG into the PNFC can be treated as equity only where there is an expectation of a return
- With the pathway for a 'return' unknown, further work is required to understand if the injections would be treated as 'grant funding', driving increased Government expenses and a deteriorated budget result

Potential transfer of Sydney Metro Assets

- Treatment of Sydney Metro assets, the largest asset base beyond roads, requires further exploration including how assets could be transferred to TfNSW and how funding between TfNSW SOC and Sydney Metro would be impacted
- *Note:* Transfer of Sydney Metro assets would be required to transfer associated depreciation out of the GG

As a SOC, Governance changes are required, however six mechanisms would achieve robust governance (1/2)

TfNSW SOC governance overview

Stakeholder	Role	Implications
<p>1</p> <p>Board</p>	<ul style="list-style-type: none"> Responsible for setting the overall policy, strategy and direction of TfNSW Would have authority over all decisions relating to the operations of TfNSW, delegating responsibility to Managing Director and Executive Team as required Directors appointed by the Shareholding Ministers 	<p>Governance Outcomes:</p> <ul style="list-style-type: none"> The TfNSW SOC governance approach provides for robust governance approach, aligned to that used extensively in the private sector and in other NSW SOC's (e.g. Sydney Water)
<p>2</p> <p>Shareholding Ministers</p>	<ul style="list-style-type: none"> Two shareholders required, with one the Treasurer and another appointed by the Premier Responsible for directing and negotiating contents of the Statement of Corporate Intent; Tables the document to both Houses of Parliament annually Assesses and approves major investment proposals and disposals 	<p>Cluster Governance :</p> <p>4 Contractual agreements govern interactions between cluster entities as Option C would limit TfNSW powers of direction over other entities (E.g. Syd. Trains, Syd. Metro)</p>
<p>3</p> <p>Portfolio Minister</p>	<ul style="list-style-type: none"> Can provide direction when in the public's interest; The SOC would be entitled to be reimbursed for the net cost of complying with any direction Responsible for regulating operations and monitoring performance through the issuing of an Operating License Legal advice indicates the Portfolio Minister can also act as a shareholding minister 	<ul style="list-style-type: none"> Subsequently, it is likely clear cross-entity objectives and mechanisms would be required to ensure the right outcomes are achieved; and The CEO of TfNSW would not be permitted to act as the Transport Secretary

As a SOC, Governance changes are required, however six mechanisms would achieve robust governance (2/2)

TfNSW SOC governance overview continued

5

Statement of Corporate Intent

- Annual agreement that sets the objectives, main undertakings and scope of activities for the organisation
- Sets performance targets. Potential targets **may** include:
 - Customer Service;
 - Service Delivery;
 - Environmental;
 - Commercial; and
 - Staff performance
- Is agreed to with the Shareholding Ministers, who may provide direction or request content changes as required
- Laid annually before both Houses of Parliament by the Shareholders.

6

Operating Licence

- The Operating License envisioned for 'TAHE' and provided for under the Trans. Admin. Amendment (Transport Entities) Act 2017, has been designed with *Option A* or *Option D* in mind:
 - *'The Minister for Transport and Roads may grant one or more operating licences to TAHE to authorise it, to carry out the listed functions specified in the licence, and any other functions as may be conferred or imposed on it by the licence, in the circumstances (if any) specified in the licence'*
 - Issue of an Operating Licence represents a key vehicle to maintain the influence of the Ministers over TAHE
- Implementation of TfNSW SOC may require a deviation from the Operating License envisioned, aligned to those granted to other SOC entities (e.g. Syd. Water). Characteristics **may** include:
 - Issued by Portfolio Minister;
 - Periodically reviewed by IPART to ensure compliance, with findings reported to the Portfolio Minister;
 - Sets the service and quality standards across key activities and functions; and
 - May detail avenues of customer redress

An extensive legislative path is required, with further work needed to understand legislative & legal impacts

Legislative and legal overview

Legislative Pathway

- Extensive legislative change is required for Option C, with expected minimum 9 months preparation time; Implementation timeframe would be dependent on government approval
- The legislative pathway(s) is still being assessed by Legal Counsel, with potential legislative changes including:
 - Legislation will be required (either new legislation or amendments to the TAA) to convert TfNSW from a Statutory Authority into a SOC;
 - New legislation to facilitate the transfer of employees from TfNSW as a Govt. Agency to TfNSW as a SOC, creating 'copy awards' that mimic current conditions;
 - Amendments of the Transport Administration Act. An alternative option would be to introduce new leg. to replace existing Act to ensure it is fit for purpose;
 - Amendments to the Roads Act if TfNSW SOC is to become the roads authority;
 - Potential amendments to the Passenger Transport Act;
 - Potential amendments to acts to support the appropriate flow of funding and revenue into the SOC (e.g. Appropriations Act, Motor Vehicles Tax Act etc.); and
 - Potential amendments to various other acts that contain miscellaneous references to TfNSW; Legal is yet to identify the extent of these amendments

Legal Considerations

- The legal capacity for TfNSW as a SOC to fulfill all existing functions is still being explored (e.g. what TfNSW can and can't do as a SOC);
- As a consequence, functions may be required to be separated and remain within the GG, specifically regulation, potentially driving implications to currently envisioned for the proposed business model

TfNSW SOC drives IR implications, including the need for legislation to facilitate the transfer of employees

IR Implications

	Description	Implication
1.	Requires a mechanism to facilitate the transfer of employees into the TfNSW SOC	<ul style="list-style-type: none"> ▪ Currently, there is no mechanism to facilitate the transfer of existing employees from TfNSW as a Government Agency to TfNSW as a SOC; Employees could be transferred through either: <ul style="list-style-type: none"> – An offer and acceptance process (not preferred due its disruptive effect, including potential claims for redundancy and loss of staff); or – Introduction of legislation allowing the transfer of employees. Constitutes a transmission of business, with existing Awards (4 RMS & 1 TfNSW) transferring with the employees.
2	Transfers employees into the Federal jurisdiction	<ul style="list-style-type: none"> ▪ A transfer to the Federal jurisdiction subjects TfNSW and its employees to the Federal IR framework as opposed to the current NSW framework ▪ The Federal IR framework includes different processes and systems, including different mechanisms for industrial action
3	Removes the current legislative ability to transfer employees across agencies and entities	<ul style="list-style-type: none"> ▪ Employees within the TfNSW SOC entity would not be able to transfer across agencies and cluster entities ▪ This could only be addressed through the new or amended legislation

Agenda

- Overview
- Context and Case for Change
- Business Model Options
- Option Evaluation
- Preferred Option Deep Dive
- **Alternative Option and Next Steps**
- Appendix A – Detailed Option Evaluations
- Appendix B - Case Study
- Appendix C – Workshop #1 Outputs

Facing into extensive challenges, Option C may be unfeasible with 'do nothing' the likely best alternative

Description

- In the face of significant challenges, there is a **high risk that Option C is unfeasible or impractical to implement**, with potential show stoppers including:
 - The inability to meet ABS commerciality requirements;
 - Accounting hurdles that remain unresolved and may render the model unworkable;
 - An extensive Legislative pathway that would require significant government appetite; and
 - IR implications for existing employees
- Whilst further work is required to understand if these challenges can be overcome, if Option C is deemed unfeasible, then the Option to **unwind TAHE** (i.e. 'do nothing') is expected to be the **likely best alternative**

Drivers

- Drivers of the option to unwind TAHE becoming the best alternative include:
 - Incurs a **similar financial impact to Option A, TAHE Light**, however without the cost and legal implications of establishing TAHE;
 - **Doesn't separate transport functions**, (as in Option E and D), supporting TfNSW's strategic direction;
 - Removes the **challenges in meeting ABS compliance** faced by Options B and E;
 - Doesn't require the **stand-up of new governance** mechanisms as required under Options A, B, D and E;
 - Isn't expected to require new or amended legislative; and
 - Doesn't drive implications for employees

Next steps include ABS / accounting deep dives to understand if identified challenges can be overcome

