

WJH 301

Lyon, Brendan

From: Lyon, Brendan
Sent: Friday, 20 November 2020 3:36 PM
To: Low, Paul; Heathcote, David
Subject: RE: Draft words

Importance: High

Noting that the phone call will have been 'emotively' described by some of our colleagues – I thought it worth just arming you up to understand what I said and did.

1. I got an email from the Deputy Secretary asking me to change our finalised report.
2. I then got an email from the Secretary asking in effect the same – and quoting at me Heather's (additional, conflicting) scope of work.
3. I then wrote my short email.
4. And then I got called a rogue partner – even though I have been the only one doing my scope that was agreed by everyone including Treasury.
5. And then I rang him
6. What I said to Mike yesterday on the call was:
 - In 20 years I've not seen the types of behaviours I'd seen from Treasury and it was unrecognisable to me.
 - I said that the continued mischaracterisation of our work and personal attacks were deeply inappropriate.
 - I said that Treasury had not advised of errors in any of our work and that I do not appreciate the efforts to discredit our my team, our professional work or our firm.
 - I told him that I thought the efforts to hide the results are inappropriate and unprofessional.
 - I asked him why he thought it was ok for Treasury to behave as it has - he said that we had '*not listened to us*'
 - I said "*I am listening now, what do you disagree with?*"
 - He said that he agrees with Heather Watson's work (which is being used precisely to discredit our work)
 - I asked him which bit of the financial or operating model Treasury disagrees with.
 - He struggled for words and then hung up.

Important:

It's important to note that I was not angry, didn't yell or swear – I just said as above; and very calmly.

I did not raise this this morning as I didn't want you to think I was explaining or justifying – but now that I've sent the agreed retraction, it's worth my two champions knowing what I actually said and did.

I am not surprised that Pratt went mental. He's passive aggressive, a real fan of 'tough' letters – but has the minor problem of having a dog that ate about \$7.3bn of homework. Whoops!

With the benefit of the content, I am not sure either of you would disagree – noting that the delivery was not ideal



Anyway, that's what went down – and almost word for word what I said.

Have a good weekend.



From: Low, Paul

Sent: Friday, 20 November 2020 2:57 PM

To: Heathcote, David

; Lyon, Brendan

Subject: RE: Draft words

I'm good with that guys ☺

Regards

Paul Low

National Leader – Infrastructure, Government and Healthcare

KPMG

Riparian Plaza, 71 Eagle St
Brisbane QLD 4000 Australia



From: Heathcote, David

Sent: Friday, 20 November 2020 1:50 PM

To: Lyon, Brendan

; Low, Paul

Subject: Re: Draft words

Hi Brendan,

My suggestions detailed below:



Hi,

I am writing to apologise for my email and phone conversation yesterday. The tone and comments were not appropriate or professional.

TAHE has been a very complex and trying engagement, for all concerned.

Looking ahead, I have decided it would be better for any correspondence on the TAHE engagement be addressed via my second Partner, Paul Low, to put in some appropriate space.

Brendan - I think this needs to go back to all copied in the original email to close this out and ensure we can move forward positively.

Paul - not sure if you have any comments?

Rgds

David

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From: Lyon, Brendan

Sent: Friday, November 20, 2020 1:47:26 PM

Rebekah Giles

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From: BRENDAN LYON
Sent: Thursday, 18 March 2021 2:01 PM
To: Rebekah Giles;
Subject: Privileged & confidential
Attachments: TAHE facts Actual.docx

Hi Rebekah, thanks for taking my call the other day.

I've spent a bit of time printing things up and summarising what's happened across the engagement that's caused all of this.

I have done a bit of sniffing and my division managing partner and my practice group lead are both saying it's not the firm getting rid of me - that it's a process. I am not sure I agree, but let's see.

Heathcote suggested that a caution letter was most likely - said even without context that it was not sackable and with context it's def not.

He said he's def got my back for what it's worth.


Anyway, i've tried to map it out sequentially - there's a few dates etc to insert but I thought get to you for your views as it'll change anyway.

My intention would be to submit something (that you agree with) asap to their process; but happy to be directed otherwise.

Anyway, thanks again - I've slept a lot better since we chatted. Please let me know what you advise next.

Best -

Brendan Lyon

 my number again is

TAHE

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Matter at hand:

Have I been subject to bullying?

Key timeline:

- 1 In early 2019, KPMG was appointed to a >\$7m contract via MC Partner Catia Davim which was principally concerned with the organisational redesign of TfNSW.
- 2 I have had no involvement with that work whatsoever, however I am the 'co lead' of the TfNSW CST (client service team) and was aware of the scale and importance of that work.
- 3 In or about February 2020, KPMG's CFOA Partner Heather Watson accepted a small engagement for NSW Treasury.
- 4 This advice had the effect of undoing an agreement of the December prior between TfNSW and NSW Treasury that TAHE would not be formed, on the basis that the accounting benefit was not sustainable. *Holdy Entity* ?
- 5 PwC had reported the September prior that the accounting structure did not work. ↗
- 6 Heather Watson's engagement repudiated this.
- 7 The effect of Heather's advice is the removal of NSW public rail assets from 'control' of the NSW Transport agencies.
- 8 There was no flagging of the risk of this engagement by Heather on either the Evolving Transport work the firm was undertaking – or the significant risks of conflict with our largest NSW Government client.
- 9 The effect of Heather's advice was to sustain a non cash accounting benefit that has been accrued in the NSW budget and forward estimates.
- 10 The scale of this fiscal reporting benefit has been very substantial, with a cumulative multi-billion benefit to 'surplus/deficit' reported in the NSW budget.
- 11 I have been aware of TAHE since its formation and was also highly aware of the risks and consequences if TAHE were not successful.
- 12 The major issue for the NSW Government agencies (our respective clients) at this time was the prospect of a 'sole' Cabinet submission – that is, Treasury alone recommending change to the Transport cluster – which generally leads to a cabinet dispute.
- 13 It was an urgent priority for NSW Treasury to resolve a joint Cabinet Submission, as if the 'stand up' of TAHE were not proclaimed on 1 July 2020 it would have likely led to NSW Audit Office negatively interpreting the NSW Government's budget.
- 14 At this point, I was aware that the NSW Treasury and TfNSW secretaries were not on good terms, and that all work on TAHE had ceased, following the PwC report that found it did not work.

Commercial conflict with TfNSW

- 15 In February 2020, I became aware of Heather's engagement when a senior TfNSW Deputy Secretary rang me to ask whether KPMG was 'bringing back rail corp' and expressing a high level of concern about an apparent conflict of interest.
- 16 Noting the importance of the TfNSW account, I rang the national head of Transport Paul Foxlee to ask his advice; he suggested I ring Heather Watson and ask her about it.
- 17 I rang Heather, who told me that 'Rodd is just being dramatic, we are not bringing back RailCorp' and other words to that effect.
- 18 She asked me to convey that 'it's just accounting advice and won't impact Transport' or similar words.



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- 19 Heather asked me to advise TfNSW informally that there was no conflict in her advice and 'no problems'
- 20 I conveyed these messages back to the Deputy Secretary who had rung me, at Heather Watson's request – but advised that I had not seen the work.
- 21 I understand that TfNSW received Heather Watson's work shortly thereafter.
- 22 In mid March, Rodd Staples, the secretary of TfNSW rang me to assert a major commercial and ethical conflict, with KPMG's accounting advice for Treasury fundamentally contradicted our multi-million dollar advice to TfNSW on the 'Evolving Transport' long-term operating model.
- 23 Rodd Staples advised he had had three highly unsatisfactory meetings with Curtis Davies, Jacinta Hargan and Heather Watson.
- 24 He advised that the Firm needed to address the conflict and respond meaningfully.
- 25 He advised that the Firm could be terminated from its work, due to our poor level of conflict management.
- 26 I immediately convened a meeting with Curtis and Jacinta, the co-leads of the TfNSW account, where we discussed the issue and why I had not been told.
- 27 We then discussed our options as a firm to recover the conflicted position.
- 28 Noting Heather's stipulation that TfNSW had misinterpreted the effect of her accounting work on TfNSW's operating model, it was agreed that we would seek to resolve the issue via an engagement with TfNSW to resolve key issues – and that we would ask Heather Watson to be my second partner, noting the accounting driver for TAHE.

Establishing my engagement

- 29 I spoke to Heather Watson and asked her whether she felt she would have a conflict in serving as the accounting Partner on the TAHE work for TfNSW
- 30 She asserted that she did not; that the work would be consistent with what TfNSW were seeking and self-cleared of any conflict of interest.
- 31 I then approached Rodd to suggest that KPMG's work had been misinterpreted, that Heather would be the accounting Partner and we would work to develop a series of high level options to allow Cabinet to positively consider TAHE and allow it to be successfully stood up.
- 32 I then developed a scope of works with Heather Watson and her team, which was then provided to TfNSW.
- 33 I was later contacted by the Deputy Secretary of Finance, Fiona Trussell and by Anne Hayes, then also a deputy secretary in TfNSW.
- 34 All risk and conflict processes were followed – with the engagement agreed with all relevant stakeholders including Heather Watson.

Part one of my engagement:

- 35 The first part of my engagement required the development of structural options for TAHE.
- 36 The fundamental problem at that time was TfNSW's unwillingness to a joint Cabinet submission needed to stand TAHE up in time to protect this year's budget result.
- 37 TfNSW felt unable to support TAHE at that time, because no safe operating model had ever been developed.
- 38 Noting the heavy levels of division between NSW Treasury and TfNSW, I began the engagement by developing a set of TAHE principles.
- 39 I have found on other complex issues that an initial agreement on principles allows a consistent mechanism through which to meaningfully assess options.
- 40 These 'kick off' principles were workshopped with all parties; including Heather Watson and NSW Treasury's Cassandra Wilkinson (executive director) and other Treasury staff.

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- 41 These principles were workshopped in fully and were agreed with all parties.
- 42 We then began to develop our initial TAHE report, using a traffic light system against the agreed objectives.
- 43 The purpose of the work was to provide TfNSW with comfort that a workable and safe operating model could be developed.
- 44 The first stage of work was highly urgent, noting the requirement to reach complex agreement to proceed or not – with enough time to establish the corporation in time for Audit review (see the paper for detail).
- 45 As we examined TAHE, a range of risks and problems became apparent – most particularly:
 - There was no understanding or work on how TAHE would in fact operate;
 - The KPMG 2017 financial model developed by Heather Watson included material errors and lacked the sophistication to model actual impacts; and
 - TAHE was fundamentally misaligned with the Evolving Transport operating model.
- 46 As the process of developing the report progressed, it became clear to me and my team that Heather Watson was conflicted and actively working against the engagement.
- 47 This involved increasingly rude and difficult contributions; failure to meet timelines and also saw her team requesting the contract – because they were seeking to have it as an unbranded report.
- 48 The most notable aspect was her interactions with me, where she was condescending, rude and obstructive and sought to publicly diminish my intelligence and professional acumen.
- 49 In the second week, I rang Christine Wilcox, the Division Risk Managing Partner and raised with her a ‘hypothetical’ concern about a conflicted second partner.
- 50 IN this discussion, I asked her how to deal with it, what professional processes were in place and what were the consequences.
- 51 On balance, noting the urgency and importance of supporting the NSW Government to successfully reach a joint cabinet submission, I decided to progress ‘as was’ and to seek to manage Heather’s increasingly unpleasant interactions with me and my team.
- 52 In particular, the TAHE financial model that had been used to inform prior analysis lacked basic requirements for a viable model – excluding the revenues needed from the budget to pay TAHE.
- 53 It also materially misstated the benefit because it had applied a 50 per cent asset write-down on TAHE’s asset values – an assumption for which it was later revealed that there was no basis whatsoever; rather it was adopted because it provided beneficial results.
- 54 This led to substantial disagreements with Heather Watson and her director Matt Box over the characterisation the traffic lights.
- 55 It was apparent that Heather and Matt Box wanted all the traffic lights to be green.
- 56 In the second to last team phone call, DATE Heather Watson was uncontrollably rude and abrasive, continually undercutting and belittling me and calling into question key aspects of our professionalism and diligence. Witnesses to that meeting include Director Gavin Harris, Associate Director David Russell and a selection of junior staff.
- 57 At that point, I asked all others to leave the call but for Heather and her associate director Matt Box to stay on the line.
- 58 I told them together that it was not appropriate to talk to me like that and asked Matt to leave while Heather stayed on.
- 59 I then said to Heather that I would not accept the ongoing bullying and attempts to intimidate me and my team and that if it continued I would consider making a complaint about it – and that never before had I considered the need for involving HR.
- 60 This meeting followed weeks of deteriorating behaviours toward me and my team.

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- 61 I expressed to Heather at the end of that call that I would not make a complaint but that it was not to happen again.
- 62 We then completed a KPMG branded report, that included the sign off of each of me as the engagement partner, Heather Watson as the conflicted second Partner and Catia Davim – noting her engagement which initially conflicted with Heather's work for Treasury.

Fall out and beginning of 'mobbing' behaviour

- 63 The agreed draft report was provided to NSW Treasury and TfNSW stakeholders for comment.
- 64 I was then invited to a meeting with San Midha the Deputy Secretary of the NSW Treasury, who is responsible for TAHE.
- 65 I have known San for many years and considered us on friendly terms.
- 66 San commenced the meeting by yelling at me, accusing me of undermining Treasury's position etc.
- 67 I asked him whether he had actually read my work, to which he admitted he had not and that he had been briefed on it.
- 68 He then began to calm down.
- 69 I explained to him that he should be thanking us as we'd got TfNSW to a point where they were willing to support a joint cabinet submission; that when we'd started the engagement there was no pathway and that now there was – allowing him to meet his requirement to 'stand up' TAHE in time for a difficult audit review (see point X)
- 70 I was respectful, referred to our long association and asked that he listen calmly.
- 71 At the end of the meeting, we agreed to meet shortly to resolve the issues and understand the way ahead.
- 72 SUMMARY OF MEETING EMAIL TAHE
- 73 I also attended the weekly TAHE steering meeting including officials from Treasury and TfNSW.
- 74 I was attacked at that meeting by Cassandra Wilkinson, who reports to San Midha.
- 75 I have also known Cass for many years and was shocked by the abusive and rude nature.
- 76 I was contacted afterwards by the TfNSW executive director Peter Perdikos and by the Deputy Secretary Fiona Trussell, who each apologised for the treatment that I received from Cass Wilkinson.
- 77 The sustained, aggressive and belittling treatment from Treasury is an experience highly unusual; particularly from senior officials and I was quite annoyed by the level of personal vitriol directed toward a consultant's report.
- 78 I calmly and professionally explained our work – but was unhappy.
- 79 I believe that KPMG's Head of Government Paul Low attended that call at my request and witnessed the appalling behaviour.
- 80 My recollection is Paul expressing his dismay at the state of the NSW public service and apologised and congratulated me on my professionalism.

Meeting with David Linke & Deb Yates

- 81 DATE I was invited to a meeting with my division Managing Partner David Linke and the National Managing Partner of People Performance and Culture, Deb Yates.
- 82 I was told by David Linke in a prior phone call that the subject of the meeting was a complaint that had been made against me, by Heather Watson.
- 83 I requested that that meeting happen immediately. EMAIL
- 84 At that meeting the following allegations were raised with me:
— That I was 'drinking in a meeting'

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- That I was racist or had a problem with Asian people, because I did not know the name of one of the CFOA staff (who I'd not met); and
- That it was not appropriate to have team meetings at 7pm at night; and
- That I had broken COVID19 restrictions then in place

85 I expressed my incredulity at each and explained in essence the following:

- The 'drinking in a meeting' was beer at a 7pm meeting (noting the urgent timelines) that had been billed as an evening 'fireside' meeting, while I was cooking dinner with my father (for whom I was caring at the time).
- A director from the MC division had included a flippant line in the meeting invitation that the first item was a drink of choice. This had been done to try to engender a cross-team morale for a complex job.
- I asked them if that was a breach of Firm policy, which they advised it was not.
- At that point I was living with my parents, due to a traumatic brain injury to my mother following a stroke and associated fall; and the need to care for her and my father who has advancing alzheimers disease.
- It is otherwise normal practice to have a drink in after hours contexts and meetings.
- David Linke acknowledged this in the call, saying he had just finished such a meeting before joining the discussion with Deb Yates.
- I expersessed to Deb and David that this was already a stressful period for me; and that these spurious and vexatious allegations were in effect a form of 'process bullying' by Heather Watson.
- I advised that I had raised the conflict in the second week with Christine Wilcox (see point X above)
- I rejected that I was racist – and explained the spurious nature of the allegation, which was offensive to me.
- I rejected that I had breached COVID19 restrictions, but noted the confusing nature of restrictions then in place.
- I advised them that I had told Heather Watson that I found her behaviour unacceptable, and had warned her after taking her offline that I would report her to HR if it continued (see point x)
- I was told subsequently by David Linke that Deb Yates had relayed to him that she 'saw through' the complaint and understood it was led by a partner who was exposed by taking a 'novel' position that contradicted another firm – and was risky.

Conflict over the wording of the Cabinet Submission

- 86 TfNSW and NSW Treasury then had a vigorous 'battle' over the substance of a cabinet minute, with TfNSW insisting on the inclusion of risks identified in our report and also a return to Cabinet in October.
- 87 This cabinet minute noted our finding that TAHE lacked an adequately developed operating model, or a an adequately sophisticated financial model to understand its imapcts.
- 88 This Cabinet Minute included a direct procurement of me and my team to assist TfNSW to return to Cabinet with a developed understanding of how TAHE would work and how much it would cost.
- 89 I decided to sail my boat to Lake Macquarie over easter to spend time with my fiancée and parents and to recover from the pressure of the initial TAHE engagement.
- 90 I remember while navigating my boat through Swansea Channel I received a call from James Hunter, a powerful Partner in the Firm.

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- 91 He told me that he'd received a 'complaint' from Mike Pratt, the NSW Treasury Secretary about our report.
- 92 He reported that Mr Pratt was furious at me; had raised all sorts of allegations and that it was a major issue for the Firm.
- 93 IN particular, the Treasury Secretary was reportedly furious over the inclusion of case studies on the Glenbrook, Waterfall and Hatfield rail disasters in NSW and UK respectively.
- 94 In each case, financially motivated structural reform was found to be a major contributing factor to the loss of life in those rail accidents.
- 95 In my professional opinion, it is not possible to consider structural reform without reference to prior negative lessons; and it was thoroughly appropriate to provide TfNSW and through them, the NSW Cabinet with visibility of key risks.
- 96 This was the major point for TfNSW of the operating model and was included by instruction to provide full visibility.
- 97 I explained to James Hunter that we had delivered our scope; all partners had signed off on it and that our identification of a range of activities needed to understand TAHE was precisely what we were contracted to do.
- 98 I explained to him that I was sick of the issue, that we had done our job professionally and well and explained to him the problems and challenges I had experienced internally and with NSW Treasury.
- 99 James sought to assert that my work had created a conflict with Treasury.
- 100 I advised him that this engagement was being done to rectify the damage of the initial conflicting advice by Heather Watson to NSW Treasury.
- 101 James professed that he did not know much about Heather's engagement or mine, but the Firm would put in place a process to manage the conflict.
- 102 I advised James Hunter that TAHE was dangerous to the Firm and that we should not be 'playing around the Cabinet table, because people's heads come off' – I remember saying those precise words.

Formation of the 'Conflict Oversight Governance Committee'

- 103 The following day, James and David Linke advised me that the Firm had decided to form a special 'Conflict Oversight Governance Committee' comprised of David Linke, James Hunter and Joel Lucas, a risk partner from Melbourne.
- 104 The purpose of this committee was to manage the conflicts between Heather and Catia's work – and my subsequent (and intended to be resolving) engagement.
- 105 I accepted the formation of the group (see email attached) – on the basis that I thought it would bring transparency and resolve the internal behaviours that had affected me and my team during the first phase of TAHE.
- 106 This also saw the removal of Heather Watson as my second partner; who I replaced with Paul Low – the Firm's National Head of Government and a senior Partner of the Firm.
- 107 I selected Paul Low because I was already feeling targeted by the NSW Treasury officers involved and by Heather Watson.
- 108 I was also unsure of James Hunter's involvement, noting he was personally close to the Treasury Secretary and that he has a significant internal and external reputation for being a dangerous bully.
- 109 I was assured at all points by David Linke that the COGC was being formed to 'support me' and address the problems that had already occurred.

Discovering it was the 'conflicted' governance committee

- 110 As noted In point XX I had undertaken to meet with each San Midha and Cass Wilkinson to ask for the poor treatment to stop and for us all to work collaboratively on the next stage of work.
- 111 I shared with them my scope of work; briefed them on it in detail; and sought any feedback they had.
- 112 This included specifically discussing the structure of the corporate financial model that was later to form a major focus of Treasury's complaints and internal pressures on me to change or remove work required by Cabinet.
- 113 During these meetings, both San and Cass revealed that James Hunter was the Partner who 'sold' the work to NSW Treasury, creating the original conflict. (see file notes of XX and XX dates)
- 114 When I assured San that my engagement was an honest attempt to make TAHE work, he said words the effect of "KPMG had better make it work" and advised that James Hunter had actively pitched an accounting 'solution' to the PwC report, alongside Heather Watson.
- 115 My subsequent meeting with Cassandra Wilkinson confirmed this sequence of events.
- 116 I was told that the Treasurer had instructed the Treasury Secretary to 'make TAHE work' in early 2020 – and that the Treasury Secretary had said to the Treasury executive words to the effect that if he finds a 'Big Four who can make it work', they'd all be out of jobs – noting that to that point, Treasury accepted that TAHE did not work.
- 117 I understood from San that there was a huge degree of pressure now to make it work.
- 118 He said he would 'be out of a job' if it did not work.
- 119 Cass expressed that she was a 'TAHE believer' and also shared the view that she would face career consequences, if KPMG's accounting advice did not hold up.
- 120 Cassandra also said words the effect of "the reason I've been so angry at you in the meetings is James and Heather made us feel like KPMG was on our side but now it's not so clear'.
- 121 I assured her that we would be true to the engagement principles and would make the operating model work.
- 122 We discussed the financial model, but neither Cassandra nor San had much understanding of the financials at that point.
- 123 Both of them acknowledged that they'd been rude to me in the meetings and that they regretted it.
- 124 Both of them agreed to be professional on the next stage of work; expressed they understood that I had a hard job etc.