Next Steps

Item	Description
<p>1. Perform deep dive into identified ABS challenges</p>	<ul style="list-style-type: none"> Understand and develop, where possible, resolutions to identified challenges in meeting meet ABS commerciality requirements, including low user / farebox revenues, current Motor Vehicle Weight Taxes, and Federal appropriations
<p>2. Perform deep dive into accounting implications</p>	<ul style="list-style-type: none"> Understand and develop, where possible, resolutions to identified accounting challenges, including impairment of assets, treatment of equity injections, and potential transfer of Sydney Metro assets
<p>3. Brief Treasury and Transport Secretaries and Ministers</p>	<ul style="list-style-type: none"> Inform Treasury and Transport Executives, including the Treasurer and Minister for Transport and Roads, of the current position on TAHE, associated financial and budget impacts, and options going forward Note: briefings are expected to be held before the year end 2019
<p>4. Open dialogue with ABS (subject to endorsement)</p>	<ul style="list-style-type: none"> Seek Treasurer, and Minister for Transport and Roads approval to undertake a conceptual discussion with the ABS to inform them of the 'Transport Narrative' and drivers for the changed operating environment
<p>5. Seek decision from ERC on preferred business model</p>	<ul style="list-style-type: none"> Draft ERC submission, taking in Minister feedback and guidance, for decision on preferred business model option Develop a submission to inform Government of accounting standard impacts, GGS budget implications, and provide alternate business model options
<p>6. Undertake detailed discussion with ABS (subject to endorsement)</p>	<ul style="list-style-type: none"> Undertake detailed consultation with the ABS, seeking approval for the preferred business model (subject to Government endorsement). Negotiate a milestone program for implementation







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Option A Evaluation (1/2)




Option A Evaluation

Detailed option evaluations were developed in conjunction with TfNSW and Treasury stakeholders via workshops and small working group sessions

Item	Criteria	Option A Evaluation	
1	Financial impact to Govt.		-\$2.2b in FY21 -\$8.3b over FE
2	ABS Pathway		<ul style="list-style-type: none"> Business model broadly aligned to existing ABS Pathway; Dialogue and negotiations with ABS required to ensure commercial PNFC status. Potential challenges include: <ul style="list-style-type: none"> TAHE Light representing a less robust model than the model presented to the ABS; and Independence from GGS not clear with a expected lower financial return profile; Option drives a high risk that all three rail entities would be reclassified to the GGS (including debt held in RailCorp)
3	Level of Accounting Structuring		<ul style="list-style-type: none"> No accounting structuring required to implement
4	Alignment to TfNSW Strategic Direction		<ul style="list-style-type: none"> Supports the TfNSW strategic direction and implementation of the 10 Year Blueprint / Future Transport 2056; Broadly preserves cluster integration with only ~20-50 employees transferred to TAHE Designed as a continuation of current state, supporting the in-train 'Evolving Transport' agenda, which: <ul style="list-style-type: none"> Delivers a new operating model, moving transport away from <i>modal</i> to a <i>customer and community alignment</i>; Integrates functions, enabling more co-operation and co-ordination across the transport cluster; Allows an integrated view of all stakeholders (customer, community and taxpayers) across modes to assess trade-offs; and Lays the foundations to deliver the 10 Year Blueprint / Future Transport 2056
5	Implications for Customers		<ul style="list-style-type: none"> Minimal expected implications; The TAHE model in Option A was developed to maintain the status quo, with TfNSW retaining all decision rights and accountabilities for customer outcomes Note: Green rating assumes future state TAHE board remains without decision rights. There exists a risk that, as the asset owner, the TAHE board may seek to increase their decision making role and accountabilities in the future. This may drive greater impacts than initially envisioned
6	Implications for Safety and Regulation		<p><i>Safety</i> -</p> <ul style="list-style-type: none"> Minimal expected implications; The TAHE model in Option A was developed to maintain the status quo in terms of current safety arrangements and mechanisms. TfNSW retains all decision rights and accountabilities Note: Green rating and evaluation assumes future state TAHE board remains without decision rights; There exists a risk that, as the asset owner, the TAHE board may seek to increase their decision making role and accountabilities in the future. This may drive greater impacts than initially envisioned <p><i>Regulation</i> - No expected impacts or changes expected to current state</p>







Option A Evaluation (2/2)

Option A Evaluation

Item	Criteria	Option A Evaluation	
7	Legislative Pathway		<ul style="list-style-type: none"> ▪ Existing legislative framework to implement Option A (TAHE Light) is already in place: <ul style="list-style-type: none"> – Requires Schedule 2 of the legislation to be triggered by way of proclamation, converting RailCorp into a SOC and renaming it TAHE; ▪ Amber rating is driven by the fact that we need various consequential legislative amendments which were intentionally not made to the TAHE Act (based on the minimalist approach advocated by PCO). Further legal work is also required to determine if any additional consequential legislative amendments are required as previous analysis was focused on heavy rail assets only. ▪ Current advice is that TAHE, under this option, would not require separate safety accreditation
8	IR and HR Impacts, including Structural Changes		<ul style="list-style-type: none"> ▪ Preferred option from a IR /HR perspective; Limited impact expected with only ~20-50 employees transferred to TAHE ▪ The nature of employees transferred to TAHE (still to be determined) will drive IR implications: <ul style="list-style-type: none"> – Potential for non-award employees only to be transferred to TAHE. In this scenario, limited impacts are expected – If existing award employees are required to be transferred, an offer and acceptance processes would be required. For TfNSW / RMS staff, existing awards would transfer with the employees until replaced by a new EA. New TAHE non-transferring employees would potentially be covered by the existing RailCorp EA. In this scenario, there are potential workarounds-including secondments from TfNSW or similar being explored ▪ Additionally, with the exception of TAHE employees, no significant impact to interagency relationships and employee mobility expected
9	Governance Outcomes		<ul style="list-style-type: none"> ▪ No expected impact to governance outcomes; No transfer of decision rights to TAHE board, TfNSW retaining all decision rights and accountabilities (continuation of current state); ▪ Note: The evaluation assumes future state TAHE board remains without decision rights; There exists a risk that, as the asset owner, the TAHE board may seek to increase their decision making role and accountabilities in the future. This may drive greater impacts than initially envisioned ▪ It is acknowledged that implementation requires the stand-up of TAHE Governance Structures, which includes: <ul style="list-style-type: none"> – Establishment of a board, responsible for setting the overall policy, strategy and direction of TAHE; – Two shareholding Ministers (Treasurer and another appointed by the Premier); Shareholding Ministers would ratify board appointments and provide input / negotiate the statement of corporate intent; – Transport Minister would remain the Portfolio Minister; Issues the TAHE Operating License; Legal Counsel indicates the Portfolio Minister is also able to act as a Shareholding Minister; and – Ministers would be able to provide only limited direction to TAHE; Any direction deemed 'non-commercial' would require compensation




Option C Evaluation (1/2)

Option C Evaluation

Item	Criteria	Option C Evaluation	
1	Financial impact to Govt.		- \$0.6b in FY21 - \$2.7b over FE
2	ABS Pathway		<ul style="list-style-type: none"> Significant challenges in meeting ABS requirements for PNFC classification have been identified; Significant ABS dialogue and negotiation expected with potentially non-workable solutions Noting ABS dialogue is yet to commence, the current TfNSW funding is expected to present considerable barriers including the current highly subsidised farebox, significant taxation revenue, and federal grants and appropriations
3	Level of Accounting Structuring		<ul style="list-style-type: none"> Significant accounting structuring required, with potentially unworkable outcomes Potential unworkable outcomes are driven by the implications of required impairment of assets, treatment of equity injections, and potential transfer of Sydney Metro assets; <i>Note</i>: Further work required to understand the implications and potential resolutions
4	Alignment to TfNSW Strategic Direction		<ul style="list-style-type: none"> TfNSW remains integrated, with no expected structural impacts or movement of employees; Supports the TfNSW strategic direction, implementation of the 10 Year Blueprint / Future Transport 2056, and the 'Evolving Transport' reform Increases the commercial remit of TfNSW, supporting the core ambition to '<i>increase value and return on investment for the people of NSW</i>' <i>Note</i>: Does drive implications for cluster governance (see governance), although implications are not expected to materially impact current strategic direction
5	Implications for Customers		<ul style="list-style-type: none"> No expected adverse impacts to customer outcomes or customer centricity expected; There exists controls, including the TfNSW Operating License and Statement of Corporate Intent, to manage the potential conflicts between commercial and customer outcomes (e.g. the inherent tension between developing airspace and associated impacts to services due to required access) driven by the expectation that TfNSW SOC would operate as a more commercial entity
6	Implications for Safety and Regulation		<p><i>Safety -</i></p> <ul style="list-style-type: none"> Broadly aligned to current state, with TfNSW still required to comply to the same Legislative requirements; Additionally, current mechanisms and processes are expected to carry forward Amber rating results from the expectation that TfNSW as a SOC would operate as a more commercial entity, potentially driving conflicts between commercial (e.g. delivery schedules, costs etc.) and safety objectives, noting the level of misalignment and associated risk is difficult to quantify <ul style="list-style-type: none"> Case Study: Past incidents in UK demonstrated the impact of prioritising commercial outcomes over safety, eventually resulting in renationalisation of entities To mitigate potential risks, strong regulation and assurance functions are required. In most industries assurance is an internal governance function. Appropriate assurance and governance mechanisms will be required, within the TfNSW organisation <p><i>Regulation -</i></p> <ul style="list-style-type: none"> Post-dissolution of RMS, TfNSW sets regulations for roads (Centre for Road Safety), and acts as a regulator for Buses (BOAS), Ferry and Commercial Vessels (AMSA), taxis and UBER, heavy vehicles; Heavy and Light rail is regulated by a external national body ONSRR From a safety perspective, this is viewed as sub-optimal. It is recommended that the setting of regulation should sit outside of the TfNSW SOC. Allowing a commercial entity to set their own regulations could reduce layers of defense and potentially drive misalignment of priorities <i>Note</i>: Amber rating assumes regulation described above remains in GG and separate from TfNSW. If not, impact is expected to be red