Reporting the conflict to David Linke

- 125 I advised Paul Low and David Linke that the conflict oversight committee was being led by James Hunter - a Partner with an undeclared (and very direct) conflict of interest.
- 126 I insisted that he be removed from a conflict oversight role and expressed my grave concern about the form, structure and intent of the COGC.
- 127 David Linke undertook multiple times to address this issue and to have James removed from the COGC.
- 128 Each time, David was unable to do so.
- 129 He was not able to explain why, other than 'James is powerful'.
- 130 David Linke tried as recently as November to achieve this, and agreed multiple times that I was subject to an unfair level of conflict and interference as a result.
- 131 The form and effect of the COGC meant that it was used by a conflicted partner to drive a 'mobbing' behaviour pattern that has continued to this day.
- 132 Each COGC meeting would see me sniped at by Heather Watson, a behaviour which was never addressed.

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- 133 When I responded, I was characterised as 'emotive' or even aggressive.
- 134 As with the officials meeting each Friday, the COGC became a forum used to isolate me and my team and to portray our work as the cause of the conflict – even though it responded to the initial conflict caused by Heather Watson's work.
- 135 At all times, James views held sway on that committee and saw various attempts to influence our work.
- 136 I requested that the Risk Partner on the COGC begin to retain formal minutes, because I observed that prior decisions were not being adhered to and that there was not consistency or accountability.
- 137 My request for minutes was declined multiple times, with Joel Lucas and David Linke explaining to me that they did not want to 'write anything down in case it was discoverable later'.
- 138 This comment shocked me at the time.
- 139 The ongoing revisionism of both Treasury officers and Heather Watson and James Hunter was a key problem in the operation of the committee and exacerbated divisions and conflicts, because of different recollections of what had been agreed.
- 140 This is evidenced in David Linke's formal letter to Louise Capon, regarding the additional conflict that was taken on by the firm – discussed from point XX.
- 141 It is worth noting that both Paul Low and David Heathcote have each advised me that they've 'never' seen behaviours from government or inside KPMG like have been experienced on TAHE.
- 142 This committee was never able to manage or govern the conflict and instead, accepted accelerating scope from Heather Watson that had the effect of being used to directly contradict our cabinet required scope.
- 143 The COGC was expanded to include Andrew Yates, the NMP of the Audit and Assurance division, of which Heather Watson is a Partner.
- 144 I asked David Linke to add Mr Yates, who he described as 'a straight shooter'.
- 145 When Andrew Yates joined the committee, I emailed him to offer to brief him on the issue and the risks. He declined to accept that meeting or discussion – and at no point has sought any clarification at any point.

TAHE phase 2

- 146 Importantly, the Cabinet decision in June endorsed the TAHE objectives we had developed as NSW Government objectives; and requiring us to develop:
- A long-term operating model; and
 - A robust financial model of TAHE's performance, on those assumptions.
- 147 Importantly, it also required an operating model 'capable of passing safety review' – a role performed by TfNSW's safety directorate and requiring validation from the national rail safety regulator.
- 148 The early stages of TAHE 2 were somewhat calmer, while we developed and populated the structure of TAHE's operating model and financial models.
- 149 We consulted extensively with NSW Treasury and TfNSW, and also sought input from the conflicted team in KPMG to ensure that we met the objective of fiscal sustainability.
- 150 The two key areas of conflict during phase 2 involved the file note dealing with 'business rules' and the sharing of results from the detailed financial model.

Operating model: business rules conflict.

- 151 A key part of our scope was the complex allocation of >1000 tasks between rail and other transport agencies, for which we used a 'RACI matrix'.
- 152 This involved detailed work and sustained consultation with rail operators, project delivery arms of TfNSW – as well as weekly reporting to the combined Treasury and TfNSW steering group.
- 153 NSW Treasury were evasive and obstructive during this and were resistant to providing any guidance on the level of 'control' required by TAHE to meet Treasury's fiscal reporting needs.
- 154 Once this was done, we were required to develop 'business rules' – that is a series of controls that could be in place to control TAHE within the transport cluster, as it moved to being an independent statutory corporation with the required demonstrable independence to meet accounting requirements.
- 155 This necessarily required the development of 'problem statements', which could then be 'cured' through the application of measures or controls.
- 156 This was a fundamental aspects of the engagement's development of an acceptable, safe and defensible operating model for TAHE.
- 157 This was developed deliberately through what we called a 'pecunia primum' approach; that is to say the allocation of rules and responsibilities were each undertaken expressly to protect Treasury's desired accounting treatment.
- 158 Our key input in these allocations were KPMG's CFOA accounting 'advices' – and the inputs of TAHE stakeholders, including Treasury.
- 159 The notion of 'business rules' was a construct drawn from within Heather Watson's 'advices' – and they were constructed faithfully on that basis in accord with the terms of our contract.
- 160 We issued a draft file note, outlining the business rules on a limited circulation.
- 161 This led to renewed complaints from the NSW Treasury Secretary via James Hunter, as well as San Midha and Cassandra Wilkinson.
- 162 While I had explained the methodology and provided it to Treasury, our analysis and articulation of TAHE 'problems' to be cured through 'business rules' was interpreted by Mike Pratt and Treasury as an attack on TAHE.
- 163 This saw an email (attached) from Mike Pratt telling me to work positively to get it done etc.
- 164 I wrote back to this, copying in James Hunter and in part, asked him to ensure that the bullying from Treasury staff would cease, alongside a range of other matters in response.
- 165 Mike Pratt's unhappiness was baseless and should have been defended by the Firm, but instead it led to further pressure on me to explain myself to the conflicts committee and an acceleration of conflict/isolation of me from the committee.
- 166 It is not possible to design a safe operating model without allocating functions and understanding where relevant controls are needed to align complex operating and asset requirements on a rail network.
- 167 TfNSW officials Peter Perdikos (executive director) and Fiona Trussell (Deputy Secretary) apologised to me multiple times over my treatment by Treasury at that point – we agreed that the best course forward, given the level of attacks and opprobrium, was not to reissued the file note but to move forward to the articulation of a detailed operating model.

Financial model development:

- 168 The second fundamental deliverable to respond to NSW Cabinet was the detailed 'KPMG Financial Model', developed by the financial modelling group within my practice group.

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- 169 This was stipulated in the Cabinet minute and responded directly to KPMG's scope and was reviewed by the COGC in one of its earliest meetings.
- 170 We consulted very heavily with both NSW Treasury and the newly appointed executive of TAHE, notably Anne Hayes and Andrew Alam.
- 171 I had previously briefed both Cassandra and San and consulted heavily throughout the development of the model.
- 172 Initially, Treasury were engaged and eager to develop the sophisticated model and provided extensive inputs to it, including the level of return required etc.
- 173 A key aspect in developing a sophisticated financial model was the development of a module to calculate track access fees.
- 174 We discovered late in the process that Heather Watson and Andy King had developed an access fee model in 2017; which was not disclosed or shared.
- 175 I raised this at the time with David Linke, who was shocked it had not been made explicit that this existed.
- 176 At that point, he stated that he had not seen this level of undisclosed conflict and was exercised about who had done the work and when.
- 177 The development of the detailed financial model revealed a range of errors in the prior model; but more embarrassingly for Treasury officials, it revealed that the June Cabinet Submission had overstated the budget benefits by many billions of dollars; but that this error was caused by simple arithmetic, rather than even rudimentary modelling under the old KPMG financial model.
- 178 David Linke and Paul Low had been very worried that KPMG's 2017 model would see the firm accrue legitimate blame.
- 179 David at the time said it was a breach of firm policy for Heather Watson to build financial models, which should properly be developed by the specialised Financial Modelling Group.
- 180 The modelling of TAHE scenarios also evidenced a range of other material risks and errors.
- 181 The simplest explanation of the wide variation in numbers is that NSW Treasury's June assumptions factored in TAHE's fiscal benefits, but none of the costs it must now impose to be a defensible corporation for Audit purposes.
- 182 The sensitivity of the findings meant that I consulted heavily and that our financial model was exposed to various independent model validation sessions internally, before we released the results.
- 183 Noting the bullying from Treasury officials in prior revelations of TAHE challenges, I agreed with David Linke and Paul Low (Heathcote?) that we would brief the treasury and TAHE stakeholders – but not provide them with the model until the following day, seeking to avoid another 'all in' criticism of me and my team.
- 184 As with all of my work throughout, I advised the COGC of the results and the approach prior to that meeting.
- 185 The revelation of the results saw an even higher degree of tension enter the engagement.
- 186 To this point, we had applied the reasonable assumptions that had until then been supplied by Treasury, but following the results these assumptions changed markedly.
- 187 This saw an initial view from NSW Treasury that a circa 6 per cent return was appropriate, reduced to 4 and then 1.3 per cent (the long-term debt rate, pre the AAA downgrade in December).
- 188 Further changes were applied to slow the switch on of TAHEs' revenues, which served to improve the presentation of TAHE – but not its modelled performance.
- 189 We provided our model to NSW Treasury, TfNSW and TAHE – and kept a detailed change request log outlining each change that was accepted – and those that were not.

- 190 My engagement team and I worked collaboratively with NSW Treasury to evolve the modelled scenarios, to improve the results.
- 191 Further problems arose from a number of other errors including:
- The assumption that TAHE's value and therefore depreciation were half of actual value;
 - This in turn saw TAHE act as a 'cash trap' – with the much higher actual depreciation costs having to be funded, prior to dividends being remitted to treasury.
 - This had the effect of materially decaying TAHE's financial performance, with the model showing cash stuck in TAHE to fund non-cash expenses.
 - These revelations were obviously embarrassing to the Treasury officers involved – and to James Hunter and Heather Watson who were Treasury's advisors that had provided the prior numbers – and advice that TAHE was workable.
- 192 When other changes to revenue had not improved the result to a level that met Treasury's needs to support net fiscal presentation, they advanced a novel solution that had the effect of reducing the ROE denominator from XX billion to XX – representing only the invested equity since 2015.
- 193 As with the prior assumption that TAHE's asset value was half its actual value, we sought professional advice from Ian Jedlin and Tim Collins – expert valuations Partners in KPMG.
- 194 These Partners were provided to my engagement by the COGC as the experts from which to seek advice.
- 195 Both Ian and Tim raised fundamental problems Treasury's novel reduction of required returns – as detailed in the final report.
- 196 TfNSW would not accept Treasury's assumptions – and I formed the view with Paul Low that nor could KPMG - based on the expert inputs from the provided valuations Partners.
- 197 This then led to the next period of sustained bullying and personal attacks.
- 198 Each meeting with Treasury and TAHE officials saw continual nit picking, highly personal responses and a generally inflammatory response to our work.
- 199 We were actively supported by the TfNSW officials and even the Transport Minister Andrew Constance, who checked in several times to ensure that I was ok.

Exclusion from COGC and public discrediting

- 200 In October, James Hunter issued an email to all relevant NSW Government TAHE stakeholders, advising that in future any conversations about TAHE should be directed to my second Partner – who would be making 'more time' to lead the engagement.
- 201 This was a very public discrediting of me – effectively saying that I was no longer leading the TAHE engagement for KPMG.
- 202 This was humiliating – and not led by any issue with the quality or rigour of our work, not was it discussed or agreed with me, before it was done.
- 203 I rang Paul Low who shared my deep concern over the email being sent and advised that he had no knowledge of it – nor did he have either the time or technical skills to lead the TAHE engagement.
- 204 I emailed James and told him it was highly inappropriate (attached).
- 205 I rang David Linke and advised him that I would no longer work on the TAHE engagement, because of the bullying, discrediting and harassment – and the unresolved conflicts of James Hunter and behaviours of Heather Watson.
- 206 David asked me to remain on the engagement – saying the 'Firm needs you to finish this'.
- 207 We agreed that he would ring James and that James would send an email to retract what he had done.

274 287

- 208 David advised three days later that no letter would be sent in correction – rather that James Hunter had agreed to use ‘talking points’ when he next spoke to each Mike Pratt, San Midha and Cassandra Wilkinson.
- 209 I told him that I was disgusted and it was ‘a joke’.
- 210 This call included David Heathcote and Paul Low.
- 211 Around this time, the COGC, despite being formed to ‘manage the conflict between engagements’, decided at the request of James Hunter (as I understand it) to convene without me, to consider a new scope of work for treasury.
- 212 TfNSW heard via back channels about Treasury extending Heather Watson’s scope to conflict with our advice to TfNSW and Cabinet on the modelled results of TAHE>
- 213 Fiona Trussell rang me and expressed that she was ‘sick of KPMG’s conflicts’ – that she ‘didn’t want to be in our internal power games’ and other comments.
- 214 I raised this with David Linke and Paul Low.
- 215 I then learned that the COGC had begun meeting without me, to consider Heather’s intended scope.
- 216 David Linke assured me that the discussion and agreed scope would not conflict and were on separate issues.
- 217 He advised the COGC had had an explicit discussion about the risk that Heather’s new scope may be used to discredit the very detailed work we had done for TfNSW and Cabinet on TAHE’s financial and operating model.
- 218 I expressed my extreme displeasure at being left out – that I was certain that there would be a direct conflict – and that this would be a disastrous escalation of our existing unmanaged conflicts over TAHE.
- 219 I also told Messrs Low, Heathcote and Linke that it was unacceptable that the ‘conflict management’ mechanism was meeting without reference or regard to the Partner most exposed to its choices and decisions.
- 220 David Linke then had a call requested by Fiona Trussell and Rodd Staples, where he assured them that there would be no conflict in the purpose or use of our work – and that the COGC had ‘managed’ the issue.
- 221 On XX date, the financial modeller on my engagement received an erroneous email from NSW Treasury, but had forwarded it because we were waiting on their responses to a range of issues regarding the allocation of maintenance responsibilities.
- 222 When we each opened this email, it became clear it was a detailed list of changes for work being done by Heather on TAHE, which appeared to directly contradict key aspects of our work.
- 223 I contacted Jeff Cook and Christine Wilcox to advise that we had received this – and seek advice on how to resolve ethically. They advised that all copies needed to be destroyed.
- 224 This means I no longer have this document – but its contents caused us grave concern about the intent and content of Heather’s work.
- 225 Once Heather’s it was released, it was apparent that its form and effect were precisely to seek to discredit the detailed financial modelling undertaken based on the TAHE operating model.
- 226 David Linke reviewed this work and resolved that there was a direct conflict, which is also acknowledged by David Heathcote and Paul Low.
- 227 David Linke’s email to Louise Capon is attached.
- 228 The key area of conflict was Heather’s advice that it was appropriate to use Treasury’s novel calculation of the ROE denominator to model TAHE’s results.
- 229 This contradicted the professional view of KPMG, as provided by Tim Collins and Ian Jedlin – provided to us for this purpose.

230 I was contacted by many transport officials, from Secretary down to junior levels expressing variously their dismay at KPMG's continued conflict – and from some, their condolences on KPMG's ongoing professional humiliation of me.

231 I remember Rodd Staples saying precisely that; and also Brenda Hoang (the Deputy Secretary) and Peter Perdikos, the Executive Director.

COGC mobbing

232 The COGC invited me to attend the next meeting, noting the extreme anger in TfNSW at KPMG and David Linke's agreement that Heather's scope was not what was discussed or agreed.

233 I was exceptionally annoyed at the COGC for what I viewed as terrible conflict management and an ongoing exposure of me to my clients, friends and stakeholders.

234 I requested that the report be withdrawn.

235 Heather Watson advised that this would not happen, because it was a final report.

236 I asked why it was issued as a final report, without review or comment and noted that my draft final report had been with Treasury, TAHE and TfNSW stakeholders for around a month for consultation and was issued as a draft.

237 I said again the report needed to be withdrawn and the conflicting parts amended to reflect what had been agreed at the COGC meetings from which I was excluded.

238 Andrew Yates told me to 'forget it, its not going to happen'

239 I said words to the effect that I was still only doing my agreed scope, but that this was a direct attack on it and reminded him that my engagement was meant to address the original conflict.

240 He told me words to the effect that he was 'sick of going through the past' – reflecting the ongoing perception created by James on the COGC that I was the aggressor or originator of the conflict.

241 This conflict stalled the Cabinet process, with TfNSW unwilling to use the detailed KPMG TAHE Financial Model results in the Cabinet submission until KPMG clarified the conflict.

242 Fiona Trussell told me around this time that she and Transport were entirely sick of KPMG on TAHE.

243 She and Rodd Staples requested a letter on KPMG letterhead explaining which numbers could be used – in effect, a letter from a senior Partner warranting that the firm stood behind my work.

244 She advised me that my assurance was no longer strong enough, as even if I am 'called a Partner, you don't seem to have much ability to control KPMG' – and 'with respect, we need it from someone higher than you'.

245 The COGC was unable to resolve a form of words suitable or acceptable to TfNSW.

246 I understand that Rodd Staples observed something to the effect of "I don't understand what you're trying to say'.

247 David Heathcote and Paul Low were in strong agreement that Heather's work was being used precisely the way they did not want.

National Managing Partner's letter of clarification:

248 Shortly after this, Mike Pratt and San Midha wrote to Rodd Staples and me, using near identical words.

249 The form and effect of this letter was to accuse me of material errors; of being unwilling to resolve these errors; and asserting that Heather Watson's work was the basis for the numbers to be presented to Cabinet.

250 The letter to me instructed me to remove all references to the financial model.

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- 251 I agreed with TfNSW that David Heathcote would respond to the letter, on behalf of the Firm.
- 252 This saw David Heathcote as the National Managing Partner – and Paul Low as second Partner – agree a clear and concise form of words – that David would sign on behalf of the Firm.
- 253 I am aware that David Heathcote was subject to extreme pressure for doing this from James Hunter and from Andrew Yates.
- 254 I thanked David and Paul immensely as this was the first time across the entire TAHE engagement that KPMG had done anything to push back against Treasury's bullying behaviours, permitted by the heavy internal conflict and exposures caused by James Hunter and Heather Watson.
- 255 TfNSW advised they were happy with the letter and the Cabinet process could now proceed.
- 256 We issued our final report to TfNSW and believed that we were concluded that majority of our engagement.
- 257 I was looking forward to recovery my health and happiness – after a brutal period leading a complex job that had been overlaid by sustained bullying – caused by the unresolved and unacknowledged conflict of James Hunter.

Renewed Treasury attacks

- 258 Despite the letter, I continued to be questioned indirectly via James Hunter and directly via various communications from Treasury officers – each requiring that I remove the results of the KPMG TAHE Financial Model.
- 259 On XX November, I received another email from San Midha insisting I make changes that TfNSW would not accept and that would have neglected both Cabinet's request and our contract with TfNSW.
- 260 A range of senior Partners were included on San's email.
- 261 No response was forthcoming.
- 262 I then received an email directly from the Treasury Secretary, again copying in James Hunter and a host of other senior Partners.
- 263 At this point I wrote a short email, attached.
- 264 I then rang Mike Pratt – with my contemporaneous notes of the discussion attached.
- 265 Those notes explain my rationale at the time.
- 266 I then switched off my phone and had dinner with my fiancée as I did not want to hear from anyone about TAHE at that point.
- 267 The next day I had various discussions with Paul Low, David Heathcote and Deb Yates and agreed to send a polite retraction email.
- 268 It is important to note the reality that I responded to his note requiring an 'urgent response' - while I was happy to retract the email in the interests of the Firm – I was not a 'loose cannon' who just contacted him out of the blue. It was in response to a long chain of emails and months of meetings where I was bullied and humiliated – and where senior Partners had been variously unwilling – or unable – to protect or support me and my team of KPMG staff.
- 269 I discussed at length with David Heathcote whether to pursue formal complaints against James Hunter, Heather Watson and potentially others for my ongoing treatment and their breaches of ethics and responsible behaviour.
- 270 We resolved on balance that it was better if it 'all went away'
- 271 On that basis I asked for nothing to be done.
- 272 I asked Paul and David several times in December and January if I should be expecting reprisals noting the seniority of the Partners involved 'against' my engagement had been so

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strong that the Head of Government and the NMP of DTL had been unable to protect or support me at key points.

273 Both expressed – and continue to express – a strong level of support for me and regret that they could not stop what happened across the TAHE engagement.

274 I have attached a range of emails that evidence these recollections.

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279 I reported this to David Linke – and later to Paul Low and to David Heathcote.

280 I am advised that the Firm is not formally aware of this.

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286 I have been bullied for nearly a year; with the mobbing enabled by a senior Partner with a major undisclosed conflict.

287 This has allowed bad behaviours to develop toward me from internal and external stakeholders.

288 I have never experienced treatment like this in my 20 year professional career in infrastructure and government.

289 As shown in the attached emails, text messages and file notes – I have continuously reported the bullying behaviours by Treasury officials and internal stakeholders to senior Partners.

290 Unfortunately, internal factors meant that these senior Partners were not able to protect or support me as they would have wished.

291 I look forward to understanding the Firm's approach to addressing this issue, now that my conduct in respect of TAHE has been formally raised for investigation.

Witnesses to internal bullying behaviours:

- David Heathcote
- David Linke
- Paul Low
- Gavin Harris
- David Russell
- Jessica Hui

Witnesses to external bullying behaviours and treatment by Heather Watson:

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- **Rodd Staples, then Secretary, TfNSW**
- **Peter Regan, Secretary, TfNSW**
- **Fiona Trussell, Deputy Secretary TfNSW**
- **Peter Perdikos, Executive Director, TfNSW**
- **Paul Low, National Head of Government, KPMG**
- **Gavin Harris, Director, KPMG**
- **David Russell, Associate Director KPMG**
- **Jessica Hui, executive KPMG**
- **Trish Moloney, Senior PA KPMG**



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Level 38 Tower Three
300 Barangaroo Avenue
Sydney NSW 2000

P O Box H67 Australia Square
Sydney NSW 1213
Australia

ABN: 51 194 660 183
Telephone:
Facsimile:
DX: 1056 Sydney
www.kpmg.com.au

Private and confidential

Brendan Lyon
KPMG
Level 38 Tower Three
300 Barangaroo Avenue
Sydney 2000

24 March 2021

Dear Brendan

Late Completion of Mandatory Learning

The purpose of this letter is to inform you that you have not completed, in the timeframe set down by the firm, more than one mandatory training or compliance requirement in this financial year to date. The mandatory training and/or compliance requirements that you have not completed within the relevant timeframes are:

- Annual Declaration of Compliance
- We Do What is Right: Integrity at KPMG 2020

It is the expectation of the firm that partners will behave in a manner consistent with the firm's values and lead by example, including by appropriately prioritising the completion of mandatory training and compliance requirements within the relevant timeframes.

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Liability limited by a scheme approved under Professional Standards Legislation.



These matters will be taken into account in your year-end performance review, and consequences may apply in accordance with the Partner Assessment Guide to Potential Partner Consequences, if:

- in the remainder of this financial year, you do not complete any further mandatory training or compliance requirements; or
- in future financial years you again fail to complete more than one mandatory training or compliance requirement,

within the relevant timeframes set down by the firm.

Yours sincerely

Jeff Cook
Partner Ethics & Independence

David Heathcote
National Managing Partner, Deals Tax Legal



269

Private and confidential

Brendan Lyon
c/- KPMG

11 March 2021

Dear Brendan,

Investigation into conduct

KPMG is conducting an investigation into conduct that may have arisen on 19 November 2020 when you were interacting with a client representative in connection with the TAHE engagement. The investigation allows KPMG obtain legal advice on these issues and to determine whether there have been breaches of KPMG policies and procedures (including the KPMG Code of Conduct and Values).

As part of the investigation, we would like you to attend an interview with me and a legal representative of KPMG at 4pm on Thursday 11 March on Level 38 in the Barangaroo office. A meeting invitation will be sent to you with room details.

You should be aware that if the investigation identifies inappropriate conduct then KPMG may take disciplinary action. Disciplinary action can take many forms, which range from a verbal warning through to retirement from the partnership.

You may bring a support person to the interview. The support person can provide you with support during the interview and, if you wish, take notes on your behalf. The support person is not able to speak on your behalf, or interfere with the investigation process. Provided they have not been involved in the TAHE engagement, your support person can be a KPMG Partner or employee of KPMG.

Please contact me if you have any questions regarding the matter.

Counselling and employee assistance is available to you through the Employee Assistance Program by contacting 1800 808 374 or text 0439 449 876 for real-time SMS counselling.

This investigation is confidential. Please do not to discuss it with anyone in the workplace, except if they are acting as your support person.

Ben Lawler

Director, People Performance & Culture

Lyon, Brendan

From: Lyon, Brendan
Sent: Friday, 20 November 2020 3:08 PM
To: Michael Pratt; San Midha; Linke, David; Heathcote, David; Low, Paul; Hunter, James (Sydney)
Cc: San Midha
Subject: RE: UPDATED FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)
Importance: High 268

Mike,

I am writing to apologise for my email and phone conversation yesterday. The tone was not appropriate or professional.

TAHE has been a very complex and trying engagement, for all concerned.

Looking ahead, I have decided it would be better for any correspondence on the TAHE engagement be addressed via my second Partner, Paul Low, to put in some appropriate space.

Sincerely,

Brendan

From: Michael Pratt
Sent: Thursday, 19 November 2020 5:13 PM
To: Lyon, Brendan ; San Midha ; Linke, David
; Heathcote, David ; Low, Paul ;
Hunter, James (Sydney)
Cc: San Midha
Subject: RE: UPDATED FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)

Apologies TAFE should read TAHE.

Michael Pratt AM | Secretary



Treasury

52 Martin Place, Sydney (enter via 127 Phillip Street)
GPO Box 5469, Sydney NSW 2001
T: | M:
E: | Treasury.nsw.gov.au
EA: |

Courier deliveries to:
NSW Treasury, c/ Decipha Pty Ltd
Unit 2, 38-44 Doody Street, Alexandria NSW 2015

From: Michael Pratt
Sent: Thursday, 19 November 2020 5:12 PM

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Lyon, Brendan

From: Cook, Jeff A
Sent: Wednesday, 2 December 2020 9:14 AM
To: Lyon, Brendan
Cc: Hulme, Spencer; Heathcote, David
Subject: Review findings
Attachments: Research - Reporting obligations under NSW legislation.docx

Hi Brendan

As mentioned in our discussion with David Heathcote, I have now had the opportunity to review the material provided by you relating to the two engagements KPMG has with NSW Treasury (NSWT) and Transport for NSW (TfNSW) respectively.

Based on that information, and in response to your concerns stated to Spencer Hulme and myself on 9 November, there does not appear to be a basis for concluding that:

- NSWT has deliberately overstated the benefits to the NSW Government which would accrue from the establishment of TAHE by approximately \$7b; or
- NSWT officials, namely the Department Secretary and a Director reporting to the Department Secretary, are attempting to confuse or obscure the true financial effects of the establishment of TAHE.

Based on the above, I have not seen evidence that would suggest to me that NSWT are engaged in corruption or that we are engaged in a conspiracy. If you have, or come into possession of, further information that you feel may evidence corruption on the part of NSWT, or that we are engaged in a conspiracy, please reach out to me.

Spencer Hulme and I committed to coming back to you regarding the legal framework around reporting obligations. A note from OGC is attached on these matters. In the current circumstances no reporting obligation appears to exist. Should you want to discuss the note further please reach out to Spencer in OGC.

I have reviewed an email from you that I note raises allegations of bullying and harassment. If you consider that you have been the subject of such conduct, please may I ask you to reach out directly to Ben Lawler in PPC so that these matters can be properly investigated.

Please give me a call if you have any questions flowing from this email.

Kind regards

Jeff

Jeff Cook

Partner – Risk Management

KPMG

International Towers 3
300 Barangaroo Avenue
Sydney

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Lyon, Brendan

From: Michael Pratt
Sent: Thursday, 19 November 2020 5:12 PM
To: Lyon, Brendan; San Midha; Linke, David; Heathcote, David; Low, Paul; Hunter, James (Sydney)
Cc: San Midha
Subject: RE: UPDATED FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)

To the Senior Partners on this email, you obviously have a partner who refuses to take counsel and is out of control. As you are aware we engaged KPMG (Heather Watson) earlier this year to provide fiscal and accounting advice that is now concluded in support of the TAFE work. That work provides the basis for Treasury advice.

I expect you to take action.

Mike

Michael Pratt AM | Secretary

52 Martin Place, Sydney (enter via 127 Phillip Street)

GPO Box 5469, Sydney NSW 2001

T: (02) 9230 9111 M: (02) 9230 9111

E: m.pratt@treasury.nsw.gov.au | Treasury.nsw.gov.au

EA: (02) 9230 9111

Courier deliveries to:

NSW Treasury Pty Ltd (Pty Ltd)

Unit 2, 44-46 Phillip Street, Alexandria NSW 2015



From: Lyon, Brendan

Sent: Thursday, 19 November 2020 5:03 PM

To: Michael Pratt ; San Midha ; Linke,
David ; Heathcote, David ; Low, Paul
; James Hunter (Contact)

Cc: San Midha

Subject: Re: UPDATED FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)

Mike - I'm sick of being bullied by you.

Grow up or tell the truth. Up to you.

Brendan Lyon
Partner
Infrastructure & Projects Group
KPMG

From: Michael Pratt

Sent: Thursday, November 19, 2020 17:01

To: San Midha; Lyon, Brendan; Linke, David; Heathcote, David; Low, Paul; Hunter, James (Sydney)

Cc: San Midha

Subject: RE: UPDATED FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)

Brendan,

265
Lyon, Brendan

From: Lyon, Brendan
Sent: Thursday, 19 November 2020 5:03 PM
To: Michael Pratt; San Midha; Linke, David; Heathcote, David; Low, Paul; Hunter, James (Sydney)
Cc: San Midha
Subject: Re: UPDATED FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)

Mike - I'm sick of being bullied by you.

Grow up or tell the truth. Up to you.

Brendan Lyon
Partner
Infrastructure & Projects Group
KPMG

From: Michael Pratt
Sent: Thursday, November 19, 2020 17:01
To: San Midha; Lyon, Brendan; Linke, David; Heathcote, David; Low, Paul; Hunter, James (Sydney)
Cc: San Midha
Subject: RE: UPDATED FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)

Brendan,
This needs your urgent attention. You either correct the errors or remove all references to Treasury's model which is not for you to comment upon. Please revert asap as this matter needs urgent resolution.

Michael Pratt AM | Secretary

52 Martin Place, Sydney (enter via 127 Phillip Street)
GPO Box 5469, Sydney NSW 2001
T: | M:
E: | Treasury.nsw.gov.au
EA:



Treasury

Courier deliveries to:
NSW Treasury, 127 Phillip Street
Unit 1, 34-44 Phillip Street, Alexandria NSW 2015

San Midha
Sent: Thursday, 19 November 2020 4:55 PM
To: Lyon, Brendan ; Linke, David ; Heathcote, David
; Low, Paul ; James Hunter (Contact)
Cc: Michael Pratt
Subject: RE: UPDATED FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)

Dear Brendan,

I refer to my email and letter dated 11th Nov:

264

Lyon, Brendan

From: San Midha
Sent: Thursday, 19 November 2020 4:55 PM
To: Lyon, Brendan; Linke, David; Heathcote, David; Low, Paul; Hunter, James (Sydney)
Cc: Michael Pratt
Subject: RE: UPDATED FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)

Follow Up Flag: Follow up
Flag Status: Flagged

Dear Brendan,

I refer to my email and letter dated 11th Nov:

I still await a reply to my letter and confirmation on corrections to your report or removing incorrect references to Treasury's Model.

Regards



Treasury

San Midha | Deputy Secretary
Policy and Budget Group

52 Martin Place, Sydney (enter via 127 Phillip Street)
GPO Box 5469, Sydney NSW 2001

T:

E: | Treasury.nsw.gov.au

EA:

Courier deliveries to:
NSW Treasury, c/- Decipha Pty Ltd
Unit 2, 38-44 Doody Street, Alexandria NSW 2015



From: San Midha
Sent: Wednesday, 11 November 2020 6:57 PM
To: Lyon, Brendan ; Linke, David ; Heathcote, David
; Low, Paul ; James Hunter (Contact) >
Cc: Michael Pratt
Subject: RE: UPDATED FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)

Dear Brendan,

See attached letter.

Regards

Lyon, Brendan

From: Michael Pratt
Sent: Thursday, 19 November 2020 5:01 PM
To: San Midha; Lyon, Brendan; Linke, David; Heathcote, David; Low, Paul; Hunter, James (Sydney)
Cc: San Midha
Subject: RE: UPDATED FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)

263

Brendan,

This needs your urgent attention. You either correct the errors or remove all references to Treasury's model which is not for you to comment upon. Please revert asap as this matter needs urgent resolution.

Michael Pratt AM | Secretary

52 Martin Place, Sydney (enter via 127 Phillip Street)
GPO Box 5469, Sydney NSW 2001

T: | M:
E: | Treasury.nsw.gov.au
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Treasury

From: San Midha
Sent: Thursday, 19 November 2020 4:55 PM
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; Low, Paul ; James Hunter (Contact)
Cc: Michael Pratt
Subject: RE: UPDATED FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)

Dear Brendan,

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Regards

San Midha | Deputy Secretary
Policy and Budget Group

52 Martin Place, Sydney (enter via 127 Phillip Street)
GPO Box 5469, Sydney NSW 2001

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EA:

Courier deliveries to:
NSW Treasury, c/- Decipha Pty Ltd



Treasury

262

From: San Midha
Sent: Wednesday, 11 November 2020 6:57 PM
To: Lyon, Brendan ; Linke, David ; Heathcote, David
; Low, Paul ; James Hunter (Contact)
Cc: Michael Pratt
Subject: RE: UPDATED FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)

Dear Brendan,

See attached letter.

Regards



Treasury

San Midha | Deputy Secretary
Policy and Budget Group

52 Martin Place, Sydney (enter via 127 Phillip Street)
GPO Box 5469, Sydney NSW 2001

| [Treasury.nsw.gov.au](https://treasury.nsw.gov.au)

Courier deliveries to:
NSW Treasury, c/- Decipha Pty Ltd
Unit 2, 38-44 Doody Street, Alexandria NSW 2015

From: Lyon, Brendan
Sent: Monday, 9 November 2020 5:41 PM
To: Cassandra Wilkinson ; Sajiv De Silva
; San Midha ; Fiona Trussell
; Peter Perdikos ; Anne Hayes
; Peter Perdikos ; Andrew Alam
Cc: Rodd Staples ; Linke, David ; Heathcote,
David ; Low, Paul
Subject: UPDATED FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)
Importance: High

Dear TAHE stakeholder,

Due to a minor labelling error on one chart, please find enclosed an updated finalised version of our report on TAHE.

If would you would like to discuss any aspect of KPMG's final report, I am available on anytime.

Faithfully,

Brendan Lyon
Partner

Brendan Lyon | Partner

Deal Advisory - Infrastructure & Projects
International Towers
300 Barangaroo Avenue
Sydney NSW 2000 Australia

| kpmg.com.au



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Lyon, Brendan

From: San Midha
Sent: Thursday, 19 November 2020 4:55 PM
To: Lyon, Brendan; Linke, David; Heathcote, David; Low, Paul; Hunter, James (Sydney)
Cc: Michael Pratt
Subject: RE: UPDATED FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)

Follow Up Flag: Follow up
Flag Status: Flagged

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Dear Brendan,

I refer to my email and letter dated 11th Nov:

I still await a reply to my letter and confirmation on corrections to your report or removing incorrect references to Treasury's Model.

Regards



Treasury

San Midha | Deputy Secretary
Policy and Budget Group

52 Martin Place, Sydney (enter via 127 Phillip Street)
GPO Box 5469, Sydney NSW 2001

| [Treasury.nsw.gov.au](https://treasury.nsw.gov.au)

Courier deliveries to:
NSW Treasury, c/- Decipha Pty Ltd
Unit 2, 38-44 Doody Street, Alexandria NSW 2015

From: San Midha
Sent: Wednesday, 11 November 2020 6:57 PM
To: Lyon, Brendan ; Linke, David ; Heathcote, David
; Low, Paul ; James Hunter (Contact)
Cc: Michael Pratt
Subject: RE: UPDATED FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)

Dear Brendan,

See attached letter.

Regards

Lyon, Brendan

From: Lyon, Brendan
Sent: Sunday, 15 November 2020 7:17 PM
To: Russell, Dave; Hudson, Nick; Hui, Jessie
Subject: Fwd: CABINET IN CONFIDENCE: KPMG RESPONSE ON PERCEIVED CONFLICT
Attachments: Letter_TfNSW_Conflict.pdf

It begins. Or ends.

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Brendan Lyon
Partner
Infrastructure & Projects Group
KPMG

From: Lyon, Brendan
Sent: Sunday, November 15, 2020 7:15:13 PM
To: Rodd Staples ; Michael Pratt
Cc: Fiona Trussell ; San Midha ; Peter
Perdikos ; Cassandra Wilkinson
; Heathcote, David ; Low, Paul

Subject: CABINET IN CONFIDENCE: KPMG RESPONSE ON PERCEIVED CONFLICT

Secretaries,

Please find enclosed correspondence from KPMG, clarifying perceived conflicts in KPMG's work.

Faithfully,

Brendan Lyon

Brendan Lyon | Partner
Deal Advisory - Infrastructure & Projects
International Towers
300 Barangaroo Avenue
Sydney NSW 2000 Australia

| kpmg.com.au



Lyon, Brendan


From: Lyon, Brendan
Sent: Sunday, 15 November 2020 7:15 PM
To: Rodd Staples; Michael Pratt
Cc: Fiona Trussell; San Midha; Peter Perdikos; Cassandra Wilkinson; Heathcote, David; Low, Paul
Subject: CABINET IN CONFIDENCE: KPMG RESPONSE ON PERCEIVED CONFLICT
Attachments: Letter_TfNSW_Conflict.pdf
Importance: High

258

Secretaries,

Please find enclosed correspondence from KPMG, clarifying perceived conflicts in KPMG's work.

Faithfully,

 Brendan Lyon

Brendan Lyon | Partner

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Rodd Staples
Secretary
TfNSW
18 Lee Street
Chippendale NSW 2008

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Our ref TfNSW_TAHE

By email

15 November 2020

Dear Secretary,

Clarification of perceived conflict in KPMG TAHE reports

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

KPMG's two reports:

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

Stated purpose of the reports:

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

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

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

The perceived conflict:

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



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

Conclusion:

19 On behalf of KPMG, we hope that this serves to clarify the role and intent of each report.

20 KPMG takes its professional reputation seriously and regret that issues have arisen in regard to our work for NSW Treasury and TfNSW on this complex issue.

21 KPMG looks forward to continuing to assist the NSW Government with its reform agenda and remain available to provide any further clarification needed.

Yours sincerely

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David Heathcote
National Managing Partner

Lyon, Brendan

From: Fiona Trussell
Sent: Sunday, 15 November 2020 4:03 PM
To: Lyon, Brendan; Rodd Staples
Cc: Heathcote, David; Low, Paul
Subject: RE: CABINET IN CONFIDENCE - REQUESTED RESPONSE FROM KPMG ON TREASURY'S COMMUNICATIONS

Thank you Brendan for providing clarification on the matters raised in correspondence from NSW Treasury.

I have no queries.

Please can you now arrange for this to be formally communicated to Rodd from David.

Regards
Fiona

Fiona Trussell
A/Deputy Secretary Corporate Services
Transport for NSW

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Executive Support Officer



Transport
for NSW

From: Lyon, Brendan [mailto:]
Sent: Friday, 13 November 2020 6:55 PM
To: Rodd Staples ; Fiona Trussell
Cc: Heathcote, David ; Low, Paul
Subject: CABINET IN CONFIDENCE - REQUESTED RESPONSE FROM KPMG ON TREASURY'S COMMUNICATIONS
Importance: High

Dear Secretary,

RE: Your letter received from NSW Treasury and the related letter received by KPMG

As requested, we are writing to clarify a range of matters arising from the recent correspondence from the NSW Treasury to you; and related correspondence to KPMG.

Key points:

- KPMG's work for TfNSW has been delivered precisely in line with our scope with you – which responds precisely to Cabinet's request of TfNSW in the June cabinet submission;
- Our work has been subject to detailed review and validation in all respects and is provided as a KPMG branded deliverable and financial model;
- We reject Treasury's assertion of 'multiple errors' but do note the divergence between Treasury's beneficial assumptions and those deemed by us to be reasonable to construct a financial model;

Lyon, Brendan

From: Lyon, Brendan
Sent: Friday, 13 November 2020 6:55 PM
To: Rodd Staples; Fiona Trussell
Cc: Heathcote, David; Low, Paul
Subject: CABINET IN CONFIDENCE - REQUESTED RESPONSE FROM KPMG ON TREASURY'S COMMUNICATIONS

Importance: High

Dear Secretary,

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RE: Your letter received from NSW Treasury and the related letter received by KPMG

As requested, we are writing to clarify a range of matters arising from the recent correspondence from the NSW Treasury to you; and related correspondence to KPMG.

Key points:

- KPMG's work for TfNSW has been delivered precisely in line with our scope with you – which responds precisely to Cabinet's request of TfNSW in the June cabinet submission;
- Our work has been subject to detailed review and validation in all respects and is provided as a KPMG branded deliverable and financial model;
- We reject Treasury's assertion of 'multiple errors' but do note the divergence between Treasury's beneficial assumptions and those deemed by us to be reasonable to construct a financial model;
- For clarity, we have not provided any fiscal or accounting advice, but note the reality that TAHE's costs pose fiscal costs, which have been modelled; and
- KPMG's separate work referred to by Treasury should not be used to construct an alternative financial outcome, as noted in the limitations in that work and the relevant discussion below.

Treasury assertions and our response:

Noting the breadth of the comments, we have elected to respond to each section of Treasury's letter to you in turn, provide relevant clarity or correction, as required.