Option C Evaluation (2/2)

Option C Evaluation

Item	Criteria	Option C Evaluation	
7	Legislative Pathway		<ul style="list-style-type: none"> ▪ Appears to present the largest legal / legislative hurdles, with extensive legislative change expected; ▪ The legislative pathway(s) is still being assessed by Legal Counsel, with potential legislative changes including: <ul style="list-style-type: none"> – Legislation will be required (either new legislation or amendments to the TAA) to convert TfNSW from a Statutory Authority into a SOC; – New legislation to allow the automatic / mandatory transfer of employees from TfNSW as a Govt. Agency to TfNSW as a SOC, creating 'copy awards'; – Amendments of the Transport Administration Act. An alternative option would be to introduce new leg. to replace existing Act to ensure it is fit for purpose; – Amendments to the Roads Act if TfNSW SOC is to become the roads authority; Potential amendments to the Passenger Transport Act; – Potential amendments to various acts to support appropriate flow of funding and revenue (e.g. fines) into a SOC entity; and – Potential amendments to various other acts that contain miscellaneous references to TfNSW; Legal is yet to identify the extent of these amendments ▪ Preparation and implementation lead time is potentially extensive, with expected minimum 9 months preparation time; Dependent on political appetite ▪ Additionally, Legal Counsel is still examining the legal capacity for a TfNSW as a SOC to fulfill all existing functions. As a consequence, functions may be required to be separated and remain within the GG, potentially driving implications for the proposed business model ▪ Current advice is that TfNSW would retain current safety accreditation
8	IR and HR Impacts, including Structural Changes		<p><i>IR / EA Impacts:</i></p> <ul style="list-style-type: none"> ▪ Currently, there is no mechanism to facilitate the transfer of existing employees from TfNSW as a Govt. Agency to TfNSW as a SOC; Employees could be transferred to the new entity through either: <ul style="list-style-type: none"> – An offer and acceptance process (not preferred due its disruptive effect, including potential claims for redundancy and loss of staff); or – The introduction of legislation allowing the transfer of employees. Constitutes a transmission of business and existing Awards (4 RMS awards and 1 TfNSW) would transfer with the employees ▪ Assuming legislative appetite (see <i>Legislative Pathway</i> criteria), and assuming TfNSW as a SOC will be a new entity and not a successor of TAHE, Option C removes the RailCorp EA issue; With legislation, emp. would automatically transfer as 'copied state awards' from the state to the federal jurisdiction. ▪ Would lose the current legislative ability to transfer employees across government sector agencies (including the cluster); This could only be addressed through the new or amended legislation <p><i>Structural Impacts:</i> Transport remains largely integrated, with no transfer of employees (subject to legal considerations about functions a SOC can and can't perform).</p>
9	Governance Outcomes		<ul style="list-style-type: none"> ▪ No adverse impacts to governance outcomes expected, despite a required change in governance approach; The new approach provides for robust governance and is used extensively in the private sector; Furthermore, all decision rights remain with TfNSW ▪ The required governance structures for TfNSW as a SOC includes: <ul style="list-style-type: none"> – Establishment of a board, responsible for setting the overall policy, strategy and direction TfNSW; – Establishment of a constitution as a means regulating the SOC's activities (together with Op. License and Statement of Corporate Intent); – Two shareholding Ministers (Treasurer and another appointed by the Premier); Shareholding Ministers would ratify board appointments and provide input / negotiate the statement of corporate intent; – Transport Minister would remain the Portfolio Minister; Issues the TfNSW Operating License, detailing core functions; Legal Counsel indicates the Portfolio Minister can also act as a Shareholding Minister; and – Ministers would be able to provide only limited direction to TfNSW, noting the SOC would be entitled to be reimbursed for the net cost of complying with any directions provided by the Portfolio Minister and relating to compliance with public sector policy and/or public interest reasons ▪ Additionally, Option C drives implications for cluster governance: <ul style="list-style-type: none"> – Would limit TfNSW powers of direction over other cluster entities (E.g. Syd. Trains, Syd. Metro). Contracts would be required to govern interactions; and – Would not permit the CEO of TfNSW to also act as the Transport Secretary. Secretary would likely need to be within the DOT – Subsequently, it is likely clear cross-entity objectives and mechanisms would be required to ensure the right outcomes are achieved across the cluster




Option E Evaluation (1/2)

Option E Evaluation

Item	Criteria	Option E Evaluation	
1	Financial impact to Govt.		- \$1.1b in FY21 - \$4.5b over FE
2	ABS Pathway		<ul style="list-style-type: none"> Significant challenges in meeting ABS requirements for PNFC classification have been identified; Significant ABS dialogue and negotiation expected with potentially non-workable solutions Noting ABS dialogue is yet to commence, the current TfNSW funding is expected to present considerable barriers including the current highly subsidised farebox, significant taxation revenue, and federal grants and appropriations
3	Level of Accounting Structuring		<ul style="list-style-type: none"> Significant accounting structuring required, with potentially unworkable outcomes Potential unworkable outcomes are driven by the implications of required impairment of assets, treatment of equity injections, and potential transfer of Sydney Metro assets; <i>Note:</i> Further work required to understand the implications and potential resolutions
4	Alignment to TfNSW Strategic Direction		<ul style="list-style-type: none"> Misaligned the strategic direction of TfNSW; separates functions across TAHE and TfNSW: <ul style="list-style-type: none"> Contradicts the current reforms to integrate transport functions being undertaken as part of 'Evolving Transport'; Contradicts the ambitions set-out on the 10yr-Blueprint to 'connect the whole of transport' 'integrating our planning, process and delivery across the breadth of our business'; and Creates additional interfaces, potentially reducing ability to assess trade-offs across stakeholders and transport modes Similar to Option C, increased commercial remit would support core ambition to 'increase value and return on investment for the people of NSW'
5	Implications for Customers		<ul style="list-style-type: none"> Amber rating driven by the potential customers impacts driven by the separation of transport functions across TAHE and TfNSW Currently, TfNSW acts as an integrated entity, allowing decisions to be assessed and made with an integrated view of modes, stakeholders and implications for different functions (e.g. asset, maintenance, service delivery, property etc.). Option E is expected to impact this ability to form an integrated view, potentially driving misalignment across TAHE and TfNSW (who have different functions and priorities). Potential for decisions to be made without the 'voice of the customer', driving reduced outcomes; It is noted that the level of misalignment and associated risk is difficult to quantify Aligned to Option C, there exists controls, including the TfNSW Operating License and Statement of Corporate Intent, to manage the potential conflicts between commercial and customer outcomes driven by the expectation that TfNSW SOC would operate as a more commercial entity
6	Implications for Safety and Regulation		<p><i>Safety -</i></p> <ul style="list-style-type: none"> Least preferred option from a safety perspective; Option E separates safety accountability and standards setting, including assurance, from the asset owner, potentially driving uncertainty in accountability and likely sub-optimal safety outcomes. From a safety perspective, it is essential that the owners / board have accountability and decision rights for standards, assurance and safety across their assets Similar to Option C, TAHE is also expected to operate as a more commercial entity, potentially driving conflicts between commercial (e.g. delivery schedules, costs etc.) and safety objectives <p><i>Regulation -</i> The separation of regulatory functions from asset owners is expected to drive benefits for safety outcomes</p>