Treasury letter:

"In preparing our joint response to C2020-0372, Treasury recognises the role of Transport to advise Cabinet on the TAHE operating licence and implementation safely and effectively. I appreciate receiving confirmation of this in your commissioned report TAHE Long Term Operating Model Assessment."

KPMG response:

The Treasury letter repeats assertions that it is beyond KPMG's scope of work to consider issues beyond the operating licence and safe implementation.

We note that the June cabinet submission stated:

s1 v) Request that the TAHE operating model return to Cabinet in October 2020, with an assessment of safety, operational, financial and fiscal risks and impacts for decision.

S1 vi) Note there are a number of key issues and risks to be resolved including:

- a) A safe, efficient and detailed TAHE operating model.
- b) The form, function and effect of operating licenses, Statement of Corporate Intent and business rules on TAHE's board; transport operations; and the finalisation of the desired accounting treatment.
- c) A detailed TAHE financial model outlining financial and fiscal impacts.
- d) A robust assessment of TAHE's impact on broader transport services, including customer and safety outcomes.

We note section 1 also saw Cabinet note that KPMG was to undertake this assessment for TfNSW.

Section 2 sees Cabinet request TfNSW to return to Cabinet with a detailed financial model, which is the subject of our scope:

2.1.4.2 The financial impacts of the policy are not yet fully understood and are now subject to detailed modelling and assessment by TfNSW.

Noting the Treasury Secretary's request, you can confirm that the long-term operating model report does contemplate both safety and the operating license; but seeks to respond completely to Cabinet's request and our scope of work.

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Treasury letter:

"As Treasury has noted in previous correspondence and meetings, advice to Cabinet on how TAHE meets the government's fiscal objectives is the responsibility and prerogative of NSW Treasury."

KPMG comment:

No particular comment.

Treasury letter:

"Mr Lyon's report does not address accounting considerations and consequently cannot be taken as fiscal advice."

KPMG response:

Our engagement does not include accounting or fiscal advice; but the detailed KPMG financial model has been developed deliberately to quantify the financial impacts of TAHE's long-term operating model.

As above, Cabinet's specifically noted that;

The financial impacts of the policy are not yet fully understood and are now subject to detailed modelling and assessment by TfNSW.

The KPMG TAHE financial model represents that detailed modelling requested by Cabinet to understand the costs of TAHE as it moves into operations.

Treasury letter:

"In addition it contains a number of hypothetical scenarios which are based on suppositions regarding decisions not yet taken. These include but are not limited to:

- *Conflating the treatment of assets for equity with the treatment of assets for dividends*
- *Assuming rates of return which do not reflect the shareholders' expectations*
- *Ascribing liabilities associated with the operators to TAHE*
- *Asserting depreciation costs to the state budget when an approach has not been agreed*

- *Assuming an approach to access pricing which inflates the impact"*

KPMG response:

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We note that Treasury officers provided direct input into the development of the model and the approach to develop reasonable assumptions including areas now in dispute (including required return, asset base and regulatory bounds of access pricing).

Treasury subsequently requested increasingly beneficial changes, to address the poorer than expected financial impacts.

These are noted in KPMG's memo to you; and is reflected in the detailed change logs that we have appended to our report to Cabinet.

Treasury letter:

"We do not see value in expending further time addressing these persistent errors.

KPMG response:

KPMG does not accept Treasury's assertion of 'persistent errors'.

NSW Treasury have not advised of any errors in the financial model; and accept the safe long-term operating model.

As noted, Treasury have repeatedly requested that we accept their changing financial assumptions to improve the modelled results.

We note but do not accept Treasury's requests to remove key aspects of the report, including the modelling results – noting that they respond precisely to our scope and to Cabinet's request of TfNSW for a transparent and detailed assessment of TAHE.

Treasury letter:

"In the absence of Mr Lyon amending his report and deleting all references to Treasury and Fiscal advice (and we have requested him to do so) we will provide fiscal advice to accompany the Submission that supports our forward estimates."

KPMG response:

KPMG's advice to Cabinet does not provide fiscal advice.

As requested by Cabinet and required by our contract with you, we do provide detailed financial modelling based on Treasury's preferred assumptions; and what we consider to be reasonable assumptions noting Cabinet's TAHE objectives.

Noting TAHE's heavy reliance on funding originating from the NSW budget via CSOs, this logically sees an impact on the budget, which has been modelled and quantified as per Cabinet's request.

KPMG stands by our modelling of financial impacts.

Treasury letter:

These fiscal issues have been addressed by KPMG Finance and Accounting Partner Heather Watson in her report. We have determined preliminary approaches to each of these challenges which inform the FIS table.

KPMG response:

Ms Watson's separate advice should not be used to provide an alternative financial outcome, because it does not model TAHE's future financial impacts or have regard to TAHE's long-term operating model.

We understand Ms Watsons work was seeking to provide an accounting view of Treasury's assumptions for the FIS table. We note Treasury's letter asserts a conflict between Ms Watson's advice and the work undertaken for Cabinet; and note that there is a review of Ms Watson's work to identify and address any conflict. David Heathcote will respond to you on that issue, once it is fully clarified.

While that review is detailed and ongoing, we confirm that our work for TfNSW is an output of KPMG and designed specifically to inform Cabinet's request of you.

Our work has been subject to the highest levels of scrutiny; and the Firm stands behind our work for TfNSW and Cabinet in all respects.

Yours sincerely,

Brendan Lyon
Engagement Partner

David Heathcoat
National Managing Partner

Brendan Lyon | Partner

Deal Advisory - Infrastructure & Projects
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300 Barangaroo Avenue
Sydney NSW 2000 Australia

| kpmg.com.au

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Lyon, Brendan

From: Lyon, Brendan
Sent: Thursday, 12 November 2020 8:21 AM
To: Heathcote, David; Linke, David; Low, Paul
Subject: Re: UPDATED FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)

Yes he will - and also got one himself and will want me to respond with some advice on the one to him.

Happy to chat - I don't think we should respond at all until after your meeting with Rodd today.

When we do - it's pretty straight forward given we are following cabinets instruction to the letter.

Brendan Lyon
Partner
Infrastructure & Projects Group
KPMG

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From: Heathcote, David
Sent: Thursday, November 12, 2020 7:40:49 AM
To: Lyon, Brendan ; Linke, David ; Low, Paul

Subject: RE: UPDATED FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)

Brendan it would be good to understand Rod's view on whether this warrants a response. Think it would be a good idea if we got together to discuss options given it has been sent to a wide group at KPMG.

From: San Midha
Sent: Wednesday, 11 November 2020 6:57 PM
To: Lyon, Brendan ; Linke, David ; Heathcote, David
; Low, Paul ; Hunter, James (Sydney)
Cc: Michael Pratt
Subject: RE: UPDATED FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)

Dear Brendan,

See attached letter.

Regards



Treasury

San Midha | Deputy Secretary
Policy and Budget Group

52 Martin Place, Sydney (enter via 127 Phillip Street)
GPO Box 5469, Sydney NSW 2001

T:

E: | Treasury.nsw.gov.au

EA:

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Lyon, Brendan

From: San Midha
Sent: Wednesday, 11 November 2020 6:57 PM
To: Lyon, Brendan; Linke, David; Heathcote, David; Low, Paul; Hunter, James (Sydney)
Cc: Michael Pratt
Subject: RE: UPDATED FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)
Attachments: IGA_11_11_2020_18_45_28_996.pdf

Follow Up Flag: Follow up
Flag Status: Flagged

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Dear Brendan,

See attached letter.

Regards



Treasury

San Midha | Deputy Secretary
Policy and Budget Group

52 Martin Place, Sydney (enter via 127 Phillip Street)
GPO Box 5469, Sydney NSW 2001

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Unit 2, 38-44 Doody Street, Alexandria NSW 2015

From: Lyon, Brendan
Sent: Monday, 9 November 2020 5:41 PM
To: Cassandra Wilkinson

; Sajiv De Silva

; San Midha
; Peter Perdikos
; Peter Perdikos

; Fiona Trussell
; Anne Hayes
; Andrew Alam

Cc: Rodd Staples ; Linke, David ; Heathcote,
David ; Low, Paul
Subject: UPDATED FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)
Importance: High

Dear TAHE stakeholder,

Due to a minor labelling error on one chart, please find enclosed an updated finalised version of our report on TAHE.

If would you would like to discuss any aspect of KPMG's final report, I am available on anytime.

Faithfully,

Brendan Lyon
Partner

Brendan Lyon | Partner

Deal Advisory - Infrastructure & Projects
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Mr Brendan Lyon
KPMG
Via email

Dear Mr Lyon,

Regarding the report back to Cabinet C2020-0372 –Establishment of the
Transport Asset Holding Entity (TAHE) – Cabinet, 1 June 2020

Thank you for providing a copy of your report to Transport for NSW *TAHE Long Term Operating Model Assessment*. Treasury is pleased to receive confirmation that TAHE can be established safely and effectively.

As Treasury has noted in previous correspondence and meetings, advice to Cabinet on how TAHE meets the government's fiscal objectives is the responsibility and prerogative of NSW Treasury. I note this document's focus seems to have moved from its early drafts focus on Operational and Safety considerations to a preponderance around fiscal matters which is Treasury's role to address on behalf of the NSW Government.

I note that you have a section referring to Treasury's fiscal model. As you are aware from many emails and conferences with the Treasury TAHE team, and as you acknowledge in the report, Treasury does not agree with your assumptions and conclusions regarding the fiscal, budget and commercial impacts of TAHE. While you are entitled to make your own assumptions and scenarios for your client, we disagree with your references to Treasury's model and request that you remove all references to relying on Treasury's advice.

Importantly your report does not address accounting considerations, it cannot be taken as fiscal advice for our purposes. In addition, it contains a number of hypothetical scenarios which are based on suppositions regarding decisions not yet taken. These include but are not limited to:

- Conflating the treatment of assets for equity with the treatment of assets for dividends
- Assuming rates of return which do not reflect the shareholders' expectations
- Ascribing liabilities associated with the operators to TAHE
- Asserting depreciation costs to the state budget when an approach has not been agreed
- Assuming an approach to access pricing which inflates the impact

Treasury will provide fiscal advice to Cabinet that supports our forward estimates. We have determined preliminary approaches to each of these challenges which inform the FIS table. In forming these views, Treasury experts in accounting policy have been supported by KPMG accounting specialists. I'm sure you acknowledge the expertise KPMG Accounting Partner Ms Watson and her team bring to these

considerations, we are therefore comfortable with the advice provided and do not require unsolicited advice from another part of KPMG.

Please confirm that you will remove all reference to Treasury's model.

Yours sincerely

ZYG

San Midha
Deputy Secretary

11/11/2020

CC: Michael Pratt, Secretary NSW Treasury


Lyon, Brendan

From: Low, Paul
Sent: Sunday, 8 November 2020 8:17 PM
To: Lyon, Brendan; Hui, Jessie; Russell, Dave; Hudson, Nick; Leech, Ross; Gao, Karen; Pham, Michael; Reid, Chantal; Harris, Gavin; Moloney, Trisha; Fullerton, Garrett; Wilmot, Matthew; Heathcote, David
Subject: Re: FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)

Well done all and thank you for staying the course. Engagements don't get more complex technically and challenging in terms of internal and external relationships.

Thanks again to Brendan and you all.

Regards
Paul


 Get Outlook for iOS

From: Lyon, Brendan
Sent: Sunday, November 8, 2020 2:33 pm
To: Hui, Jessie; Russell, Dave; Hudson, Nick; Leech, Ross; Gao, Karen; Pham, Michael; Reid, Chantal; Harris, Gavin; Moloney, Trisha; Fullerton, Garrett; Wilmot, Matthew; Low, Paul; Heathcote, David
Subject: Fwd: FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)

Team - FYI the final tahe report is now lodged.

We should all be very proud of ourselves. This has not been an easy job in any respect. We've all had to put up with internals and Stakeholder behaviors that we shouldn't have.

But - our works been very important to the public Interest and it'll prove to have been very much in the firms interest too, however resistant some colleagues may have been at times.

 Let's see what happens now - but you should each be proud- and know that I'm extremely grateful to every one of you.

Despite everything thrown at us - we've done an amazing job.

Thanks.

Brendan Lyon
Partner
Infrastructure & Projects Group
KPMG

From: Lyon, Brendan
Sent: Sunday, November 8, 2020 12:43:57 PM
To: Cassandra Wilkinson ; Sajiv De Silva ; San Midha ; Fiona Trussell ; Peter Perdikos ; Anne Hayes ; Peter Perdikos ; Andrew Alam

Lyon, Brendan

From: Lyon, Brendan
Sent: Monday, 9 November 2020 1:09 PM
To: Wilcox, Christine
Cc: Heathcote, David; Linke, David; Low, Paul
Subject: FW: NSW CABINET IN CONFIDENCE - KPMG RESTRICTED | GUIDANCE SOUGHT

Very pertinent for the discussion about the new conflict – you'll note James, Andy and Heather each copied in on ROI issue from September – and aware of from before that.

From: Cassandra Wilkinson
Sent: Wednesday, 23 September 2020 5:45 PM
To: Lyon, Brendan
Cc: Sajiv De Silva; San Midha; Fiona Trussell; Low, Paul; Watson, Heather; King, Andrew (AUS); Box, Matthew; Hui, Jessie; Hunter, James (Sydney)
Subject: RE: NSW CABINET IN CONFIDENCE - KPMG RESTRICTED | GUIDANCE SOUGHT

Hi Fiona and Brendan,

Thank you for seeking to confirm Treasury's views on TAHE feedback. Overall, we agree with their perspectives and our own recent written feedback contained similar views. Specific responses are contained in the table.

Also, as agreed at today's TAHE Financial Model Feedback Workshop, may we please receive by COB Friday 25 September the Changes Log documenting how KPMG has responded to the feedback on the TAHE Financial Model, noting that there are still some outstanding issues.

We look forward to further discussion.
Regards,
Cass

TAHE feedback	KPMG initial response	Desired next step:
1) The model seems to solve for a ROE required using total net assets as the denominator, and no scenario calculates / envisions ROE where Crown equity contributions capitalised since 2015 is the denominator. Given capex funding pre-2015 has already been expensed by Government (in the form of grants on the basis no return was expected on these amounts) it is probably not appropriate to use total net assets as the denominator	<p>Our opinion is that the government should assess their return with consideration of the opportunity cost of owning all assets, instead of simply the \$8-9bn that have been classified as equity contributions on the budget. The government are technically the owners of a company holding ~\$40bn worth of assets and from an investment perspective, could either sell their shares in the company holding \$40bn of assets today or continue earning X% return on the total value.</p> <p>Further to this, we had a look at other SOCs – FY19 Essential Energy financial statements specifically state that they calculate Return on equity and Return on assets "<u>including gifted assets</u>". As such, this is the approach we are proposing to stick with. However, if TAHE can provide evidence of other SOCs calculating ROE based on contributed equity only, we are happy to reconsider / work through with them.</p>	<p>Treasury's views:</p> <p>What is relevant from Treasury's perspective at this point in time is the return on equity contribution and not the return on assets.</p>

Lyon, Brendan

From: Russell, Dave
Sent: Sunday, 8 November 2020 6:15 PM
To: Lyon, Brendan; Hui, Jessie; Hudson, Nick; Leech, Ross; Gao, Karen; Pham, Michael; Reid, Chantal; Harris, Gavin; Moloney, Trisha; Fullerton, Garrett; Wilmot, Matthew; Low, Paul; Heathcote, David
Subject: Re: FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)

Well done everyone; Brendan you've been an absolute tree they couldn't move.

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From: Lyon, Brendan
Sent: Sunday, November 8, 2020 3:33:53 PM
To: Hui, Jessie ; Russell, Dave ; Hudson, Nick ; Leeche, Ross ; Gao, Karen ; Pham, Michael ; Reid, Chantal ; Harris, Gavin ; Moloney, Trisha ; Fullerton, Garrett ; Wilmot, Matthew ; Low, Paul ; Heathcote, David
Subject: Fwd: FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)

Team - FYI the final tahe report is now lodged.

We should all be very proud of ourselves. This has not been an easy job in any respect. We've all had to put up with internals and Stakeholder behaviors that we shouldn't have.

But - our works been very important to the public Interest and it'll prove to have been very much in the firms interest too, however resistant some colleagues may have been at times.

Let's see what happens now - but you should each be proud- and know that I'm extremely grateful to every one of you.

Despite everything thrown at us - we've done an amazing job.

Thanks.

Brendan Lyon
Partner
Infrastructure & Projects Group
KPMG

From: Lyon, Brendan
Sent: Sunday, November 8, 2020 12:43:57 PM
To: Cassandra Wilkinson ; Sajiv De Silva ; San Midha ; Fiona Trussell ; Peter Perdikos ; Anne Hayes ; Peter Perdikos ; Andrew Alam
Cc: Rodd Staples ; Linke, David ; Heathcote, David ; Low, Paul
Subject: FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)

Lyon, Brendan

From: Lyon, Brendan
Sent: Sunday, 8 November 2020 12:44 PM
To: Cassandra Wilkinson; Sajiv De Silva; San Midha; Fiona Trussell; Peter Perdikos; Anne Hayes; Peter Perdikos; Andrew Alam
Cc: Rodd Staples; Linke, David; Heathcote, David; Low, Paul
Subject: FINAL KPMG TAHE REPORT (NSW CABINET IN CONFIDENCE)
Attachments: TAHE - Final Report 201108 - Client.pdf

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Dear TAHE stakeholder,

I am pleased to provide you with the final version of KPMG's report, "*TAHE: Long-term operating model assessment*", which replaces all prior consultation and draft versions.

This is provided as a branded output of KPMG, delivering the long-term operating model, detailed financial model and objective assessment requested by Cabinet - and required by our scope of work.

We note that the operating model and most aspects of our work are now a matter of consensus across stakeholders. KPMG thanks the many dedicated officials who have provided ongoing insight and review of our work, over many months to deliver a workable, safe and agreed operating model.

For transparency, we have appended the detailed change request logs to transparently show the evolving stakeholder requests and how we have addressed these, across the length of the engagement.

KPMG hopes that our work will provide Cabinet with the transparency needed over TAHE's detailed long-term operating model and financial assessment, to inform its next consideration of transport reform in NSW.

If you would like to discuss any aspect of KPMG's final report, I am available on anytime.

Faithfully,

Brendan Lyon
Partner

Brendan Lyon | Partner

Deal Advisory - Infrastructure & Projects
International Towers
300 Barangaroo Avenue
Sydney NSW 2000 Australia

[. | kpmg.com.au](https://www.kpmg.com.au)



Lyon, Brendan

From: Cook, Jeff A
Sent: Friday, 6 November 2020 6:49 PM
To: Moloney, Trisha
Cc: Lyon, Brendan; Hulme, Spencer
Subject: RE: Legal representation

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Hi Trisha,

Yes, 12:30 Monday works for me.

Kind regards
Jeff

From: Moloney, Trisha
Sent: Friday, 6 November 2020 6:32 PM
To: Lyon, Brendan ; Hulme, Spencer >
Cc: Cook, Jeff A
Subject: RE: Legal representation

Good Afternoon Jeff / Spencer

Further to the emails below, could you please advise whether a Teams call with Brendan on Monday 9 November at 12.30pm would suit you?

I look forward to hearing back from you and please don't hesitate to contact me should you require further information.

Regards
Trisha

Trisha Moloney | Senior Personal Assistant
Brendan Lyon & Phil Ransom
Deals, Tax & Legal
Infrastructure & Projects Group

From: Lyon, Brendan
Sent: Friday, 6 November 2020 4:28 PM
To: Hulme, Spencer
Cc: Moloney, Trisha ; Cook, Jeff A
Subject: Re: Legal representation

Hi Spencer and Jeff

Thanks for your response and our brief chat.

As mentioned I am in transit and out in the desert for a client job most of next week.

Trish can you arrange a time when in transit or in ADL that I can talk with Jeff and Spencer.

Thanks.

Brendan Lyon
Partner
Infrastructure & Projects Group
KPMG

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From: Hulme, Spencer
Sent: Friday, November 6, 2020 4:13:14 PM
To: Lyon, Brendan
Cc: Cook, Jeff A
Subject: RE: Legal representation

Brendan


We are proposing that we would meet on Monday from 9:00-10:30am. Ideally we would meet in the office but please let me know if that would be problematic for you.

The initial focus of the meeting will be to understand more of the context and factual matters, particularly having regard to the complexity you have mentioned. That will then enable guidance to be provided on any relevant ethical and legal issues.

Kind regards
Spencer

Spencer Hulme
Senior Legal Counsel, Disputes & Reputation
Office of General Counsel

KPMG
Tower Three
International Towers Sydney
300 Barangaroo Avenue
Sydney NSW 2000 Australia

 kpmg.com.au



From: Lyon, Brendan
Sent: Friday, 6 November 2020 4:00 PM
To: Capon, Louise
Cc: Wilcox, Christine ; Low, Paul ; Cook, Jeff A
; Hulme, Spencer
Subject: Re: Legal representation

Thanks Louise - and no worries you're on leave I hope all's ok.

For Spencer and Jeff - Can we do it today? I'm not wanting to 'raise' anything - I'm wanting me and Paul to have protection of a legally protected discussion and maybe a file note or advice on legals and ethics on an engagement that's very complex and all a bit unclear.

I just want to know we are protected is all - for clarity I'm not alleging anything at all.