Option E Evaluation (2/2)

Option E Evaluation

Item	Criteria	Option E Evaluation	
7	Legislative Pathway		<ul style="list-style-type: none"> ▪ Legal Counsel expects an extensive Legislative pathway to implement, with the current TAHE legislative framework not suitable; ▪ Legislation would be required to transfer functions from TfNSW to TAHE, with the pathway dependent on the nature of the functions. Legislative pathway may include: <ul style="list-style-type: none"> – Proclaiming Schedule 2 of the existing legislation, converting RailCorp into a SOC and renaming it TAHE; – New legislation to allow the automatic / mandatory transfer of employees from TfNSW to TAHE, creating 'copy awards'; – Potential amendments to the Passenger Transport Act; – Potential amendments to Transport Administration Act; – Potential amendments to various acts to support appropriate flow of funding and revenue (e.g. fines) into a SOC entity; and – Potential amendments to various other acts; Legal is yet to identify the extent of these amendments ▪ Preparation and implementation lead time is potentially extensive; Dependent on political appetite ▪ TAHE would be required to obtain the safety accreditation currently held by TfNSW, estimated lead time of 6 months
8	IR and HR Impacts, including Structural Changes		<p><i>IR / EA Impacts</i></p> <ul style="list-style-type: none"> ▪ Similarly as described in Option C, there is currently no mechanism to transfer existing employees from TfNSW to TAHE; As above, employees could be transferred to the new entity through either: <ul style="list-style-type: none"> – An offer and acceptance process (not preferred); or – The introduction of legislation allowing the transfer of applicable employees to TAHE. As described in Option C, existing agreements would transfer with employees into the Federal jurisdiction with the legislation creating 'copy awards' that mimic the current conditions ▪ As Option E converts RailCorp into TAHE, as in Option A, the existing RailCorp Enterprise Agreement would remain and could still apply to non-transferring employees. The unions could still apply to have it cover all TAHE employees. The existing EA also presents a risk that it will be used as a baseline by unions for future negotiations ▪ Would lose the current legislative ability to transfer employees across government sector agencies (including the cluster); This could only be addressed through the new or amended legislation <p><i>Structural Impacts</i></p> <ul style="list-style-type: none"> ▪ Least preferred option; expected to drive the largest impact to existing structures (subject to the final list of functions transferred to TAHE): <ul style="list-style-type: none"> – Expected that ~5,000+ employees would move to TAHE with the envisioned transfer of Greater Syd., Regional and Outer Metro, and Infrastructure & Place; – Expected that some separation of existing teams would be required, however detailed work is required to identify required level of effort; and
9	Governance Outcomes		<ul style="list-style-type: none"> ▪ Amber rating driven by the required separation of current state decision rights, potentially impacting governance outcomes; ▪ The separation of decision rights across entities, with a portion transferring from TfNSW to TAHE (dependent on the nature of the functions transferred to TAHE), could foreseeably drive uncertainty in accountability and sub-optimal governance outcomes ▪ Similar to Option C, a change in governance approach is required. Required TAHE Governance Structures include: <ul style="list-style-type: none"> – Establishment of a board, responsible for setting the overall policy, strategy and direction TAHE; – Establishment of a constitution as a means regulating the SOC's activities (together with Op. License and Statement of Corporate Intent); – Two shareholding Ministers (Treasurer and another appointed by the Premier); Shareholding Ministers would ratify board appointments and provide input / negotiate the statement of corporate intent; – Transport Minister would remain the Portfolio Minister; Issues the TAHE Operating License, detailing core functions; Legal Counsel indicates the Portfolio Minister can also act as a Shareholding Minister; and – Ministers would be able to provide only limited direction to TAHE, noting the SOC would be entitled to be reimbursed for the net cost of complying with any directions provided by the Portfolio Minister and relating to compliance with public sector policy and/or public interest reasons










Option B Evaluation

Option B Evaluation

Item	Criteria	Option B Evaluation	
1	Financial impact to Govt.		-\$0.6b in FY21 -\$2.7b over FE
2	ABS Pathway		<ul style="list-style-type: none"> Significant challenges in meeting ABS requirements for PNFC classification have been identified; Significant ABS dialogue and negotiation expected with potentially non-workable solutions Noting ABS dialogue is yet to commence, the current TfNSW funding is expected to present considerable barriers including the current highly subsidised farebox, significant taxation revenue, and federal grants and appropriations
3	Level of Accounting Structuring		<ul style="list-style-type: none"> Significant accounting structuring required, with potentially unworkable outcomes Potential unworkable outcomes are driven by the implications of required impairment of assets, treatment of equity injections, and potential transfer of Sydney Metro assets; <i>Note:</i> Further work required to understand the implications and potential resolutions
4	Alignment to TfNSW Strategic Direction		<ul style="list-style-type: none"> Supports the TfNSW Strategic direction and implementation of the 10 Year Blueprint / Future Transport 2056, including 'Evolving Transport agenda' TfNSW remains broadly integrated, with only regulatory functions separated; Implications aligned to those outlined in Option C, with the separation of safety and regulatory functions not expected to drive material impact to TfNSW strategic direction
5	Implications for Customers		<ul style="list-style-type: none"> No adverse customer impacts expected; Implications aligned to those described in Option C. The additional separation of safety and regulatory functions is not expected to drive material additional customer impacts
6	Implications for Safety and Regulation		<p><i>Safety –</i></p> <ul style="list-style-type: none"> Separates safety accountability and standards setting, including assurance, from the asset owner, potentially driving uncertainty in accountability and likely sub-optimal safety outcomes. From a safety perspective, it is essential that the owners / board have accountability and decision rights for standards, assurance and safety across their assets <p><i>Regulatory –</i></p> <ul style="list-style-type: none"> Separation of regulatory functions from asset owners is expected to drive benefits for safety outcomes
7	Legislative Pathway		<ul style="list-style-type: none"> Legal Counsel expects the legislative pathway and challenges to be extensive and aligned to those described in Option C, noting further amendments may be required to remove safety and regulatory functions from TfNSW
8	IR and HR Impacts, including Structural Changes		<ul style="list-style-type: none"> Implications are aligned to those outlined in Option C, with the separation of safety and regulatory functions into another entity, e.g. The Department of Transport
9	Governance Outcomes		<ul style="list-style-type: none"> No further adverse impacts to governance outcomes expected, with implications aligned to those described in Option C

Option D Evaluation

Option D Evaluation

Item	Criteria	Option D Evaluation	
1	Financial impact to Govt.		-\$2.2b in FY21 -\$8.3b over FE
2	ABS Pathway		<ul style="list-style-type: none"> Option D is most aligned to the current agreed pathway with ABS; ABS dialogue and negotiations still expected to be required
3	Level of Accounting Structuring		<ul style="list-style-type: none"> Similar to Option A from a accounting perspective, Minimal structuring is required
4	Alignment to TfNSW Strategic Direction		<ul style="list-style-type: none"> As described in Option E, Option D is misaligned the strategic direction of TfNSW; separates functions across TAHE and TfNSW: <ul style="list-style-type: none"> Contradicts the current reforms to integrate transport functions being undertaken as part of 'Evolving Transport'; Contradicts the ambitions set-out on the 10yr-Blueprint to 'connect the whole of transport' 'integrating our planning, process and delivery across the breadth of our business'; and Creates additional interfaces, potentially reducing ability to assess trade-offs across stakeholders and transport modes There is potential additional implications driven by the separation of service contracting from other asset ownership, asset delivery and services functions
5	Implications for Customers		<ul style="list-style-type: none"> Amber rating driven by the potential customers impacts driven by the separation of transport functions across TAHE and TfNSW; Implications aligned to those described in Option E with the additional separation of service contracting not expected to drive material additional customer impacts
6	Implications for Safety and Regulation		<p><i>Safety and Regulation –</i></p> <ul style="list-style-type: none"> Implications aligned to those described in Option E. The additional separation of service contracting is not expected to drive material additional impacts
7	Legislative Pathway		<ul style="list-style-type: none"> Legal Counsel expects the legislative pathway and challenges to be extensive and aligned to those described in Option E. Service contracting remaining in TfNSW is not expected to drive material additional legislative hurdles or barriers.
8	IR and HR Impacts, including Structural Changes		<ul style="list-style-type: none"> Implications are aligned to those outlined in Option E, with large impacts to existing structures expected (subject to the final list of functions transferred to TAHE); Additional separation of service contracting functions is not expected to drive material additional IR or structural impacts
9	Governance Outcomes		<ul style="list-style-type: none"> Governance Implications are aligned to those outlined in Option E; Amber rating driven by the separation of decision rights across entities, with a portion transferring from TfNSW to TAHE (dependent on the nature of the functions transferred to TAHE). This could foreseeably drive uncertainty in accountability and sub-optimal governance outcomes

Agenda

- Overview
- Context and Case for Change
- Business Model Options
- Option Evaluation
- Preferred Option Deep Dive
- Alternative Option and Next Steps
- Appendix A – Detailed Option Evaluations
- **Appendix B - Case Study**
- Appendix C – Workshop #1 Outputs

Syd. Water was established in '95; Gov. mechanisms include a Op. License & Statement of Corp. Intent

Overview

- Sydney Water was established as a *Company State Owned Corporation*, in 1995 with the corporatization of the Water Board by way of the Sydney Water Act 1994
- Following a 1998 water contamination event, Sydney Water was converted to a *Statutory State Owned Corporation*, giving the portfolio minister the power to direct and access information in the public interest
- Note: A *Statutory State Owned Corporation* allows the minister to give directions for (a) non-commercial functions, (b) public policy and (c) public issues

Objectives

- To be a successful business and, to this end, to operate at least as efficiently as any comparable businesses, to maximise the net worth of the State's investment in Sydney Water and to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates;
- To protect the environment; and
- To protect public health

Key Governance Mechanisms

Artefacts

- Sydney Water Act 1994 and amendments
- Statement of Corporate Intent
- Operating License

Stakeholders

- Board
- Shareholding Ministers
- Portfolio Minister

The Stat. of Corp Intent and Op. License set the objectives and operating requirements of Syd. Water

Statement of Corporate Intent

- Annual agreement that sets the objectives, main undertakings and scope of activities
- Sets performance targets, including in relation to:
 - Customer Service;
 - Environmental;
 - Public Health;
 - Commercial; and
 - Staff performance
- Is agreed to with the Shareholding Ministers, who may provide direction or request content changes as required
- Laid annually before both Houses of Parliament by the Shareholders.

Operating License

- Enables and requires Sydney Water to provide services within its areas of operations to a sufficient standard
- Sets the service, quality and performance standards across key activities, including
 - Connection of services;
 - Water quality;
 - Water quantity;
 - Asset management; and
 - Environment
- Outlines customer rights and obligations of Sydney Water, including redress avenues
- Issued by the Governor and reviewed by IPART to ensure compliance, with findings reported to the Portfolio Minister

The Board sets the policy, strategy and direction, with Ministers providing oversight and input

Stakeholder	Role
<p>Board</p>	<ul style="list-style-type: none"> • Sets the overall policy, strategy and direction of Sydney Water • Has authority over all decisions relating to the operations of Sydney Water , delegating responsibility to Managing Director and Executive Team as required • Directors appointed by the Shareholding Ministers
<p>Shareholding Minister</p>	<ul style="list-style-type: none"> • Two shareholders required – Treasurer; Minister for Finance, Services & Prop. • Directs and negotiates contents of the Statement of Corporate Intent; Tables the document to both Houses of Parliament annually • Approves the creation of subsidiaries; acquisition and disposal of key assets
<p>Portfolio Minister</p>	<ul style="list-style-type: none"> • Responsible for regulating operations and monitoring performance through an operating license (issued by the Governor) • Cannot be a shareholding minister • Currently Minister for Water, Property and Housing

Agenda

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Option A - Workshop #1 Outputs (1/2)

Option A - Workshop #1 Outputs

Item	Function / Consideration	TAHE Light	
		Option A	Actions
1	Legal and Legislation	<ul style="list-style-type: none"> Existing legislative framework to implement Option A (TAHE Light) already in place: <ul style="list-style-type: none"> Requires Schedule 2 of the legislation to be triggered by way of proclamation, converting RailCorp into a SOC and renaming it TAHE; RailCorp has already been given powers to hold assets beyond rail in preparation Subsequently, TAHE would receive the operating license from the Portfolio Minister Current advice is that TAHE, under this option, would not require separate safety accreditation 	<ul style="list-style-type: none"> Validate with legal SME, surfacing any additional implications
2	IR / HR	<ul style="list-style-type: none"> Indication given that the existing RailCorp EA is outdated and the preference would be to establish a new EA with the stand-up of TAHE. On the surface, the process to amend the RailCorp EA appears complex, requiring negotiations with impacted employees / representatives and an offer and acceptance process. If Despite the complex process to amend agreements, Option A drives limited impact with an only ~20 to 50 employees expected to transfer to TAHE; Potential skew to senior employees With the exception of TAHE employees, no significant impact to interagency relationships and employee mobility expected 	<ul style="list-style-type: none"> Confirm the number of impacted employees (~20) Understand in greater depth the drivers for the establishment of a new EA; Understand the required effort to implement, including: <ul style="list-style-type: none"> Number of agreements impacted; and Process to amend, including key activities and lead times Confirm mobility of employees who are housed within TAHE will be restricted. Understand what drives these restrictions
3	Services	<ul style="list-style-type: none"> Aligned to the current state; Responsibility remains with TfNSW, with TAHE not envisioned to be involved in service development or service procurement / contracting TfNSW retains the relationship with O&Ms 	<ul style="list-style-type: none"> Test and validate, surfacing any potential implications not identified
4	Asset Delivery	<ul style="list-style-type: none"> Aligned to the current state; Asset Delivery, including asset disposal, decision rights and accountability remains with TfNSW. TAHE to be consulted only TAHE would engage TfNSW in a fee-for-service arrangement, with TfNSW to procure and deliver assets on TAHE's behalf. 	<ul style="list-style-type: none"> Test and validate, surfacing any potential implications not identified
5	Safety	<ul style="list-style-type: none"> Aligned to the current state; The TAHE model in Option A was developed to maintain all current safety arrangements and mechanisms with TfNSW retaining decision rights Current advice is that TAHE, under this option, would not require separate safety accreditation 	<ul style="list-style-type: none"> Test and validate, surfacing any additional considerations not yet identified Confirm accountability for safety would remain with TfNSW Understand regulatory and safety functions currently performed by TfNSW
6	Asset Management	<ul style="list-style-type: none"> Aligned to the current state; All decisions rights across the asset lifecycle will remain with TfNSW or the O&M as required TAHE may have some accountability for non-operational land, with further work required to clarify the level of accountability 	<ul style="list-style-type: none"> Test and validate Clarify TAHE land (and any non-operational) accountabilities; understand any potential implications (e.g. potential customer impacts, service disruptions)

Option A - Workshop #1 Outputs (2/2)