Brendan Lyon
Partner
Infrastructure & Projects Group
KPMG

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From: Capon, Louise
Sent: Friday, November 6, 2020 3:55:18 PM
To: Lyon, Brendan
Cc: Wilcox, Christine ; Low, Paul ; Cook, Jeff A
; Hulme, Spencer
Subject: RE: Legal representation

Brendan,

Thank you for your email. The matters that you raised in your email to on Wednesday are serious and it is important that we clearly understand the nature of your concerns.

i. Jeff Cook, our Ethics and Independence Partner, will meet with you to understand your concerns. Spencer Hulme from OGC will also attend and he will be in touch to arrange that meeting.

We appreciate you raising your concerns and participating in the meeting with Jeff and Spencer.

Kind regards
Louise

From: Lyon, Brendan
Sent: Thursday, 5 November 2020 4:58 PM
To: Capon, Louise
Cc: Wilcox, Christine ; Low, Paul
Subject: Legal representation

Dear Louise,

We've not met but I understand you're familiar with the happy place I find myself in.

As you might be aware, I was seeking independent legal advice on some issues facing me and Paul Low as my second partner.

After discussion with Christine I am feeling much more comfortable about internal conflict management and have elected not to proceed with external advice on that basis.

I think Christine is organising a chat so that I can reduce my reliance on email 😊

I look forward to meeting you and to discussing these issues.

Regards,

Brendan Lyon | Partner
Deal Advisory - Infrastructure & Projects
International Towers
300 Barangaroo Avenue
Sydney NSW 2000 Australia

Lyon, Brendan

From: Lyon, Brendan
Sent: Friday, 6 November 2020 8:05 AM
To: Linke, David
Subject: FW: KPMG Report TAHE

238

Top one is the final draft of what I intended to send – but was blocked and edited to the much weaker version below as sent.

My draft was agreed with Paul Low and Christine Wilcox – but was blocked when David H discussed with Andrew Yates and whomever else was there.

Went out watered down.

Dear Rodd and Fiona,

We refer to KPMG's report "*TAHE: Long-term operating model assessment (NSW Cabinet in Confidence)*", which we term the "TfNSW Report", prepared for TfNSW in accordance with our contract with you.

KPMG's scope of work was to develop a long-term operating model for TAHE as an independent, fully formed corporation that exists to profitably meet its objectives as the owner of the State's regulated rail network, unregulated rail assets and substantial adjacent non-operational land holdings.

For the avoidance of doubt:

- KPMG confirms the TfNSW Report represents KPMG's recommended TAHE operating model, subject to the limitations noted in the TfNSW Report.
- KPMG stands behind the KPMG TAHE Financial Model in all respects, other than those noted in the report.

KPMG has separately provided some advice to NSW Treasury (the "NSW Treasury Report") which you have indicated you view as representing a conflict of interest with the TfNSW Report. We are currently undertaking further internal consultations regarding the concerns you have raised and will update you in the next 24 hours.

KPMG assures you that TfNSW can use the operating and financial models with confidence for the Cabinet process, as agreed in our scope of work and contract with you.

The NSW Treasury Report is not intended and cannot be used to construct alternative outcomes to the KPMG TAHE Financial Model.

I hope this letter clarifies the status of KPMG's work and provides you with comfort that our work responds to the scope agreed with you.

Sincerely,

From: Heathcote, David
Sent: Thursday, 5 November 2020 11:07 PM
To: ;
Cc: Lyon, Brendan ; Low, Paul
Subject: KPMG Report TAHE

Dear Rodd and Fiona,

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We refer to KPMG's report "*TAHE: Long-term operating model assessment (NSW Cabinet in Confidence)*", which we term the "TfNSW Report", prepared for TfNSW in accordance with our contract with you.

KPMG's scope of work was to develop a long-term operating model for TAHE as an independent, fully formed corporation that exists to profitably meet its objectives as the owner of the State's regulated rail network, unregulated rail assets and substantial adjacent non-operational land holdings.

For the avoidance of doubt, KPMG stands behind our work in respect of:

- the TAHE long term operating model; and
- the TAHE Financial Model.

KPMG has separately provided some advice to NSW Treasury (the "NSW Treasury Report") which you have indicated you view as representing a conflict of interest with the TfNSW Report. We are currently undertaking further internal consultations regarding the concerns you have raised and will update you as soon as we are able.

As agreed in our scope of work, the intended use of the operating and financial models prepared for TfNSW is for the Cabinet process.

The NSW Treasury Report has been prepared to consider the reasonableness of accounting standards to support a Financial Impact Statement (FIS). This is distinct and separate to KPMG's TAHE financial modelling work contained in the TfNSW Report, which underpins the TAHE long term operating model to support TfNSW's Cabinet submission.

I hope this letter clarifies the status of KPMG's work and provides you with comfort that our work responds to the scope agreed with you.

Sincerely,
David

David Heathcote
National Managing Partner, Deals Tax & Legal

Lyon, Brendan

From: Lyon, Brendan
Sent: Thursday, 5 November 2020 5:40 PM
To: Wilcox, Christine; Heathcote, David; Low, Paul
Subject: RE: INTENDED EMAIL TO RODD AND FIONA BELOW - WILL SEND IN 15 MINS IF NO COMMENTS

236

Love it – I'll send this @ 6pm Sydney time if no response as it's already a few days overdue.

Thanks Christine (who's known as Mr Wolf from now on 😊)

From: Wilcox, Christine
Sent: Thursday, 5 November 2020 5:21 PM
To: Lyon, Brendan ; Heathcote, David ; Low, Paul
Subject: RE: INTENDED EMAIL TO RODD AND FIONA BELOW - WILL SEND IN 15 MINS IF NO COMMENTS

All

Some suggested markups, it's not as bad as it looks, I have just moved the order around which creates a sea of red, and have needed to soften some of the wording where we are still forming a view.

Paul / David, would welcome any further comments, Paul in particular the sentence around NSW Treasury report not intended to construct alternative outcomes to the TAHE model. My understanding is that is factually correct but want to confirm.

Thanks
Christine

Christine Wilcox | Partner, DTL Risk Management

KPMG | Tower Three | International Towers Sydney | 300 Barangaroo Avenue | Sydney NSW 2000 Australia

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The App is also available [online](#) from the Risk Management portal page.

From: Lyon, Brendan
Sent: Thursday, 5 November 2020 5:04 PM
To: Wilcox, Christine ; Heathcote, David ; Low, Paul
Subject: RE: INTENDED EMAIL TO RODD AND FIONA BELOW - WILL SEND IN 15 MINS IF NO COMMENTS

Will do – despite my generally unhinged and unpredictable nature, I note that I in fact sneak up on people with a large bell – and lots of consultation. I certainly don't shoot off disparaging emails to clients; or accept or provide conflicting engagements. (I do however, know some people who do do business that way – but they're not in DTL

😊😊)

From: Wilcox, Christine
Sent: Thursday, 5 November 2020 5:00 PM

To: Lyon, Brendan

; Heathcote, David

; Low, Paul

Subject: RE: INTENDED EMAIL TO RODD AND FIONA BELOW - WILL SEND IN 15 MINS IF NO COMMENTS

I do have comments and will put in markup in word, will send around asap for David and Paul to also provide input. I know you are keen to get this out Brendan but please do wait for the review comments.

From: Lyon, Brendan

Sent: Thursday, 5 November 2020 4:52 PM

To: Heathcote, David

; Low, Paul

; Wilcox, Christine

Subject: INTENDED EMAIL TO RODD AND FIONA BELOW - WILL SEND IN 15 MINS IF NO COMMENTS

Dear Fiona

We refer to KPMG's report "TAHE: Long-term operating model assessment (NSW Cabinet in Confidence)" prepared for Transport for NSW in accordance with our contract to you – which we term the (TfNSW Report".

KPMG's scope of work was to develop a long-term operating model for TAHE as an independent, fully formed corporation that exists to profitably meet its objectives as the owner of the State's regulated rail network, unregulated rail assets and substantial adjacent non-operational land holdings.

For the avoidance of doubt:

- KPMG confirms the NSW Transport Report represents KPMG's recommended TAHE operating model, subject to the limitations noted in the NSW Transport Report.
- KPMG stands behind the KPMG TAHE Financial Model in all respects, other than those noted in the report.

KPMG has separately provided some advice to NSW Treasury which appears to represent a conflict.

The NSW Treasury Report is not intended and cannot be used to construct alternative outcomes to the KPMG TAHE Financial Model.

We are currently taking internal legal advice over the status of the work submitted to NSW Treasury and hope to have further clarity for you in the next 24 hours.

KPMG assures you that TfNSW can use the operating and financial models with confidence for the Cabinet process – noting that they are supported fully by the firm and answer our scope - and Cabinet's request.

On behalf of KPMG – I apologise for the ongoing issues you have reported over commercial conflicts – and please rest assured that this has now been escalated to the most senior levels of the Firm.

In the meantime, I hope this letter clarifies the status of KPMG's work and provides you with comfort that our work responds to the scope and to Cabinet's request.

Sincerely,

Brendan Lyon

Lead partner, TfNSW

Brendan Lyon | Partner

Deal Advisory - Infrastructure & Projects
International Towers
300 Barangaroo Avenue

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Lyon, Brendan

From: Wilcox, Christine
Sent: Thursday, 5 November 2020 5:21 PM
To: Lyon, Brendan; Heathcote, David; Low, Paul
Subject: RE: INTENDED EMAIL TO RODD AND FIONA BELOW - WILL SEND IN 15 MINS IF NO COMMENTS
Attachments: Email markup.docx

All

Some suggested markups, it's not as bad as it looks, I have just moved the order around which creates a sea of red, and have needed to soften some of the wording where we are still forming a view.

Paul / David, would welcome any further comments, Paul in particular the sentence around NSW Treasury report not intended to construct alternative outcomes to the TAHE model. My understanding is that is factually correct but want to confirm.

Thanks

Christine

 Christine Wilcox | Partner, DTL Risk Management

KPMG | Tower Three | International Towers Sydney | 300 Barangaroo Avenue | Sydney NSW 2000 Australia

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The App is also available [online](#) from the Risk Management portal page.

From: Lyon, Brendan

Sent: Thursday, 5 November 2020 5:04 PM

To: Wilcox, Christine ; Heathcote, David ; Low, Paul

Subject: RE: INTENDED EMAIL TO RODD AND FIONA BELOW - WILL SEND IN 15 MINS IF NO COMMENTS

Will do – despite my generally unhinged and unpredictable nature, I note that I in fact sneak up on people with a large bell – and lots of consultation. I certainly don't shoot off disparaging emails to clients; or accept or provide conflicting engagements. (I do however, know some people who do do business that way – but they're not in DTL

😊😊)

From: Wilcox, Christine

Sent: Thursday, 5 November 2020 5:00 PM

To: Lyon, Brendan ; Heathcote, David ; Low, Paul

Subject: RE: INTENDED EMAIL TO RODD AND FIONA BELOW - WILL SEND IN 15 MINS IF NO COMMENTS

I do have comments and will put in markup in word, will send around asap for David and Paul to also provide input. I know you are keen to get this out Brendan but please do wait for the review comments.

From: Lyon, Brendan

Sent: Thursday, 5 November 2020 4:52 PM

To: Heathcote, David

; Low, Paul

; Wilcox, Christine

Subject: INTENDED EMAIL TO RODD AND FIONA BELOW - WILL SEND IN 15 MINS IF NO COMMENTS

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Dear Fiona

We refer to KPMG's report "TAHE: Long-term operating model assessment (NSW Cabinet in Confidence)" prepared for Transport for NSW in accordance with our contract to you – which we term the (TfNSW Report".

KPMG's scope of work was to develop a long-term operating model for TAHE as an independent, fully formed corporation that exists to profitably meet its objectives as the owner of the State's regulated rail network, unregulated rail assets and substantial adjacent non-operational land holdings.

For the avoidance of doubt:

- **KPMG confirms the NSW Transport Report represents KPMG's recommended TAHE operating model, subject to the limitations noted in the NSW Transport Report.**
- **KPMG stands behind the KPMG TAHE Financial Model in all respects, other than those noted in the report.**

KPMG has separately provided some advice to NSW Treasury which appears to represent a conflict.

The NSW Treasury Report is not intended and cannot be used to construct alternative outcomes to the KPMG TAHE Financial Model.

We are currently taking internal legal advice over the status of the work submitted to NSW Treasury and hope to have further clarity for you in the next 24 hours.

KPMG assures you that TfNSW can use the operating and financial models with confidence for the Cabinet process – noting that they are supported fully by the firm and answer our scope - and Cabinet's request.

On behalf of KPMG – I apologise for the ongoing issues you have reported over commercial conflicts – and please rest assured that this has now been escalated to the most senior levels of the Firm.

In the meantime, I hope this letter clarifies the status of KPMG's work and provides you with comfort that our work responds to the scope and to Cabinet's request.

Sincerely,

Brendan Lyon
Lead partner, TfNSW

Brendan Lyon | Partner
Deal Advisory - Infrastructure & Projects
International Towers
300 Barangaroo Avenue
Sydney NSW 2000 Australia

| kpmg.com.au



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Lyon, Brendan

From: Lyon, Brendan
Sent: Thursday, 5 November 2020 5:11 PM
To: Wilcox, Christine
Subject: FW: draft of the operating model /business rules

Importance: High

James verballing me to Treasury and in a phone call requesting I breach my NDA with TfNSW to satisfy his commitments to treasury.

From: Lyon, Brendan
Sent: Sunday, 6 September 2020 6:37 PM
To: Hunter, James (Sydney)
Cc: Linke, David ; Low, Paul
Subject: draft of the operating model /business rules
Importance: High

Hi James;

David has just rung me regarding confusion over what we discussed and what can/will go to Treasury and when. For clarity, I told San that I'd be happy to share the draft with him early next week. It was in your call shortly after that you asked for it to be sent on Friday. Later that afternoon, Cass said she 'understood' that it would be shared Friday afternoon. I corrected her and said that that would not occur.

I appreciate that you are eager to please Mike, San and Cass; but in practice it is not ready and definitely not going to go across tonight for a number of reasons that I mentioned in our discussion on Friday:

- The operating model has changed due to treasury input
- This requires a full rewrite of the operating model – which I am doing tonight
- I am bound by an NDA that means I cannot send anything without Rodd or Fiona's permission
- I have not yet provided Rodd or Fiona with an updated File Note – noting that it is not yet done.

I also understand that San and likely the secretary are likely to be quite anxious, given Audit's focus on TAHE and the various challenges it faces – combined with the ongoing iCare issue (I think Mike is starring this week at the inquiry).

I am also keen to maintain a good relationship with Treasury – personally and for the Firm – but we need to make sure we are ready with each thing we issue.

Noting the quite nasty internal behaviours I've experienced - and noting our exposure to two important agencies – and the reality that if things go wrong, some of our clients might be professionally impacted – it is extremely important to me that we do things in the right order.

Accordingly, I am asking TfNSW for permission to share the updated draft with you and the Committee tomorrow for discussion and awareness – before it goes to treasury or TAHE.

I hope this clears up the confusion – if treasury were expecting it for some reason, they should have got a reasonably clear picture at the TAHE meeting Friday that this was not the case.

Cheers

Brendan

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Lyon, Brendan

From: Lyon, Brendan
Sent: Thursday, 5 November 2020 5:09 PM
To: Wilcox, Christine
Subject: FW: TAHE

James telling treasury and transport that I am not really a partner; and they can go around.

Never corrected – but acknowledged by Heathcoate, Linke and Low as not what was agreed.

Deliberate attempt to belittle me.

From: Lyon, Brendan
Sent: Sunday, 13 September 2020 7:57 PM
To: Hunter, James (Sydney)
Cc: Linke, David ; Low, Paul
Subject: FW: TAHE

This is unacceptable James.

David will ring you now – but this will need to be corrected by you – or I will do it.

This must not happen again.

Regards

Brendan

From: Hunter, James (Sydney) >
Sent: Sunday, 13 September 2020 7:33 PM
To: San Midha ; Low, Paul
Cc: Lyon, Brendan >
Subject: TAHE

Hi San,

Good to speak late Friday pm.

As discussed, I have now spoken with Paul who is rescheduling other priorities so he is able to fully support Brendan over the next 4 weeks, and if necessary longer, as we work closely with Transport, TAHE and Treasury to finalise the TAHE Op Model and associated review and reports. Paul is our national head of Infrastructure, Healthcare and Government (IGH) and has been a partner for 10 years, based in QLD – and previously held senior roles at Transurban, and was Associate Director General and Deputy Director General in the QLD Government. Paul is well known to Tim Reardon and has been EQCR for 2 months and is across the TAHE issues.

I encourage you to connect on Monday.

Paul

San

230
Lyon, Brendan

From: Lyon, Brendan
Sent: Thursday, 5 November 2020 11:19 AM
To: Heathcote, David; Linke, David; Low, Paul; Wilcox, Christine
Subject: TAHE TfNSW draft for GW dh comments dr edits
Attachments: TAHE TfNSW draft for GW dh comments dr edits.docx

Importance: High

Attached is a much updated summary of the conflicts; Dave Russell has spent a fair bit of time overnight to break it down with crystal clarity.

Note in particular the point about CFOA applying an inconsistent numerator and denominator to describe ROE.

This is both technically wrong – and has the effect of being dishonest. It is the clearest example of their scope, and capability, being exceeded – and shows how far beyond an accounting scope they have gone.

There are so many conflicting points in CFOA's work, that we've not dealt with them all -but sought to highlight the technical error and dishonest effect of the CFOA conflicting scope.

I am sure that will understand this quite clearly.

Regards

Brendan

Lyon, Brendan

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From: Lyon, Brendan
Sent: Thursday, 5 November 2020 11:00 AM
To: Wilcox, Christine
Subject: FW: IMPORTANT

Further to our discussion Christine.

This email responds to what James Hunter sent out to TfnSW and Treasury to emasculate me in front of both clients.

I have warned the firm about the risks – and asked repeatedly for the bullying to be stopped.

The Firm has done zero to either stop it – or to deal with the ethical conflicts and obvious disciplinary actions that should have been taken

On the email below, it is worth noting that nothing was clarified by Firm; they left me swinging. As they have each time, internal and external.

Noting all the crap we have to swallow about risk management, ethics and global behaviours etc – no wonder everyone thinks I am 'emotive' 'emotional' etc. But I am not.

Rather, I am a very angry, disappointed Partner in the Firm who has been subjected to repeated structural bullying and harassment.

The ongoing descriptions of me as 'emotive' are a device to avoid discussing the risks, conflicts and ethical problems I have raised continually, since April 2020.

I have been bullied, belittled, sidelined and dismissed – and everyone looked the other way.

Very different to the training – and to the global behaviours.

And very very disappointing.

From: Lyon, Brendan
Sent: Saturday, 10 October 2020 3:12 PM
To: Heathcote, David ; Linke, David
Cc: Low, Paul
Subject: RE: IMPORTANT

Ok thanks – I spoke to David Linke a little while ago.

Noting I am the most exercised on this issue (Viking), David L suggested that I draft some words I would be happy with.

I have enclosed the below, which I believe lacks emotion, but is clear.

I told David L that I remain unhappy that this has not yet been done, as discussed below. My strong preference is that this be sent today.

Timing:

I would expect that the Firm would find it very easy to confirm that my (approved, contracted and extremely well scrutinised) work is a KPMG output.

Noting that I am a Partner with an approved, contracted scope – why does James need to give an opinion on that before the email is sent to Rodd?

You could just send him a copy of what's sent and ask to talk to him about it when he's finished moving house. And then he should be instructed that this is an output of the Firm.

Put in those terms, James may realise that an email to my client stating fact – that my work is a KPMG output - is likely the least-worst outcome of how things might flow.

I am exercised because I have been bullied and discredited by certain Partners of the Firm for almost a year now – without anyone doing anything much about it – while doing a terrible job we never wanted to do; at the request of the firm – to protect it from major financial loss from TfNSW>

It is worth remembering the reason the firm needed protection was because of James and Heather's (stupid) work with Treasury – and failure to follow conflict and risk processes.

Consequently, I do (very) much care about how quickly the Firm (finally) shows that it supports me and my team – we've been charging the trenches but we are still full of KPMG-shaped bullet holes in our backs – and it needs to be stopped once and for all.

Regards

Brendan

Suggested email:

(begins)

Dear Rodd,

Further to our discussion on Friday last, we are writing to confirm to you the status of KPMG's work for TfNSW, supporting your return to Cabinet on TAHE.

For clarity, Brendan Lyon's engagement for TfNSW is:

1. the Firm's sole financial modelling engagement on TAHE;
2. presented as a branded output of KPMG; and
3. Warranted for the professionalism of the work and approach.

I also confirm that Brendan has complied with all internal quality and professionalism requirements and note that:

4. The operating model work has been subject to ongoing review by Paul Low, the second Partner and KPMG's national head of transport.
5. The financial model has been subject to repeated internal validation and independent internal review; and has also been reviewed by David Heathcote (National Managing Partner - DTL).
6. All relevant engagements including the subject have been scrutinised through a dedicated conflict committee; and
7. The financial model has been the subject of ongoing and detailed consultation with Treasury officers, as evidenced in the attached File Note that was provided to you.

I hope that this clarifies the standing of KPMG's work for you; and I am very pleased that you have found Brendan and his team to be dedicated to TfNSW on this complex engagement.

On behalf of KPMG, thank you for your ongoing work with us across our business – and we look forward to continuing to support you and your agencies in the years ahead.