Option A - Workshop #1 Outputs

Item	Function / Consideration	TAHE Light	
		Option A	Actions
7	Planning and Strategy	<ul style="list-style-type: none"> Aligned to the current state; All planning and strategy functions and associated decision rights remain with TfNSW 	<ul style="list-style-type: none"> Test and validate, surfacing any potential implications not identified
8	Commercial	<ul style="list-style-type: none"> Pricing would remain within TfNSW, operating within the bounds set by IPART TfNSW would retain relationship with O&Ms, with TAHE entering a fee for service for the management of contracts Requires establishment of tri-partite agreements. <ul style="list-style-type: none"> TfNSW and Sydney Trains for provision of services; Sydney Trains and TAHE for maintenance of assets; Tri-partite agreements increases complexity (with additional party involved) and drives a potential misalignment of priorities; <ul style="list-style-type: none"> Currently, TfNSW contracts directly for operations and maintenance, taking a more holistic approach and weighing up trade-offs across functions / stakeholders In future state, TAHE potentially may make the call to dial up or dial down activities (e.g. maintenance) impacting other functions / activities across transport 	<ul style="list-style-type: none"> Understand potential conflicts and associated implications driven by the stand-up of tri-partite agreements: <ul style="list-style-type: none"> Potential areas of conflict; Customer implications; Materiality (does TAHE have the decision rights?)
9	Property	<ul style="list-style-type: none"> Property assets will be transferred to TAHE, without decision rights (remain with TfNSW). Acting as commercial entity, there is a risk that the board may look to increase influence to commercialise certain property assets, potentially driving conflicts with O&Ms and delivery of services 	<ul style="list-style-type: none"> Clarify materiality and magnitude of identified risks (does TAHE have the decision rights?), including potential mitigations Determine if these conflicts currently exist and if so, how they are currently managed
10	Balance Sheet Ownership	<ul style="list-style-type: none"> Legal ownership transferred to TAHE; Balance sheet ownership moves to GGS, driven by new accounting standards with TfNSW retaining control Implementation would require a revaluation downwards of assets. If revaluation did not occur, TAHE could not absorb large on-going depreciation costs and meet ABS requirements. 	<ul style="list-style-type: none"> Obtain financial impacts from Modelling streams Obtain clarity from Accounting and ABS teams on valuation approach and associated implications (i.e. Day 0 - at replacement value, Day 1 - write down using DCF)
11	Governance	<ul style="list-style-type: none"> Option proclaims TAHE as a SOC, dictating a required change in governance approach: <ul style="list-style-type: none"> A TAHE board and constitution is required to be established; TAHE would have two shareholding Ministers (Treasurer and another appointed by the Premier); Shareholding Ministers would ratify board appointments and provide input into the statement of corporate intent Transport Minister is the Portfolio Minister; issues the Operating License; Portfolio Minister is able to also act as a Shareholding Minister; Ministers are able to provide only limited direction, noting the SOC would be entitled to be reimbursed for the net cost of complying with any directions provided by the Portfolio Minister and relating to compliance with public sector policy and/or public interest reasons (not just non-commercial directions) No transfer of decision rights expected to TAHE board; All decision rights are a continuation of current state, remaining with either TfNSW or O&Ms; Despite no transfer of decision rights, there exists a potential risk that the TAHE board may seek to increase role in the future, and/or potentially create duplication of functions (e.g. build in-house contract management capabilities) 	<ul style="list-style-type: none"> Test and validate required TAHE governance structures Clarify materiality of TAHE board risk
12	Evolving Transport	<ul style="list-style-type: none"> Supports the TfNSW strategic direction and implementation of the 10yr-blueprint; preserves cluster integration with only ~20-50 employees transferred to TAHE Designed as a continuation of current state, supporting the in-train 'Evolving Transport' agenda 	<ul style="list-style-type: none"> Validate outputs from Workshop #1 Understand if the stand-up of TAHE 'light' will drive any impacts or benefits for: <ul style="list-style-type: none"> 'Evolving Transport'; and/or Broader transformation agenda (e.g. higher cost recovery)

Option C - Workshop #1 Outputs (1/2)

Option C - Workshop #1 Outputs

Item	Function / Consideration	TfNSW as a SOC	
		Option C	Actions
1	Legal and Legislation	<ul style="list-style-type: none"> Significant legislative path to convert TfNSW into a SOC: <ul style="list-style-type: none"> Legislation will be required (either new legislation or amendments to the TAA) to convert TfNSW from a Statutory Authority into a SOC; New legislation would need to allow transfer of employees from a Government Agency to a SOC, creating 'copy awards'; Without legislation a offer and acceptance process would be required Subsequently, if TfNSW as a SOC is to become the roads authority, a change in Legislation is required to support; Further work required to understand any amendments to the Passenger Transport Act and Transport Admin. Act Note: legislative path provides an opportunity to create a fit-for-purpose legislative remit for TfNSW Further work required to understand what functions a SOC can execute Lead time to implement would be dependent on appetite for legislative change, but could be extensive TfNSW would retain current safety accreditation 	<ul style="list-style-type: none"> Validate with legal SME, surfacing any additional implications: <ul style="list-style-type: none"> legislative requirements surrounding transfer of employees; Impacted legislation and potential magnitudes of amendments Understand the limitations of the current legislation and benefits of new 'fit-for-purpose' legislation
2	IR / HR	<ul style="list-style-type: none"> Keeps transport integrated; No transfer of employers or structural impacts required Transfers TfNSW from a State to Federal entity; Subjects TfNSW and its employees to Federal IR framework as opposed to the current NSW framework (has both pros and cons) The current legislative ability to transfer employees across agencies would be lost; This could be addressed through the introduction or amendment of current policies and legislation 	<ul style="list-style-type: none"> Understand the process to transfer employees into a SOC: <ul style="list-style-type: none"> What is the required process and key activities? Do EAs need to be renegotiated? What is the expected lead time to implement? Clarify the IR implications from transferring TfNSW into a federal entity. <ul style="list-style-type: none"> How will this change the rights of employees? Is this likely to face strong opposition? How will this change the redress mechanisms for TfNSW? Are there any other impacts not yet identified ? Confirm restriction in employee mobility if TfNSW is proclaimed a SOC
3	Services	<ul style="list-style-type: none"> Functions aligned to the current state; TfNSW remains integrated, performing all functions related to service development, procurement and contracting Increased commerciality of service decisions expected to drive both benefits and risks for service delivery; Potential tension between customer and commercial objectives with further work required to understand available controls Note: All service activities, including service specification and development, would become board directed. The Minister(s) would be able to provide limited direction, however if direction is 'non-commercial', compensation in the form of CSO payments would be required; 	<ul style="list-style-type: none"> Test and validate Understand benefits and impacts of increased commerciality in relation to services: <ul style="list-style-type: none"> Benefits; Risks and customer impacts; How are these risks are currently managed? What controls are available?
4	Asset Delivery	<ul style="list-style-type: none"> Functions aligned to the current state; TfNSW performs all functions relating to asset delivery Note: All asset delivery activities would become board directed, with Minister(s) providing limited direction 	<ul style="list-style-type: none"> Test and validate, surfacing any potential implications not identified
5	Safety	<ul style="list-style-type: none"> Broadly aligned to current state; TfNSW still required to comply to same Legislative requirements, with current mechanisms and processes expected to remain the in-place A remit to increase commerciality may drive potential conflicts between commercial objectives and safety, including prioritisation of commercial outcomes over safety <ul style="list-style-type: none"> Case Study: Recent incidents in UK demonstrated the impact of prioritising commercial outcomes over safety TfNSW would retain current safety accreditation 	<ul style="list-style-type: none"> Test and validate; Understand if a SOC drives any changes to regulations and compliance activities Understand potential controls to mitigate conflicts of interest and ensure prioritisation of safety over commercial impacts (e.g. role of the regulator)
6	Asset Management	<ul style="list-style-type: none"> Functions aligned to the current state; All decisions rights across the asset lifecycle will remain with an integrated TfNSW Note: All asset management activities would become board directed, with Minister(s) providing limited direction 	<ul style="list-style-type: none"> Test and validate, surfacing any potential implications not identified <ul style="list-style-type: none"> Potential misalignment of priorities?

Option C - Workshop #1 Outputs (2/2)

Option C - Workshop #1 Outputs

Item	Function / Consideration	TfNSW as a SOC	
		Option C	Actions
7	Planning and Strategy	<ul style="list-style-type: none"> Functions aligned to the current state; TfNSW to perform all functions relating planning and strategy Note: All activities would become board directed. The Minister(s) is able, under the SOC act, to direct on Policy if it is in the public interests 	<ul style="list-style-type: none"> Test and validate, surfacing any potential implications not identified
8	Commercial	<ul style="list-style-type: none"> TfNSW would have an increased commercial remit, expected to drive both benefits and risks; potentially drives tension between customer outcomes and commercial objectives; Further work required to understand available controls to manage TfNSW would set prices within the bounds set by IPART. Driven by the increased commerciality, this is expected to be in the upper range 	<ul style="list-style-type: none"> Understand benefits and impacts of increased commerciality on ticketing, access, advertising, leasing and retail: <ul style="list-style-type: none"> Benefits; Risks and customer impacts; How are these risks currently managed? What controls are available?
9	Property	<ul style="list-style-type: none"> Property would remain controlled by TfNSW, albeit with an more commercial remit; Expected to drive both benefits and implications, including potential prioritisation of commercial objectives over service delivery and customer outcomes. Further work required to understand available controls to manage 	<ul style="list-style-type: none"> Understand benefits and impacts of increased commerciality in relation to Property: <ul style="list-style-type: none"> Benefits; Risks and customer impacts; How are these risks currently managed? What controls are available?
10	Balance Sheet Ownership	<ul style="list-style-type: none"> Assets vested from RailCorp to TfNSW, with balance sheet ownership within PNFC; Implementation would require a re-valuation downwards of assets. If revaluation did not occur, TfNSW would not be able to absorb large on-going depreciation costs and meet ABS requirements 	<ul style="list-style-type: none"> Obtain clarity from Accounting and ABS teams on valuation approach and associated implications to viability of business model (i.e. Day 0 - at replacement value, Day 1 - write down using DCF)
11	Governance	<ul style="list-style-type: none"> Option proclaims TfNSW as a SOC, dictating a required change in governance approach: <ul style="list-style-type: none"> A TfNSW board and constitution is required to be established; TfNSW would have two shareholding Ministers (Treasurer and another appointed by the Premier); Shareholding Ministers would ratify board appointments and provide input into the statement of corporate intent Transport Minister is the Portfolio Minister; issues the Operating License; Portfolio Minister is able to also act as a Shareholding Minister; Ministers are able to provide only limited direction, noting the SOC would be entitled to be reimbursed for the net cost of complying with any directions provided by the Portfolio Minister and relating to compliance with public sector policy and/or public interest reasons (not just non-commercial directions) Implications for governance across the transport cluster, including expected changes in the relationship between TfNSW and govt. owned O&Ms, are required to be explored in further details Decision rights would remain a continuation of current state 	<ul style="list-style-type: none"> Test and validate required TfNSW as a SOC governance structures Understand implications for broader cluster governance, including relationship between SOC and non-SOC entities Understand the role of DoT and the secretary in overseeing the cluster, including what powers of direction they are assigned
12	Evolving Transport	<ul style="list-style-type: none"> Supports the TfNSW Strategic direction and implementation of the 10yr blueprint, including 'Evolving Transport' TfNSW remains integrated, with no expected structural impacts or movement of employees Option C does drive implications for cluster governance, although implications are not expected to materially impact current strategic direction 	<ul style="list-style-type: none"> Validate outputs from Workshop #1 Understand if the corporatisation of TfNSW would drive any impacts or benefits for: <ul style="list-style-type: none"> 'Evolving Transport'; and/or Broader transformation agenda (will corporatisation support this agenda moving forward?)

Option E - Workshop #1 Outputs (1/2)

Option E - Workshop #1 Outputs

Item	Function / Consideration	TAHE Alternative	Actions
		Option E	
1	Legal and Legislation	<ul style="list-style-type: none"> Significant legislative path to implement, with current TAHE legislative framework designed for Option A only: <ul style="list-style-type: none"> Schedule 2 of the existing legislation would need to be proclaimed, reclassifying RailCorp into a SOC (TAHE); New legislation would be required to allow transfer of required employees and functions onto 'copy awards' within TAHE; Without legislation a offer and acceptance process would be required; Current Passenger Transport Act would need to be amended as it currently requires O&M to enter a contract / agreement with TfNSW only; Amendments would be required to prescribe TAHE as the relevant roads authority, should it be desired Lead time to implement would be dependent on appetite for legislative change, but could be extensive TAHE would be required to obtain the safety accreditation currently held by TfNSW, estimated lead time of 6 mths 	<ul style="list-style-type: none"> Validate with legal SME, surfacing any additional implications: <ul style="list-style-type: none"> legislative requirements surrounding transfer of employees; Magnitude of amendments to proclaim TfNSW as the roads authority; Magnitude of amendments to PTA and TAA
2	IR / HR	<ul style="list-style-type: none"> Similar to Option A, indication given that the existing RailCorp EA is outdated and the preference would be to establish a new EA with the stand-up of the new business model Compared to Option A and C, Option E expected to drive the largest impact to existing structures and employees: <ul style="list-style-type: none"> The majority of TfNSW employees expected to move to TAHE (Greater Sydney, Regional and Outer Metro, and Infrastructure and Place) and Potentially drives significant change to transport structures, including separation of teams. Note: Further work required to identify teams that would move to TAHE and those who would remain within TfNSW Mobility of employees who are housed within TAHE would be restricted 	<ul style="list-style-type: none"> Understand the implications of transferring TfNSW employees into TAHE: <ul style="list-style-type: none"> What is the required process and key activities? Do EAs need to be renegotiated? What is the expected lead time to implement? Understand further / estimate potential impacts to employees / structures: <ul style="list-style-type: none"> What is the number of employees to be transferred to TAHE? How many employees remain in TfNSW? What current teams would require separation? Confirm mobility of employees who are housed within TAHE will be restricted. Understand what drives these restrictions
3	Services	<ul style="list-style-type: none"> Similar to Option C, albeit with TAHE rather than TfNSW as a SOC; TAHE would perform all activities, including demand management, service specification, service contracting; Ownership of O&M relationship would transfer to TAHE, with TfNSW expected to play no role in managing contracts and/or relationships TAHE expected to drive increased commercial remit; Potential tension between customer/ service delivery and commercial objectives with further work required to understand available controls Additionally, as in Option C, with TAHE operating as a SOC, all service activities would become board directed. The Minister(s) would be able to provide limited direction, however if direction is 'non-commercial', compensation in the form of CSO payments would be required 	<ul style="list-style-type: none"> Similar to Option C; Test and validate Understand benefits and impacts of increased commerciality in relation to services: <ul style="list-style-type: none"> Benefits; Risks and customer impacts; How are these risks are currently managed? What controls are available?
4	Asset Delivery	<ul style="list-style-type: none"> All asset delivery functions transferred to TAHE, under the direction of the TAHE Board 	<ul style="list-style-type: none"> Test and validate, surfacing any potential implications not identified
5	Safety	<ul style="list-style-type: none"> Similar to Option C; <ul style="list-style-type: none"> TAHE still required to comply with the same legislative requirements as current state TfNSW; expected to leverage current state TfNSW systems and processes ('rebranded' as TAHE) A remit to increase commerciality may drive potential conflicts between commercial objectives and safety, including prioritisation of commercial outcomes over safety TAHE would be required to obtain the safety accreditation currently held by TfNSW, estimated lead time of 6 months 	<ul style="list-style-type: none"> Similar to Option C, understand potential controls to mitigate conflicts of interest to ensure prioritisation of safety (e.g. role of the regulator) Confirm requirement to obtain new safety accreditation
6	Asset Management	<ul style="list-style-type: none"> TAHE to perform asset management activities across the lifecycle, from shorter term demand assessment thru to disposal TfNSW would retain accountability for long-term planning and strategy 	<ul style="list-style-type: none"> Test and validate, surfacing any potential implications not identified <ul style="list-style-type: none"> Potential misalignment of priorities across planning and strategy?

Option E - Workshop #1 Outputs (1/2)