Yours sincerely,



David Heathcoat
NMP- Deals, Tax & Legal

David Linke
Global Head - Tax

From: Heathcote, David
Sent: Saturday, 10 October 2020 2:03 PM
To: Lyon, Brendan ; Linke, David
Cc: Low, Paul
Subject: Re: IMPORTANT

Brendan - Dave has reached out to James but no response as yet. I understand he is moving house this weekend, so may be a little hard to get.

Our intention is to draft a note for Rod which confirms the model that has been submitted is the "KPMG model" and is the only model, which addresses the scope in the engagement.

We intend to advise James this is our intent and get confirmation from him to ensure there is consistency and no other contrary messages, to the extent he has future discussions with Mike.

Hopefully we can get hold of James this weekend if not Monday.

Regards
David

Get [Outlook for iOS](#)

From: Lyon, Brendan
Sent: Saturday, October 10, 2020 1:43:30 PM
To: Linke, David ; Heathcote, David
Cc: Low, Paul
Subject: IMPORTANT

Gents –

It's been extremely quiet since last night.

Could you please advise asap what's occurred?

Brendan Lyon | Partner
Deal Advisory - Infrastructure & Projects
International Towers
300 Barangaroo Avenue
Sydney NSW 2000 Australia

Lyon, Brendan


From: Lyon, Brendan
Sent: Wednesday, 4 November 2020 2:07 PM
To: Low, Paul
Cc: Linke, David; Heathcote, David
Subject: here is our scope for the one pager

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Paul – our agreed scope is below. Other two, FYI – and worth noting that I have maintained all the way through my scope; it's not changed.

Methodology

Agreement to the Joint Cabinet Submission sees TfNSW with control over the detailed development and refinement of a TAHE operating model – which will continue to be assessed against the Cabinet endorsed objectives agreed at the start of our initial scope.

 Fiscal	 Organisational	 Operational
<ul style="list-style-type: none">• Meet accounting standard requirements, by 1 July 2020.• Sustain the accounting treatment, over time.• Maintain PNFC classification from the ABS:<ul style="list-style-type: none">– For-profit: TAHE– Not-for-profit: ST and NSW	<ul style="list-style-type: none">• Support TfNSW's 'Evolving Transport' long-term operating model• Support a long term model that improves the management of assets, commerciality, and transparency of the use of public funds• Facilitate the integration of networks, services and project planning, across modes and with a customer focus• Allow future reform to rail service delivery models• Account for the TAHE Board's duties and corporate objectives	<ul style="list-style-type: none">• Maintain and enhance safe network operations• Create clear, logical operational accountabilities between TAHE, TfNSW and rail service operators

Stage 1: 'Kick off' and early tasks

With circa 120 days until a final deliverable is needed, our team are 'up to speed' and ready to proceed. Accordingly, the 'kick off' process will be limited to an efficient discussion around key objectives, governance and overall approach.

The key elements of this stage will be:

- **Define key milestones, governance and any additional objectives**
 - Detailed discussion on Cabinet and TfNSW objectives.
 - Agreement about the form of Cabinet advice for October.
 - Agreement about Treasury and other stakeholder consultations.
 - Agreement about engagement reporting and governance.
- **Revisit and begin to define the TAHE options:**

- Our assessment of TAHE will consider three fundamental models, being:
 - TAHE Real;
 - TAHE for NSW; and
 - A hybrid model.
- We will also develop a third transitional option considering TAHE as a financing and asset ownership vehicle, within the context of near-term planned projects.
- We will workshop these and any other relevant 'sub options' or hybrids with you.
- We will consider how the options will be assessed or measured across Cabinet's organisational, operational and fiscal/financial objectives.

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Deliverable: Project delivery summary in the form of an internal working paper, for agreement.

TAHE - Kick off and early tasks	2020															
	JUN				JUL				AUG				SEP			
	Week 2	Week 3	Week 4		Week 1	Week 2	Week 3	Week 4	Week 1	Week 2	Week 3	Week 4	Week 1	Week 2	Week 3	Week 4
Define key milestones, governance and any additional objectives																
Revisit and begin to define the TAHE options																

The estimated fee for this stage is **\$57,578** (excluding GST).

Stage 2: Operational design

The defined options (and any sub options) from Stage 1, we will work with TfNSW to design and refine clear, real-world operating models for each.

These will be developed in consultation with key TfNSW officials and will act as a high level 'concept of operations' for the various TAHE options.

• Functional specification:

- We will define what each TAHE option does, controls, owns, decides, operates and all other functional aspects will be carefully investigated, workshoped and described.
- This will provide clarity at a granular level of who does what under each option.
- This will be used to develop a high level concept of operations (CONOPS) for each TAHE option.

Deliverable: File-note detailing the functional specification of each TAHE option.

• Consultation with TfNSW stakeholders

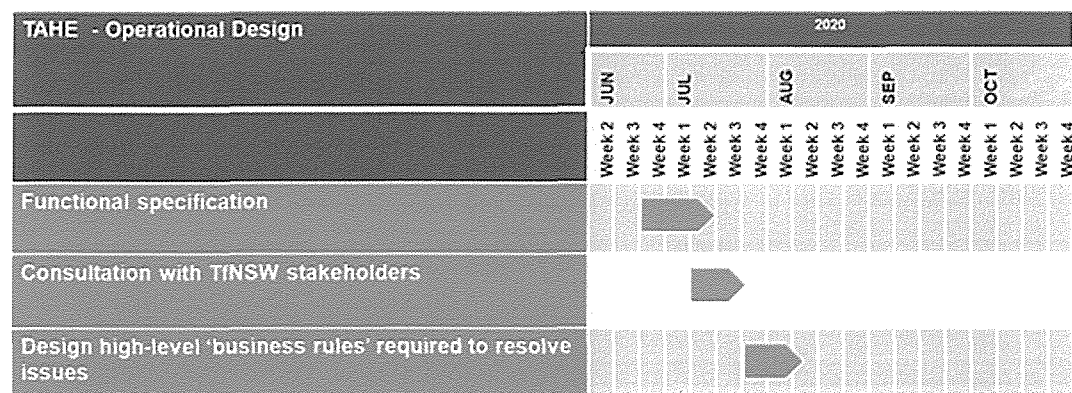
- We will use the functional specification to undertake targeted consultation with TfNSW stakeholders about likely impacts or effects.
- This consultation will segment these issues according to Cabinet's objectives.
- These consultations will be similar to those undertaken in the initial high-level consultations.
- The outputs of these will be used to inform the design of the 'business rules' needed to control TAHE.

• Design high-level 'business rules' required to resolve issues

- Using the inputs from TfNSW consultations, we will design the 'business rules' needed to meet the operational and organisational objectives determined by Cabinet.

- We will undertake a further round of limited consultation to test the business rules with the same stakeholders, to understand whether they serve to resolve the identified issues.

Deliverable: File-note describing the 'business rules' developed, including the process of development and captured input from consultations.



The indicative fee for this stage is estimated to be **\$297,924** (excluding GST). The fee for the operational design is based on certain assumptions including:

- 10 meetings with agreed and suitably qualified stakeholders (including NSW Treasury if appropriate).
- Three 'all-in' workshops with agreed stakeholders
- Allowance for time to consult with rail operators, TMC & ROC
- Our fee does not include an allowance for a safety assurance assessment, which we assume can be provided by Sydney Trains/TfNSW. If this is not possible, Axxess Advisory could be engaged by TfNSW or by KPMG to undertake this work as a sub-contractor.

Stage 3: Organisational design

TfNSW is mid-way through the most fundamental change to transport operations and governance in NSW's history; through 'Evolving Transport'.

Evolving Transport fundamentally seeks to place the 'customer at the centre' of TfNSW's strategy – moving away from mode-specific agencies for road and rail services – in favour of geographic, cross-modal functional alignments.

Without careful consideration and customisation, TAHE would have dire consequences on the Cabinet's agreed cluster-wide structural and service reforms.

Key stages include:

- **Define resource profile and implications:**
 - We will consult with TfNSW to conceptualise the resourcing need and the implications of each model on budget, investment, and the existing entities such as TfNSW.
 - We will articulate how TAHE may be staffed, and where those staff will come from.

Deliverable: Resourcing and operating file-note, outlining the headcount and other operational aspects posed by each TAHE option.

- **TAHE alignment with 'Evolving Transport':**

- With the functional and operational structure and resourcing of TAHE resolved – and initial 'business rules' developed under each option, we will consult with TfNSW's Evolving Transport team to identify areas of continuing friction.
- We will agree a qualitative assessment framework and provide any further 'business rules' needed under each scenario to accord with the purpose and intent of Evolving Transport.

Deliverable: File note providing an assessment of the alignment between Evolving Transport and each TAHE option.

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TAHE - Organisational Design	2020															
	JUN				JUL				AUG				SEP			
	Week 2	Week 3	Week 4	Week 1	Week 2	Week 3	Week 4	Week 1	Week 2	Week 3	Week 4	Week 1	Week 2	Week 3	Week 4	Week 1
Define resource profile and implications																
Understand alignment with 'Evolving Transport'																

The estimated fee for this stage is estimated to be **\$142,607** (excluding GST).

Stage 4: Detailed financial impacts and modelling

A weakness in the consideration of TAHE to date has been the reliance on a very rudimentary financial model; which lacks the capability to understand the impacts on various PNFC and GGS entities – or even the likely fiscal impacts.

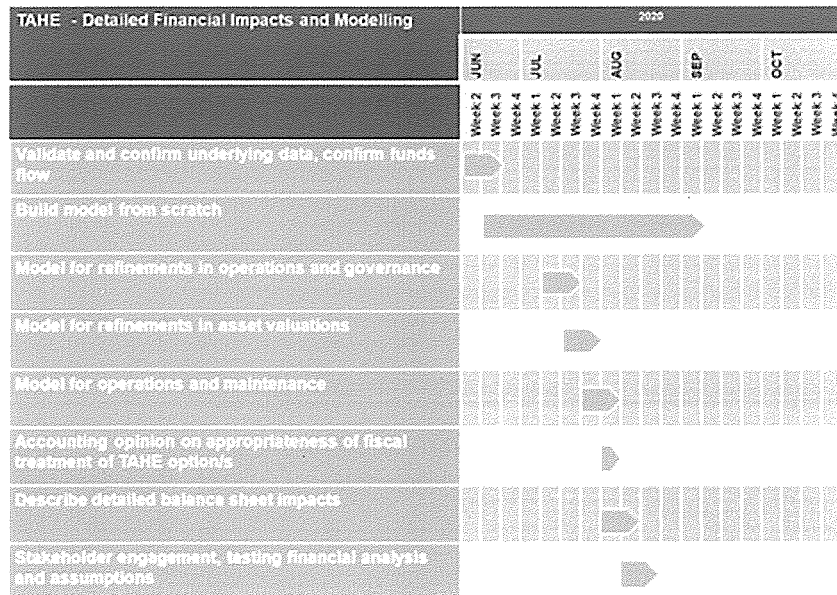
This means that the development of a detailed and robust financial model, including a DCF, is a foundation stone of our approach. This model will allow TfNSW to have confidence in articulating the financial impacts of each approach.

- **Validate and confirm underlying data, confirm funds flow:** Validate and confirm underlying inputs and assumptions from PRIME and other sources to be used to develop forward estimates in the model. Confirm new funds flow arrangements and incorporate the impact of these into the model.
- **Build model from scratch:** Develop a new financial model from scratch which allows flexibility for current and future scenarios to be developed and tested – for example, modelling the price, cost and value impacts of different project development scenarios.
- **Model for refinements in operations and governance:** Update the model for refinements in operational and governance arrangements including but not limited to:
 - Governance and delivery of projects and programs (minor and major works including RM, MPM, upgrades, renewals and refurbishment); and
 - Appropriate mechanisms for the quantification of the potential return of excess capital from TAHE to the Crown or TfNSW.
- **Model for refinements in asset valuations:** Updating the model for refinements in asset valuations:
 - Integrate the existing historical asset register with future capital expenditure forecasted in the capital works plan. Confirm the cost predictions and incorporate into the model;
 - Refine assumptions on likely size of write-down based on access fee and CSO (including conducting a valuation of major assets using a DCF methodology). Confirm accounting treatment related to the ongoing write down of forecasted capital expenditure and incorporate this into the model; and
 - Consider the impact of asset valuations under Service Concession and Leases standards.
- **Model for operations and maintenance:** Update the model to reflect the TAHE implementation plan and desired end state.
- **Accounting opinion on appropriateness of fiscal treatment of TAHE option/s:** Seek accounting advice to identify the likely accounting treatments of TAHE option/s and update the model accordingly.
- **Describe detailed balance sheet impacts:** Confirm commercial policy framework requirements and update the model to forecast more detailed balance sheet impacts:
 - Confirm debt and target gearing ratio;
 - Confirm target credit rating and Government Guarantee fee; and
 - Forecast excess cash requirements to be used for capital expenditure as well as the potential return of capital to the Crown.
- **Stakeholder engagement, testing financial analysis and assumptions:** We will workshop with stakeholders (up to 10) the different assumptions for the model and test the various scenarios and implications of each TAHE

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option. The financial benefits and costs for each option should be clear and concise across stakeholders before any option is endorsed.

Deliverable: File note providing a detailed walkthrough of the model, supplemented by a model user guide, to ensure a clear understanding of the models functionalities and how to use them. This will be accompanied by delivery of the model itself.



The indicative fee for this stage is estimated to be **\$164,655** (excluding GST).

Stage 5: Cabinet preparation and final report drafting

We will develop a final, KPMG branded deliverable as well as assisting with the development of a suitable Cabinet Submission for the October meeting.

This will see the outputs of each working paper brought together into a professional, evidenced and well-articulated report, answering the key issues raised in the recent Joint Cabinet Submission.

- **Draft final report development**

- Starting from the project kick-off in early June, we will work with you to agree the form of the final report.
- The report will follow the structure of the methodology and have regard to the substance of the Joint Cabinet Submission and the specific issues raised by Cabinet therein.
- This report will describe each option's concept of operations; as well as the required business rules or other changes needed to meet Cabinet's objectives.
- Assuming the availability of data and information from TfNSW, the draft report is scheduled to be provided on 14 September 2020.

Deliverable: Draft report for critical review.

- **Critical review:**

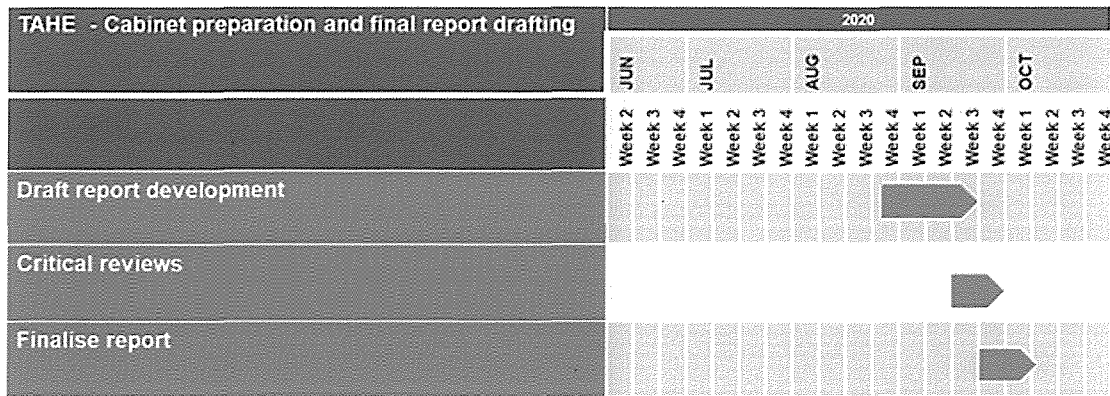
- Noting the importance and sensitivity of this engagement, our report will be subject to rigorous internal review by KPMG – and by TfNSW's senior officials.
- This review stage is scheduled for 2 weeks from 14 September 2020, to allow timely submission to Cabinet.

- **Finalise report:**

- Following the internal and external review, we will provide TfNSW with a final report to support its submission to Cabinet.

Deliverable: A branded KPMG report for submission to the NSW Cabinet in October.

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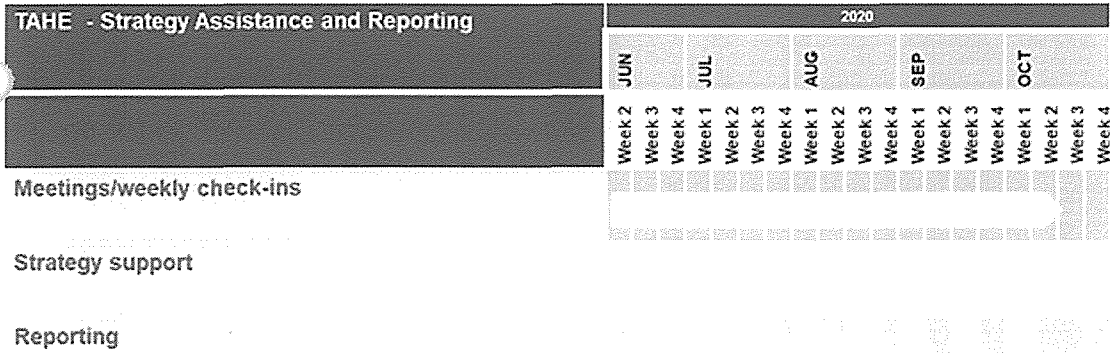


The estimated fee for this stage is estimated to be **\$159,204** (excluding GST).

Ongoing: Strategic assistance and reporting

Extending our current work will also require sound management of our internal resources, and the management of the work to ensure accountability for the engagement and deliverables. This will include:

- **Meetings/weekly check-ins:**
 - Management of all meetings, including weekly check-ins with TfNSW as well as stakeholder engagement meetings and workshops as needed throughout the engagement.
- **Reporting:**
 - Fortnightly reporting, detailing:
 - Work undertaken;
 - Resources used;
 - Total hours; and
 - Hours by resource
- **Strategic support:**
 - With the critical nature of TAHE implementations at the highest levels of government and the most crucial departments of state, we will continuously provide strategic support at all levels to help shape a guide the conversation as needed.



From: Lyon, Brendan
Sent: Tuesday, 3 November 2020 11:07 AM
To: Heathcote, David; Low, Paul
Subject: Cabinet in Confidence - TAHE conflicts
Importance: High

Colleagues,

I have spoken this morning to the following:

- Rodd Staples – secretary; and
- Fiona Trussell, deputy secretary.

What I advised:

- After discussion with Paul Low, I have advised them separately of the existence of a KPMG branded report by CFOA considering the accounting aspects of key assumptions.
- I used the words suggested by Paul Low.
- Each were surprised and uncomfortable.
- I have advised each that this work is intended to be limited to accounting advice, as per the discussions at the COGC meetings.
- I also advised each that I had flagged my concerns over conflicts and that this was noted by the COGC and that I understood that there were a series of professional reviews over the weekend to ensure clarity across CFOA's work to avoid any misconstruction or perceived/actual conflict.
- I also advised that I have not seen the work or the scope, nor will I until it is released, noting my own conflicts.

Fiona's response:

- Fiona immediately asked if David Linke and the oversight group are aware of the scope.
- I said that they were – thought David Linke was no longer
- Fiona asked if it dealt with ROE – I confirmed that I understood that it did.
- I assured her that this section is specifically limited to providing accounting, not financial advice.
- Fiona expressed a view that this is not consistent with her discussions with David Linke.
- He assured her that any work by CFOA would be 'limited to accounting' and would specifically not place the Firm in a position of conflict with our work for TfNSW on TAHE.
- Fiona appeared to be deeply unhappy and very concerned – and thought this was 'terrible'
- I have assured her that the Firm is managing the conflict – but that I correctly do not have any insight at all.
- I advised her that Paul Low and David Heathcoate had undertaken to ensure that any potential misrepresentation would be appropriately caveated, noting that
- She observed that she will be 'very interested' to see how accounting advice can legitimately contemplated non accounting issues such as the ROE, within the assurances she was given by the Firm.

Rodd's response

- Rodd was much more circumspect in his comments.
- He also appeared to accept my assurance that this was being managed by senior partners.
- However, if he forms a view that this is a continuation of our unmanaged conflicts and actions against their interests, I believe that we may suffer material reputational and other consequences.
- If he is ambushed today in the TAHE board by a branded report that strays from David Linke's assurance that CFOA are limited to 'fiscal accounting' – then I believe that the Firm will be in a very difficult position.

My view:

- The denominator for ROE calculation is very clearly not an 'accounting'

- At a minimum, the CFOA report must acknowledge in the section dealing with the ROE that their view does not contradict that in the KPMG work to Cabinet.
- Ideally, it would be removed noting that it is a material departure from their approved scope limitations (only accounting).

Brendan Lyon | Partner

Deal Advisory - Infrastructure & Projects
International Towers
300 Barangaroo Avenue
Sydney NSW 2000 Australia

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Lyon, Brendan

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From: Lyon, Brendan
Sent: Tuesday, 20 October 2020 5:38 PM
To: Low, Paul; Linke, David; Heathcote, David
Subject: RE: CABINET IN CONFIDENCE - what I will say this afternoon.

Excellent thanks Paul.

David Linke – what did you report to NEC today?

From: Low, Paul
Sent: Tuesday, 20 October 2020 3:27 PM
To: Linke, David ; Heathcote, David
Cc: Lyon, Brendan
Subject: RE: CABINET IN CONFIDENCE - what I will say this afternoon.

 li David/s

FYI and to close loop on below.