Option E - Workshop #1 Outputs

Item	Function / Consideration	TAHE Alternative	
		Option E	Actions
7	Planning and Strategy	<ul style="list-style-type: none"> TfNSW would retain accountability for long-term planning and strategy, including strategic business cases TAHE would have accountability for all final business cases, delivery timeline and asset selection Potential conflict between long-term strategic direction set by TfNSW and shorter term planning and operations 	<ul style="list-style-type: none"> Test and validate, surfacing any potential implications not identified
8	Commercial	<ul style="list-style-type: none"> Similar to Option C; <ul style="list-style-type: none"> TAHE would have an increased commercial remit; expected to drive both benefits and risks; potentially drives tension between customer outcomes and commercial objectives; Further work required to understand available controls to manage TAHE would set prices within the bounds set by IPART. Driven by the increased commerciality, this is expected to be in the upper range 	<ul style="list-style-type: none"> Similar to Option C; Understand benefits and impacts of increased commerciality on ticketing, access, advertising, leasing and retail : <ul style="list-style-type: none"> Benefits; Risks and customer impacts; How are these risks are currently managed? What controls are available?
9	Property	<ul style="list-style-type: none"> All property assets transferred to TAHE Similar to Option C, a more commercially driven TAHE is expected to drive both benefits and implications; potential for prioritisation of commercial objectives over service delivery and customer outcomes. Further work required to understand available controls to manage 	<ul style="list-style-type: none"> Similar to Option C; Understand benefits and impacts of increased commerciality in relation to Property; <ul style="list-style-type: none"> Benefits; Risks and customer impacts; How are these risks are currently managed? What controls are available?
10	Balance Sheet Ownership	<ul style="list-style-type: none"> Similar to Option C, assets vested from RailCorp to TAHE, with balance sheet ownership within PNFC; Implementation would require a re-valuation downwards of assets. If revaluation did not occur, TfNSW would not be able to absorb large on-going depreciation costs and meet ABS requirements 	<ul style="list-style-type: none"> Similar to Option C, obtain clarity from Accounting and ABS teams on valuation approach and associated implications to viability of business model (i.e. Day 0 - at replacement value, Day 1 - write down using DCF)
11	Governance	<ul style="list-style-type: none"> Option proclaims TAHE as a SOC, dictating a required change in governance approach: <ul style="list-style-type: none"> A TAHE board and constitution is required to be established; TAHE would have two shareholding Ministers (Treasurer and another appointed by the Premier); Shareholding Ministers would ratify board appointments and provide input into the statement of corporate intent Transport Minister is the Portfolio Minister; issues the Operating License; Portfolio Minister is able to also act as a Shareholding Minister; Ministers are able to provide only limited direction, noting the SOC would be entitled to be reimbursed for the net cost of complying with any directions provided by the Portfolio Minister and relating to compliance with public sector policy and/or public interest reasons (not just non-commercial directions) Decision rights would transfer from TfNSW to TAHE; Dependent on the functions transferred to TAHE 	<ul style="list-style-type: none"> Test and validate required TAHE governance structures
12	Evolving Transport	<ul style="list-style-type: none"> Not aligned to 'Evolving Transport' agenda as it requires separation of transport functions between TAHE and TfNSW Expected to drive the largest impact to existing structures and employees when compared to Option A & C: <ul style="list-style-type: none"> The majority of TfNSW employees expected to move to TAHE; Drives significant change to transport structures, including separation of functions (Planning, Policy and Strategy, Safety remain within TfNSW) 	<ul style="list-style-type: none"> Validate outputs from Workshop #1 Understand implications for 'Evolving Transport' driven by the separation of Planning, Policy and Strategy; Safety from operations and service delivery; <ul style="list-style-type: none"> How does this option affect our ability to deliver our 'evolving transport' agenda. How does it impact our ability to plan / run integrated services? Are there any benefits to separating planning and strategy from ops and service delivery?

Option B - Workshop #1 Outputs (1/2)

Option B - Workshop #1 Outputs

Item	Function / Consideration	TfNSW as a SOC – Alternative	
		Option B	Actions
1	Legal and Legislation	<ul style="list-style-type: none"> Legislative pathway is as described in Option C 	<ul style="list-style-type: none"> Confirm / clarify no additional implications other than those identified in Option C
2	IR / HR	<ul style="list-style-type: none"> EA implications broadly aligned to Option C, with the exception of Regulatory functions remaining within a GGS entity 	<ul style="list-style-type: none"> In addition to implications surfaced in Option C, understand the number of impacted employees and required separation of teams due to regulatory functions remaining in GGS
3	Services	<ul style="list-style-type: none"> As described in Option C 	<ul style="list-style-type: none"> Confirm / clarify no additional implications other than those identified in Option C
4	Asset Delivery	<ul style="list-style-type: none"> As described in Option C 	<ul style="list-style-type: none"> Confirm / clarify no additional implications other than those identified in Option C
5	Safety	<ul style="list-style-type: none"> Safety implications broadly aligned to those described in Option C 	<ul style="list-style-type: none"> Confirm / clarify no additional implications other than those identified in Option C
6	Asset Management	<ul style="list-style-type: none"> As described in Option C 	<ul style="list-style-type: none"> Confirm / clarify no additional implications other than those identified in Option C

Option B - Workshop #1 Outputs (2/2)

Option B - Workshop #1 Outputs

Item	Function / Consideration	TfNSW as a SOC	
		Option B	Actions
7	Planning and Strategy	<ul style="list-style-type: none"> Different from Option C, with Planning, Policy and Strategy remaining within a GGS entity Implications (and potential benefits), including role of TfNSW, Board and Minister in the development of Policy, required to be understood. 	<ul style="list-style-type: none"> Understand implications (and any benefits) of separating Planning and Strategy functions from remaining TfNSW
8	Commercial	<ul style="list-style-type: none"> As described in Option C 	<ul style="list-style-type: none"> Confirm / clarify no additional implications other than those identified in Option C
9	Property	<ul style="list-style-type: none"> As described in Option C 	<ul style="list-style-type: none"> Confirm / clarify no additional implications other than those identified in Option C
10	Balance Sheet Ownership	<ul style="list-style-type: none"> As described in Option C 	<ul style="list-style-type: none"> Confirm / clarify no additional implications other than those identified in Option C
11	Governance	<ul style="list-style-type: none"> Governance implications as described in Option C 	<ul style="list-style-type: none"> Confirm / clarify no additional implications other than those identified in Option C
12	Evolving Transport	<ul style="list-style-type: none"> Broadly aligned to Option C; TfNSW remains broadly integrated, with only regulatory functions separated Potential misalignment with 'Evolving Transport' agenda; to be validated in small working groups 	<ul style="list-style-type: none"> Similar to Option E, understand implications for 'Evolving Transport' driven by Planning, Policy and Strategy; Regulatory oversight for safety remaining with an GGS entity

Option D - Workshop #1 Outputs (1/2)

Option D - Workshop #1 Outputs

Item	Function / Consideration	TAHE Alternative	
		Option D	Actions
1	Legal and Legislation	<ul style="list-style-type: none"> Legislative pathway is as described in Option E 	<ul style="list-style-type: none"> Confirm / clarify no additional implications other than those identified in Option E
2	IR / HR	<ul style="list-style-type: none"> Implications broadly aligned to Option E 	<ul style="list-style-type: none"> Confirm / clarify no additional implications other than those identified in Option E
3	Services	<ul style="list-style-type: none"> Similar to Option E, albeit with service contracting separated and remaining within a GGS entity; Implications (and any benefits) for separating service contracting from other functions, including in which GGS entity the contracting function will sit, to be defined further 	<ul style="list-style-type: none"> Understand implications and any benefits from separating service contracting from other activities
4	Asset Delivery	<ul style="list-style-type: none"> As described in Option E 	<ul style="list-style-type: none"> Confirm / clarify no additional implications other than those identified in Option E
5	Safety	<ul style="list-style-type: none"> Safety implications broadly aligned to those described in Option E 	<ul style="list-style-type: none"> Confirm / clarify no additional implications other than those identified in Option E
6	Asset Management	<ul style="list-style-type: none"> As described in Option E 	<ul style="list-style-type: none"> Confirm / clarify no additional implications other than those identified in Option E

Option D - Workshop #1 Outputs (1/2)

Option D - Workshop #1 Outputs

Item	Function / Consideration	TAHE Alternative	
		Option D	Actions
7	Planning and Strategy	<ul style="list-style-type: none"> As described in Option E 	<ul style="list-style-type: none"> Confirm / clarify no additional implications other than those identified in Option E
8	Commercial	<ul style="list-style-type: none"> As described in Option E 	<ul style="list-style-type: none"> Confirm / clarify no additional implications other than those identified in Option E
9	Property	<ul style="list-style-type: none"> As described in Option E 	<ul style="list-style-type: none"> Confirm / clarify no additional implications other than those identified in Option E
10	Balance Sheet Ownership	<ul style="list-style-type: none"> As described in Option E 	<ul style="list-style-type: none"> Confirm / clarify no additional implications other than those identified in Option E
11	Governance	<ul style="list-style-type: none"> Governance implications as described in Option E 	<ul style="list-style-type: none"> Confirm / clarify no additional implications other than those identified in Option E
12	Evolving Transport	<ul style="list-style-type: none"> Implications broadly aligned to Option E, however with the additional separation of service contracting from other asset ownership, asset delivery and services functions that would be contained within TAHE As outlined in Option E, doesn't align to 'Evolving Transport' agenda 	<ul style="list-style-type: none"> Further to the implications surfaced in Option E, Understand implications from keeping Service Contracting with GGS (separate from other service delivery functions)