I shot Andy a quick heads up earlier as I couldn't get him on phone re the expectations that Andrew Y will get a heads up on the expected year end NSW AO report to P'ment and observations to be made re TAHE considerations.

Regards

Paul Low
National Leader – Infrastructure, Government and Healthcare

KPMG
Riparian Plaza, 71 Eagle St
Brisbane QLD 4000 Australia


kpmg.com.au

From: Low, Paul
Sent: Thursday, 15 October 2020 2:17 PM
To: Lyon, Brendan ; Linke, David ; Heathcote, David
Subject: RE: CABINET IN CONFIDENCE - what I will say this afternoon.

Hi all

I spoke with Andy re NSW AO and Anne MacDonald (and mentioned A Yates connection) . He is going to follow up with Heather – they are expecting NSW AO to continue to have an interest in TAHE given historical discussions. I said I'd leave it with them to consider and raise with Andrew Y. Brendan – I suggest that we let Andy chase this through and I follow that through with him as an ongoing issue to watch – unless either David wishes to do so.

I asked re the status of the treasury FIS assumptions re accounting treatments. He said the scope as per COGC discussion earlier this week was with head of accounting policy. Andy wasn't sure if signed yet but was chasing up. I suggested he flick copy to Joel L on behalf of COGC.

Lyon, Brendan

From: Low, Paul
Sent: Thursday, 15 October 2020 3:17 PM
To: Lyon, Brendan; Linke, David; Heathcote, David
Subject: RE: CABINET IN CONFIDENCE - what I will say this afternoon.

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Hi all

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Paul Low
National Leader – Infrastructure, Government and Healthcare

KPMG
Riparian Plaza, 71 Eagle St
Brisbane QLD 4000 Australia

kpmg.com.au

From: Lyon, Brendan
Sent: Thursday, 15 October 2020 12:30 PM
To: Low, Paul ; Linke, David ; Heathcote, David
Subject: CABINET IN CONFIDENCE - what I will say this afternoon.
Importance: High

Noting that I am not wanting to get into an emotional tit for tat this afternoon my comments are:

- 1) The KPMG TAHE Financial Model is now fully supported by TAHE and TfNSW
- 2) I would appreciate all concerned ensuring that Treasury understand that my outputs are KPMG outputs
- 3) The operating model is now receiving final comments
- 4) We understand the NSWAO has flagged that it will focus on TAHE in its report to Parliament in a number of weeks
- 5) This appears to be causing a singular focus on the fiscal risks of TAHE in DPC and treasury.
- 6) I understand that Anne McDonald is particularly unhappy about the prospect of the report (she is Andrew Yates acquaintance).

Of course, if my legitimacy is questioned I will respond legitimately.

Any suggestions welcomed

Brendan Lyon | Partner

Lyon, Brendan

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From: Low, Paul
Sent: Thursday, 15 October 2020 1:35 PM
To: Lyon, Brendan; Linke, David; Heathcote, David
Subject: Re: CABINET IN CONFIDENCE - what I will say this afternoon.

Hi Brendan - let me give Andy a heads up
Nsw Ao matter ahead of discussion and offer them an opp to raise it

Rwgarss
Paul

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From: Lyon, Brendan
Sent: Thursday, October 15, 2020 12:29:36 PM
To: Low, Paul ; Linke, David ; Heathcote, David
Subject: CABINET IN CONFIDENCE - what I will say this afternoon.

Noting that I am not wanting to get into an emotional tit for tat this afternoon my comments are:

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Any suggestions welcomed

Brendan Lyon | Partner
Deal Advisory - Infrastructure & Projects
International Towers
300 Barangaroo Avenue
Sydney NSW 2000 Australia

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Lyon, Brendan

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From: Lyon, Brendan
Sent: Thursday, 15 October 2020 1:30 PM
To: Low, Paul; Linke, David; Heathcote, David
Subject: CABINET IN CONFIDENCE - what I will say this afternoon.

Importance: High

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Any suggestions welcomed

Brendan Lyon | Partner

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International Towers
300 Barangaroo Avenue
Sydney NSW 2000 Australia

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Lyon, Brendan

From: Heathcote, David
Sent: Wednesday, 14 October 2020 10:47 AM
To: Low, Paul; Lyon, Brendan; Linke, David
Subject: RE: Fin Model agreed - TAHE and NSW Treasury (Cabinet in Confidence)

Thanks Brendan and please also pass on my appreciation to the team for their enormous efforts under difficult circumstances.

Regards
David

From: Low, Paul
Sent: Wednesday, 14 October 2020 9:03 AM
To: Lyon, Brendan ; Heathcote, David ; Linke, David
Subject: RE: Fin Model agreed - TAHE and NSW Treasury (Cabinet in Confidence)

Hi Brendan

Thanks for closing the loop and thank you to Jessie, Dave, Nick and others in the team to close out this feedback after several weeks of engagement. A mammoth task given the complexity of matters to be modelled and the range of views to be captured and considered. Thank you for keeping the team on task given the intense scrutiny on their work. Please pass on my thanks and appreciation.

Regards

Paul Low
National Leader – Infrastructure, Government and Healthcare

KPMG
Riparian Plaza, 71 Eagle St
Brisbane QLD 4000 Australia

kpmg.com.au

From: Lyon, Brendan
Sent: Wednesday, 14 October 2020 7:18 AM
To: Heathcote, David ; Linke, David ; Low, Paul
Subject: Fin Model agreed - TAHE and NSW Treasury (Cabinet in Confidence)
Importance: High

All.

Note below that the financial model is now finalised.

Importantly, we have worked line by line with TfNSW and with TAHE – who each agree on the model. You will note that TAHE's CFO and CEO are each part of the email chain and were involved in said meeting.

Lyon, Brendan

From: Lyon, Brendan
Sent: Wednesday, 14 October 2020 10:47 AM
To: Heathcote, David; Linke, David; Low, Paul
Subject: FIONA - FYI

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Just chatted to Fiona.

She is very happy with where things are at on fin model; op model and holding TAHE to the line.

She also expressed warm thanks about our work and said she had reflected the same to David Linke yesterday, which is nice.

It sounds like things are ok at the moment.

We will also issue an updated version of the report sometime in the next day; which takes on some additional TAHE comments.

Regards.

Brendan Lyon | Partner

Deal Advisory - Infrastructure & Projects
International Towers
300 Barangaroo Avenue
Sydney NSW 2000 Australia

| [kpmg.com.au](https://www.kpmg.com.au)



Lyon, Brendan

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From: Lyon, Brendan
Sent: Wednesday, 14 October 2020 9:19 AM
To: Low, Paul; Heathcote, David; Linke, David
Subject: RE: Fin Model agreed - TAHE and NSW Treasury (Cabinet in Confidence)

I am a dove of peace to my team and external stakeholders.

You guys alone are lucky enough to see my viking views 😊

From: Low, Paul
Sent: Wednesday, 14 October 2020 9:03 AM
To: Lyon, Brendan ; Heathcote, David ; Linke, David
Subject: RE: Fin Model agreed - TAHE and NSW Treasury (Cabinet in Confidence)

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Paul Low
National Leader – Infrastructure, Government and Healthcare

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Brisbane QLD 4000 Australia


kpmg.com.au

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To: Heathcote, David ; Linke, David ; Low, Paul
Subject: Fin Model agreed - TAHE and NSW Treasury (Cabinet in Confidence)
Importance: High

All.

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I feel very proud of the professionalism and content of my team's work – which has withstood vicious scrutiny by some stakeholders; and it is nice to note TfNSW's regard for the technical complexity of our work.

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Lyon, Brendan

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I feel very proud of the professionalism and content of my team's work – which has withstood vicious scrutiny by some stakeholders; and it is nice to note TfNSW's regard for the technical complexity of our work.

I hope this provides you with some further comfort – noting the ongoing pressure and gaslighting of the professionalism of our work.

Brendan.

Sent: Tuesday, 13 October 2020 11:26 PM

Lyon, Brendan

From: Lyon, Brendan
Sent: Wednesday, 14 October 2020 8:18 AM
To: Heathcote, David; Linke, David; Low, Paul
Subject: Fin Model agreed - TAHE and NSW Treasury (Cabinet in Confidence)
Importance: High

211

All.

Note below that the financial model is now finalised.

Importantly, we have worked line by line with TfNSW and with TAHE – who each agree on the model. You will note that TAHE's CFO and CEO are each part of the email chain and were involved in said meeting.

I feel very proud of the professionalism and content of my team's work – which has withstood vicious scrutiny by some stakeholders; and it is nice to note TfNSW's regard for the technical complexity of our work.

I hope this provides you with some further comfort – noting the ongoing pressure and gaslighting of the professionalism of our work.

Brendan.

From: Julian Lawson
Sent: Tuesday, 13 October 2020 11:26 PM
To: Hui, Jessie
Cc: Lyon, Brendan; Russell, Dave; Hudson, Nick; Brenda Hoang; Fiona Trussell; Peter Perdikos; Anne Hayes; Peter Crimp
Subject: RE: TAHE Fin Model Discussion / Catch Up Meeting (NSW CABINET IN CONFIDENCE KPMG RESTRICTED)

Thanks Jessie. Looks good (and significantly complex!)

Just one comment – regarding the option to make up the “incremental deficit” (Row 130 SM), I believe this needs to be ‘yes’ in Scenario 17. However per your comment below, to be discussed with Treasury.

Thanks,
Julian

From: Hui, Jessie
Sent: Tuesday, 13 October 2020 3:43 PM
To: Brenda Hoang; Fiona Trussell; Peter Perdikos; Anne Hayes; Peter Crimp; Julian Lawson
Cc: Lyon, Brendan; Russell, Dave; Hudson, Nick
Subject: RE: TAHE Fin Model Discussion / Catch Up Meeting (NSW CABINET IN CONFIDENCE KPMG RESTRICTED)

Hi All,

Please see a table below with updated numbers based on changes we discussed this morning, followed by a change log detailing the changes and impacts of each.

I've also attached the updated fin model – rows where I have updated for the comments will have a highlighted yellow "X" in column A and also noted in the last column of the change log below. Password is the same.

Please let me know if there are any further changes/ comments to be captured.

		FY21 (Budget Year)	Forward Estimates (4 year)	10 Year Estimate
No change	Treasury estimate in June Cabinet Submission	+\$1.83bn	+\$7.39bn	N/A
BEFORE changes	Detailed model - KPMG scenario	+\$1.03bn	-\$0.6bn	-\$6.7bn
	Change – June Treasury vs. KPMG model	-\$0.8bn	-\$8.0bn	N/A
AFTER changes	Detailed model - KPMG scenario	+\$1.1bn	-\$0.3bn	-\$6.6bn
	Change – June Treasury vs. KPMG model	-\$0.7bn	-\$7.7bn	N/A
BEFORE changes	Detailed model – Treasury scenario	+\$1.33bn	+\$2.2bn	+2.8bn
	Change – June Treasury vs. Treasury preferred scenario	-\$0.5bn	-\$5.2bn	N/A
AFTER changes	Detailed model – Treasury scenario	+\$1.4bn	\$2.4bn	\$2.9bn
	Change – June Treasury vs. Treasury preferred scenario	-\$0.4bn	-\$5.0bn	N/A

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Issue/ Change request	Status	Impact to KPMG preferred assumptions scenario	Impact to Treasury preferred assumptions scenario	Location of change in model
Maintenance expense added for IPART Test in FY21 and FY22	Done	Still not compliant in FY21 and FY22; no change in outcome but will update graph in final deliverable to show correct figures	Same as KPMG scenario	Cell M46 and N46 of TAHE_FS
Add functionality to ROE solve function so that access fees can never exceed the ceiling, regardless of whether ROE is being achieved or not	Done	Ceiling cap applied and only allows TAHE to reach ~1-3% ROE, never reaches 4% per target profile, slightly lower CSO subsidies required here.	No impact on the Treasury preferred scenario as access fees don't reach ceiling	Row 44 and Row 95 of TAHE_FS
Include cost of additional funding to make up for revenue	Functionality added in – need to confirm with Treasury that they agree with this	No impact as total deficit in operators was already accounted for	Functionality has been added to include incremental deficit funding as a	Row 130 SM Row 139 SYDT_FS

transfers ("incremental deficit") Treat separately to "underlying deficit" i.e. operator funding to breakeven	before applying to the "Treasury preferred assumptions" scenario.	(incremental and underlying)	option but we have not applied it to Treasury's preferred assumptions scenario yet. Based on our last discussions with Treasury, they were of the opinion that no deficit funding should be included at all. Will need to check with Treasury that they agree with this.	Row 430 TfNSW_FS Row 83 GGS
Adjustment to access fees from private operators; netting off new access fees calculated with existing access charges in PRIME (diff is ~\$20m and is assumed that TAHE will be able to negotiate the new calculated amount)	Done	Small decrease in total revenue for TAHE as new access fees from private operators were previously not netted off against existing	Same as KPMG scenario	Row 127 TAHE_FS
License fees - no allocation to private operators, allocation to Sydney Trains and NSW Trains grossed up to make up difference	Done	Slight increase in CSO subsidies as now 100% of license fees are charged to public operators	Same as KPMG scenario	Row 329 to 337 Assums Row 185 and 186 TAHE_FS
Depreciation adjustments (sent through from Peter Crimp/ Anne Hayes after this morning's meeting) – adjusted for most recent PRIME Oct submission	Done	Higher depreciation expense results in following impacts: <ul style="list-style-type: none"> • Increase in benefit of having depreciation "off budget" • Corresponding small increase in access fees as higher expenses in TAHE • Cash trap issue worsened slightly as higher non-cash expense 	Same as KPMG scenario	Row 226 to 228 TAHE_FS
Question on why the access 'floor' price includes MPM capex	Currently looking into methodology behind the 2017 model – seems like they took the "full incremental cost method" which	If we find that depreciation on MPM capex should be excluded from the floor price, we expect very minor changes.	Same as KPMG scenario	TBA

	should include MPM Capex. Now just investigating further as to why they included depreciation on MPM assets as well.	The ceiling price will not change. Only change could be that TAHE becomes compliant with the floor test in FY22. Will still remain non-compliant in FY21.		
Include functionality to reduce equity injections if TAHE has \$X retained cash balance	As discussed, we can add in this functionality but will rely on inputs provided by TAHE.	TBA	TBA	TBA
Include modelling of capital repayments if TAHE has \$X retained cash balance	As above – TAHE to give guidance on inputs before we model	TBA	TBA	TBA

Kind Regards,

Jessie Hui
Executive
Financial & Business Modelling
Infrastructure & Projects Group

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Tower Three
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300 Barangaroo Avenue
Sydney NSW 2000 Australia

208

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From: Brenda Hoang

Sent: Tuesday, 13 October 2020 11:52 AM

To: Fiona Trussell

; Peter Perdikos

Lyon, Brendan

; Hui, Jessie

; Russell, Dave

Hudson, Nick

Subject: RE: TAHE Fin Model Discussion / Catch Up Meeting (NSW CABINET IN CONFIDENCE KPMG RESTRICTED)

Sensitive NSW Cabinet

Hi All,

We just finished the TAHE financial model walkthrough session with Anne Hayes. Thank you Jessie for taking us through the details. It was very useful and hopefully, we can all agree on the resulting numbers from the financial model.

Jessie will update the model for a couple of changes. I have asked Jessie to send through the updated model once done and to provide a summary of the changes as well as new numbers (compared to old model).

Regards,
Brenda

207

From: Fiona Trussell
Sent: Tuesday, 13 October 2020 10:04 AM
To: Brenda Hoang ; Peter Perdikos ;
Lyon, Brendan ; Hui, Jessie ; Russell, Dave ;
Hudson, Nick
Cc: Sulin Arnold ; Cathy Woods
Subject: RE: TAHE Fin Model Discussion / Catch Up Meeting (NSW CABINET IN CONFIDENCE KPMG RESTRICTED)

Suggest Brenda and whomever from your team attend at 1030 without us so you can get into the detail regardless. Other may be able to join you but I won't.

From: Brenda Hoang
Sent: Tuesday, 13 October 2020 10:02 AM
To: Peter Perdikos ; Lyon, Brendan ; Hui, Jessie
; Russell, Dave ; Hudson, Nick ; Fiona
Trussell
Cc: Sulin Arnold ; Cathy Woods
Subject: RE: TAHE Fin Model Discussion / Catch Up Meeting (NSW CABINET IN CONFIDENCE KPMG RESTRICTED)

Unfortunately, I can't do 3:30pm – Budget related meeting with the MOs.

Alternatively, I can do 12-1:30pm and can move meetings from 1:30pm-3pm to accommodate.

From: Peter Perdikos
Sent: Tuesday, 13 October 2020 10:00 AM
To: Brenda Hoang ; Lyon, Brendan ; Hui, Jessie
; Russell, Dave ; Hudson, Nick ; Fiona
Trussell
Cc: Sulin Arnold ; Cathy Woods
Subject: RE: TAHE Fin Model Discussion / Catch Up Meeting (NSW CABINET IN CONFIDENCE KPMG RESTRICTED)

Agree.

Brendan, Jessie and Dave – can we use the 3.30 – 430 session as previously discussed to meet with Brenda and TAHE on Fin Model?

I can't make 1030 – 1130, and neither can Fiona.

From: Brenda Hoang
Sent: Tuesday, 13 October 2020 9:58 AM
To: Lyon, Brendan ; Hui, Jessie ; Russell, Dave
; Hudson, Nick ; Peter Perdikos
; Fiona Trussell

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Cc: Sulin Arnold

; Cathy Woods

Subject: RE: TAHE Fin Model Discussion / Catch Up Meeting (NSW CABINET IN CONFIDENCE KPMG RESTRICTED)

Do we need Anne and her team in this meeting too?

Suggest we take them through the model in the same way if not in this meeting a separate on. Otherwise we will go back and forth with queries and answers.

Thanks

-----Original Appointment-----

From:

On Behalf Of Lyon, Brendan

Sent: Tuesday, 13 October 2020 9:51 AM

To: Hui, Jessie; Russell, Dave; Hudson, Nick; Brenda Hoang; Peter Perdikos; Fiona Trussell

Cc: Sulin Arnold; Cathy Woods

Subject: TAHE Fin Model Discussion / Catch Up Meeting (NSW CABINET IN CONFIDENCE KPMG RESTRICTED)

When: Tuesday, 13 October 2020 10:30 AM-11:30 AM (UTC+10:00) Canberra, Melbourne, Sydney.

Where: Microsoft Teams Meeting

Brenda, thank you for changing meetings to accommodate.

Microsoft Teams meeting

Join on your computer or mobile app

[Click here to join the meeting](#)

Or call in (audio only)

[+61 2 8318 0052](#), [254916416#](#) Australia, Sydney

[Phone Conference ID: 254 916 416#](#)

[Find a local number](#) | [Reset PIN](#)

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Lyon, Brendan

From: Lyon, Brendan
Sent: Monday, 12 October 2020 8:24 AM
To: Heathcote, David; Blakey, Gayle
Cc: Low, Paul; Linke, David
Subject: RE: TAHE

Importance: High

205

Colleagues; a suggested agenda for the discussion to ensure we cover all relevant issues and reduce the call on DH's surfing schedule.

- 1) Update from David L & H and Paul Low on weekend progress on required clarification to TfNSW and discussion with James Hunter
- 2) Discussion of relevant issues arising (if any)
- 3) Email to Rodd Staples – update on content (if any)
- 4) Email to Rodd Staples – issues discussion (if any)
- 5) Email to Rodd staples – confirmation of timing
- 6) Feedback on content of report from DL/DH (if any)
- 7) Next steps – BL /all

Please advise if there's anything else beyond the agenda to make sure me and Paul are ready to discuss.

Regards

Brendan

From: Heathcote, David >
Sent: Sunday, 11 October 2020 7:40 PM
To: Blakey, Gayle
Cc: Lyon, Brendan ; Low, Paul ; Linke, David
Subject: Re: TAHE

Yes - just need to move my surfing schedule

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From:
Sent: Sunday, October 11, 2020 7:30:34 PM
To: Heathcote, David
Cc: Lyon, Brendan ; Low, Paul ; Linke, David
Subject: RE: TAHE

Hi David

I hope you are well.

Would you mind confirming when you could dial into this call as I know you're on leave this week?

Thank you very much

Lyon, Brendan

204

From:
Sent: Monday, 12 October 2020 9:03 AM
To: Lyon, Brendan
Cc: Moloney, Trisha
Subject: RE: TAHE - is 10am tomorrow ok for you Brendan?

I have no doubt! I'm well thank you and hope you both are as well 😊

| Executive Assistant to David Linke

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International Towers Sydney 3
300 Barangaroo Avenue
Sydney NSW 2000 Australia

kpmg.com.au

KPMG



From: Lyon, Brendan
Sent: Monday, 12 October 2020 7:28 AM
To:
Cc: Moloney, Trisha
Subject: Re: TAHE - is 10am tomorrow ok for you Brendan?

Yeah that's fine. I will be delighted to see the end of this job. Hope you're well.

Brendan Lyon
Partner
Infrastructure & Projects Group
KPMG

From:
Sent: Sunday, October 11, 2020 8:03:29 PM
To: Lyon, Brendan
Cc: Moloney, Trisha
Subject: FW: TAHE - is 10am tomorrow ok for you Brendan?

Thanks

| Executive Assistant to David Linke

KPMG
International Towers Sydney 3
300 Barangaroo Avenue
Sydney NSW 2000 Australia

Lyon, Brendan

203

From: Lyon, Brendan
Sent: Monday, 12 October 2020 7:28 AM
To:
Cc: Moloney, Trisha
Subject: Re: TAHE - is 10am tomorrow ok for you Brendan?

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Brendan Lyon
Partner
Infrastructure & Projects Group
KPMG

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Sent: Sunday, October 11, 2020 8:03:29 PM
To: Lyon, Brendan
Cc: Moloney, Trisha
Subject: FW: TAHE - is 10am tomorrow ok for you Brendan?

Thanks

| Executive Assistant to David Linke

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International Towers Sydney 3
300 Barangaroo Avenue
Sydney NSW 2000 Australia

kpmg.com.au

 KPMG



From: Low, Paul
Sent: Sunday, 11 October 2020 7:53 PM
To: ;
Subject: RE: TAHE

– I can make myself available from 10 – 11 am your time or 1.30 – 2.15 your time

– depending on what occurs I will need to miss PIP check in and move IGH Ops meeting forward half an hour....or cut Sarah V back to 45 mins

Regards

Paul Low
National Leader – Infrastructure, Government and Healthcare

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Lyon, Brendan

From: Linke, David
Sent: Sunday, 11 October 2020 6:38 PM
To:
Cc: Lyon, Brendan; Low, Paul; Heathcote, David
Subject: TAHE

Can you please see when the people on this email are free tomorrow morning and set up a teams call.

Please allow 1 hour.

I have something at 10 am but I can move that if I need to .

David

Lyon, Brendan

From: Lyon, Brendan
Sent: Saturday, 10 October 2020 3:25 PM
To:
Subject: FW: IMPORTANT

201

From: Lyon, Brendan
Sent: Saturday, 10 October 2020 3:12 PM
To: Heathcote, David ; Linke, David
Cc: Low, Paul
Subject: RE: IMPORTANT

Ok thanks – I spoke to David Linke a little while ago.

Noting I am the most exercised on this issue (Viking), David L suggested that I draft some words I would be happy with.

I have enclosed the below, which I believe lacks emotion, but is clear.

I told David L that I remain unhappy that this has not yet been done, as discussed below. My strong preference is that this be sent today.

Timing:

I would expect that the Firm would find it very easy to confirm that my (approved, contracted and extremely well scrutinised) work is a KPMG output.

Noting that I am a Partner with an approved, contracted scope – why does James need to give an opinion on that before the email is sent to Rodd?

You could just send him a copy of what's sent and ask to talk to him about it when he's finished moving house. And when he should be instructed that this is an output of the Firm.

Put in those terms, James may realise that an email to my client stating fact – that my work is a KPMG output - is likely the least-worst outcome of how things might flow.

I am exercised because I have been bullied and discredited by certain Partners of the Firm for almost a year now – without anyone doing anything much about it – while doing a terrible job we never wanted to do; at the request of the firm – to protect it from major financial loss from TfNSW>

It is worth remembering the reason the firm needed protection was because of James and Heather's (stupid) work with Treasury – and failure to follow conflict and risk processes.

Consequently, I do (very) much care about how quickly the Firm (finally) shows that it supports me and my team – we've been charging the trenches but we are still full of KPMG-shaped bullet holes in our backs – and it needs to be stopped once and for all.

Regards

Brendan

200

Suggested email:

(begins)

Dear Rodd,

Further to our discussion on Friday last, we are writing to confirm to you the status of KPMG's work for TfNSW, supporting your return to Cabinet on TAHE.

For clarity, Brendan Lyon's engagement for TfNSW is:

1. the Firm's sole financial modelling engagement on TAHE;
2. presented as a branded output of KPMG; and
3. Warranted for the professionalism of the work and approach.

○ also confirm that Brendan has complied with all internal quality and professionalism requirements and note that:

4. The operating model work has been subject to ongoing review by Paul Low, the second Partner and KPMG's national head of transport.
5. The financial model has been subject to repeated internal validation and independent internal review; and has also been reviewed by David Heathcote (National Managing Partner - DTL).
6. All relevant engagements including the subject have been scrutinised through a dedicated conflict committee; and
7. The financial model has been the subject of ongoing and detailed consultation with Treasury officers, as evidenced in the attached File Note that was provided to you.

I hope that this clarifies the standing of KPMG's work for you; and I am very pleased that you have found Brendan and his team to be dedicated to TfNSW on this complex engagement.

On behalf of KPMG, thank you for your ongoing work with us across our business – and we look forward to continuing to support you and your agencies in the years ahead.

○ Yours sincerely,

David Heathcoat
NMP- Deals, Tax & Legal

David Linke
Global Head - Tax

From: Heathcote, David

Sent: Saturday, 10 October 2020 2:03 PM

To: Lyon, Brendan ; Linke, David

Cc: Low, Paul

Subject: Re: IMPORTANT

Brendan - Dave has reached out to James but no response as yet. I understand he is moving house this weekend, so may be a little hard to get.

Our intention is to draft a note for Rod which confirms the model that has been submitted is the "KPMG model" and is the only model, which addresses the scope in the engagement.

We intend to advise James this is our intent and get confirmation from him to ensure there is consistency and no other contrary messages, to the extent he has future discussions with Mike.

Hopefully we can get hold of James this weekend if not Monday.

Regards
David

199

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From: Lyon, Brendan
Sent: Saturday, October 10, 2020 1:43:30 PM
To: Linke, David ; Heathcote, David
Cc: Low, Paul
Subject: IMPORTANT

Gents –

It's been extremely quiet since last night.

☐ Could you please advise asap what's occurred?

Brendan Lyon | Partner
Deal Advisory - Infrastructure & Projects
International Towers
300 Barangaroo Avenue
Sydney NSW 2000 Australia

| kpmg.com.au



Lyon, Brendan

From: Lyon, Brendan
Sent: Saturday, 10 October 2020 1:55 PM
To: Hunter, James (Sydney); Heathcote, David; Yates, Andrew J; Lucas, Joel
Cc: Watson, Heather; King, Andrew (AUS); Low, Paul
Subject: FW: NSW CABINET IN CONFIDENCE - FINAL DRAFT REPORT FOR COMMENT
Attachments: TAHE - Final Report 10.10.20 DRAFT.pdf

Importance: High

198

Colleagues,

Attached the final draft that has been circulated for final stakeholder comments.

I hope you find it interesting

Faithfully

Brendan

From: Lyon, Brendan

Sent: Saturday, 10 October 2020 1:52 PM

To: 'Cassandra Wilkinson'

; Anne Hayes

; Fiona Trussell

Cc: Low, Paul

; Peter Perdikos

Hunter, James

(Sydney)

; Watson, Heather

; Heathcote, David

; Linke, David

Subject: NSW CABINET IN CONFIDENCE - FINAL DRAFT REPORT FOR COMMENT

Importance: High

Dear stakeholder,

Please find enclosed the final draft of our deliverable, which responds to our scope and to the originating Cabinet request.

This final draft is provided to allow detailed feedback, prior to finalisation for Cabinet.

For absolute clarity for all colleagues – this draft final output and the underlying financial model are products of KPMG and warranted by the Firm.

In anticipation, I look forward to your detailed comments.

Faithfully,

Brendan Lyon | Partner

Deal Advisory - Infrastructure & Projects

International Towers

300 Barangaroo Avenue

Sydney NSW 2000 Australia

Lyon, Brendan

From: Lyon, Brendan
Sent: Friday, 2 October 2020 11:03 AM
To: Bruderlin, Ingrid; Moloney, Trisha
Cc: Heathcote, David; Linke, David; Low, Paul
Subject: Urgent

Importance: High

197

Hi – I need an urgent call with Heathcoate, Linke and Low.

Needs to be literally in the next 20 mins pls – re TAHE.

196

Lyon, Brendan

From: Low, Paul
Sent: Thursday, 1 October 2020 7:48 AM
To: Heathcote, David; Lyon, Brendan; Linke, David
Subject: RE: URGENT

Thanks BL and DH – I'm in car for next 20 mins if we need to talk – otherwise it will be post 1pm.

As per conversation last night – it would be good to get this across to CFOA this morning particularly if heading to treas etc.

Again -good job getting it this point Brendan. As you we discussed last night - it/we will get tested so it will be important for us not to feel we have to defend the work but be respectively confident in outlining rationale for certain aspects while ultimately acknowledging that our NSW Govt colleagues will determine what goes forward into the actual cab sub. No doubt though a huge effort from the team givne the complexity here so please pass on my thanks Brendan.

Regards

Paul Low
National Leader – Infrastructure, Government and Healthcare

KPMG
Riparian Plaza, 71 Eagle St
Brisbane QLD 4000 Australia

kpmg.com.au

From: Heathcote, David
Sent: Thursday, 1 October 2020 7:43 AM
To: Low, Paul ; Brendan ; Linke, David
Subject: RE: URGENT

Hi guys – I have also finished a quick high level review. Overall looks factual and rationale (but I am less of an expert than Paul). Some comments for consideration within which may be helpful.

Many thanks
David

From: Low, Paul
Sent: Wednesday, 30 September 2020 11:03 PM
To: Heathcote, David ; Lyon, Brendan ; Linke, David
Subject: RE: URGENT

Hi All

I've completed a rapid review.....iv'e done this in parallel with the workshop im in so not sure I've done justice to either task but in the interests of keeping this moving please find an initial view attached to meet timeframe

195

Lyon, Brendan

From: Lyon, Brendan
Sent: Thursday, 1 October 2020 8:02 AM
To: Heathcote, David; Low, Paul; Linke, David
Subject: RE: URGENT

Cool thanks both 😊

I'll address these now.

I've just sent a copy to the group so they can have at me during the meeting.

Will circulate an updated one reflecting yours and Pauls' inputs for govt stakeholders.

I really appreciate you taking the time to review the work. It's complex but I think we've managed to structure and interrogate it well.

From: Heathcote, David
Sent: Thursday, 1 October 2020 7:43 AM
To: Low, Paul ; Lyon, Brendan ; Linke, David
Subject: RE: URGENT

Hi guys – I have also finished a quick high level review. Overall looks factual and rationale (but I am less of an expert than Paul). Some comments for consideration within which may be helpful.

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From: Low, Paul
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To: Heathcote, David ; Lyon, Brendan ; Linke, David
Subject: RE: URGENT

Hi All

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A huge amount brought together by the team -so well done Brendan and all.

Regards

Paul Low
National Leader – Infrastructure, Government and Healthcare

KPMG
Riparian Plaza, 71 Eagle St
Brisbane QLD 4000 Australia

194

Lyon, Brendan

From: Low, Paul
Sent: Wednesday, 30 September 2020 11:03 PM
To: Heathcote, David; Lyon, Brendan; Linke, David
Subject: RE: URGENT
Attachments: TAHE - Draft Final Report 30.09.20 (Final Ready for Client)_PL review.pdf

Hi All

I've completed a rapid review.....iv'e done this in parallel with the workshop im in so not sure I've done justice to either task but in the interests of keeping this moving please find an initial view attached to meet timeframe objectives. The stuff at back end re accounting advice and pathway is one we need to reflect on at firm level as the paper goes into the review process

A huge amount brought together by the team -so well done Brendan and all.

Regards

Paul Low
National Leader – Infrastructure, Government and Healthcare

KPMG
Riparian Plaza, 71 Eagle St
Brisbane QLD 4000 Australia

kpmg.com.au

From: Heathcote, David
Sent: Wednesday, 30 September 2020 10:36 PM
To: Lyon, Brendan ; Low, Paul ; Linke, David
Subject: RE: URGENT

Thanks BL – get some sleep!

From: Lyon, Brendan
Sent: Wednesday, 30 September 2020 10:17 PM
To: Low, Paul ; Linke, David ; Heathcote, David
Subject: RE: URGENT

I've just emailed transport and said we will circulate tomorrow so that there can be some reflection.

Lets chat early tomorrow.

I hope you enjoy the paper. It's not a happy ending, but I think it's a very worthy consultation draft.

From: Low, Paul
Sent: Wednesday, 30 September 2020 10:04 PM
To: Lyon, Brendan ; Linke, David ; Heathcote, David

Lyon, Brendan

193

From: Lyon, Brendan
Sent: Wednesday, 30 September 2020 10:05 PM
To: Low, Paul
Subject: RE: URGENT

What if I told you fiona's in bed and that TfNSW asked me to send it out (like you know, a Partner in a global firm)....

From: Low, Paul >
Sent: Wednesday, 30 September 2020 10:04 PM
To: Lyon, Brendan ; Linke, David ; Heathcote, David
Subject: RE: URGENT

Ok thanks – agree with David H – Fiona should do circulation and hopefully caveat appropriately as working draft, a point in time..but obviously key matters to engage further on

Regards

Paul Low
National Leader – Infrastructure, Government and Healthcare

KPMG
Riparian Plaza, 71 Eagle St
Brisbane QLD 4000 Australia

kpmg.com.au

From: Lyon, Brendan
Sent: Wednesday, 30 September 2020 10:02 PM
To: Low, Paul ; Linke, David ; Heathcote, David
Subject: RE: URGENT

D1 is having a quick scan now.

It is clearly a draft so I think that's ok (It has no exec sum or assessment on objectives yet)

It's a beast of a document – so they want to start getting feedback.

It will also flush out the modelling issue – noting Treasury have not seen the application and outcome of their suggestions as yet.

Separately – I am told that the Treasury Secretary was informed today about the preliminary final outcomes of the model – apparently he was a little rattled.

Anyway, sounds like another fun week on the TAHE ship.

Lyon, Brendan

192

From: Lyon, Brendan
Sent: Wednesday, 30 September 2020 10:02 PM
To: Low, Paul; Linke, David; Heathcote, David
Subject: RE: URGENT

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It's a beast of a document – so they want to start getting feedback.

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Separately – I am told that the Treasury Secretary was informed today about the preliminary final outcomes of the model – apparently he was a little rattled.

Anyway, sounds like another fun week on the TAHE ship.

From: Low, Paul
Sent: Wednesday, 30 September 2020 9:56 PM
To: Lyon, Brendan ; Linke, David ; Heathcote, David
Subject: Re: URGENT

Hi Brendan - apologies I'm in global wshop - I cant shake free until 11.30 pm and then in client wshop early AM. given request and that it is remaining internal to transport portfolio I'm ok for you to send but be clear EQ review and NMP review underway Tomorrow.

David/s this seems reasonable given timing constraints and not going to Treas

Regards
Paul

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From: Lyon, Brendan
Sent: Wednesday, September 30, 2020 9:48:01 PM
To: Linke, David ; Heathcote, David ; Low, Paul
Subject: URGENT

TfNSW have asked me to send this out tonight to Treasury and TAHE.

Can we have a quick chat about what to do asap?

Lyon, Brendan

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From: Lyon, Brendan
Sent: Thursday, 24 September 2020 9:23 AM
To: Heathcote, David; Linke, David; Low, Paul
Subject: Update

That the reason treasury went mental appears to be that Mike Pratt was indeed told it was a high priority for him to fix take in the meeting with the premier.

I'm told premier was not negative on transport - or me - we were not even raised - but rather, I understand she raised questions about treasury's professionalism.

Shortly after was when Pratt and then James sent his email.

Second, Rodd is emailing San today to reject an integrated report. Rather he will advise San to advise through the process with the take steer co.

○ He wants us to deliver our work as contracted.

The will happily circulate a draft outline but not until there's some clarity from treasury on maintenance as we cannot answer the brief til then.

Happy to chat if needed.

Regards to all.

Brendan Lyon
Partner
Infrastructure & Projects Group
KPMG

Lyon, Brendan

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From: Lyon, Brendan
Sent: Wednesday, 30 September 2020 7:32 PM
To: Low, Paul; Heathcote, David; Linke, David
Subject: RE: CONFIRMED - Catch Up Discussion - Haissam Helmey / Peter Crimp / Brendan Lyon / Dave Russell / Jessie Hui

Yep. Same one. Maintenance is the unresolved issue because anyone from transport land knows this is all madness.

Crimp is a rail man. He was/is CFO of Sydney Trains – on leave to TAHE. HE's been very bought in to TAHE because he was Anne's deputy a few years ago and he's loyal to her.

He's annoyed at me, because we keep maintenance allocated to them – which is wrong – but it's 'right' for CFOA and Treasury.

The benefit of the draft being out is all the sick cats are out – and they can fight it out with each other from now on.

Budget First. It's a lifestyle.

From: Low, Paul
Sent: Wednesday, 30 September 2020 7:28 PM
To: Lyon, Brendan ; Heathcote, David ; Linke, David
Subject: Re: CONFIRMED - Catch Up Discussion - Haissam Helmey / Peter Crimp / Brendan Lyon / Dave Russell / Jessie Hui

Thanks - agreed - this maintenance position has been oscillating over the past 4 weeks particularly. It'll be an important matter for ONSA too given the maintenance v safety balance.

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From: Lyon, Brendan
Sent: Wednesday, September 30, 2020 7:16:37 PM
To: Heathcote, David ; Linke, David ; Low, Paul
Subject: FW: CONFIRMED - Catch Up Discussion - Haissam Helmey / Peter Crimp / Brendan Lyon / Dave Russell / Jessie Hui

Hi – the draft is coming. Still editing and making a few adjustments. Will be across shortly.

Worth noting below – there remains very strong misalignmnet between TAHE and Treasury.

From: Peter Crimp
Sent: Wednesday, 30 September 2020 6:36 PM
To: Lyon, Brendan ; Haissam Helmey ; Hui, Jessie
; Russell, Dave
Cc: Anne Hayes
Subject: RE: CONFIRMED - Catch Up Discussion - Haissam Helmey / Peter Crimp / Brendan Lyon / Dave Russell / Jessie Hui

Brendan,

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Lyon, Brendan

From: Low, Paul
Sent: Wednesday, 30 September 2020 7:28 PM
To: Lyon, Brendan; Heathcote, David; Linke, David
Subject: Re: CONFIRMED - Catch Up Discussion - Haissam Helmey / Peter Crimp / Brendan Lyon / Dave Russell / Jessie Hui

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; Russell, Dave
Cc: Anne Hayes
Subject: RE: CONFIRMED - Catch Up Discussion - Haissam Helmey / Peter Crimp / Brendan Lyon / Dave Russell / Jessie Hui

Brendan,

further to the meeting earlier today we do need to clarify / revisit the issue of TAHE's role in the authorisation of maintenance funding.

I've confirmed with Anne and we are clear that TAHE does not play a role in approving the overall quantum of maintenance funding.

Important that we resolve.

Regards

Peter

-----Original Appointment-----

From: On Behalf Of Lyon, Brendan
Sent: Wednesday, 30 September 2020 4:03 PM
To: Haissam Helmey; Peter Crimp; Hui, Jessie; Russell, Dave
Subject: CONFIRMED - Catch Up Discussion - Haissam Helmey / Peter Crimp / Brendan Lyon / Dave Russell / Jessie Hui
When: Wednesday, 7 October 2020 10:30 AM-11:30 AM (UTC+10:00) Canberra, Melbourne, Sydney.
Where: Microsoft Teams Meeting

Lyon, Brendan

From: Low, Paul
Sent: Thursday, 24 September 2020 9:47 AM
To: Lyon, Brendan; Heathcote, David; Linke, David
Subject: RE: Update
Categories: FYI

Hi Brendan

Thanks for update. On the basis that Rodd advises San as per your note – it would be useful for Fiona to discuss your submission outline with him so San gets a sense of how matters will be considered and the scope of KPMG final deliverable. I assume they will likely also need to discuss the extent of financial model outputs reflected in the final cab sub. I suggest this as it may be circuit breaker as I can imagine we'll get another round of challenges with Mike Pratt once San briefs him.

Regards

Paul Low
 National Leader – Infrastructure, Government and Healthcare

KPMG
 Riparian Plaza, 71 Eagle St
 Brisbane QLD 4000 Australia

kpmg.com.au

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Sent: Thursday, 24 September 2020 9:23 AM
To: Heathcote, David ; Linke, David ; Low, Paul
Subject: Update

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He wants us to deliver our work as contracted.

The will happily circulate a draft outline but not until there's some clarity from treasury on maintenance as we cannot answer the brief til then.

Happy to chat if needed.

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Lyon, Brendan

From: Lyon, Brendan
Sent: Wednesday, 23 September 2020 7:52 PM
To: Linke, David; Heathcote, David; Low, Paul
Subject: call on TAHE accounting

Hi – was on the call with Heather updating on Audit.

Everyone on that call now appears to think Audit is most likely to clear this year; but Audit have apparently indicated that next year is the end - “they’ve said they’ll do TAHE’s audit properly next year and they’ve made that very clear” was the quote from .

Obviously, this is extremely relevant if true. If it does survive this year – we do not want to have our hands on it next year. Helpfully, all of CFOA’s advice is limited to 1 July 2020 so that would currently see us in the clear (other than the damage to our reputations at transport and treasury over the past six months) – but for the senior people in the firm I’d say we do not want to be at the TAHE Party at the end.

Of course, if it is to pop next year – I would say that the NSW Cabinet may want to have a discussion about whether COVID19 is the year to let it go – if its going to go. But that’s obviously for them to do.

Dauids x2 – just a suggestion but someone should try and confirm this discussion with Heather. If it is true – it should be known and the Firm should make judgements about where we put ourselves on that basis.

Anyway – let’s see what happens but FYI.

Regards,

BL

Brendan Lyon | Partner
Deal Advisory - Infrastructure & Projects
International Towers
300 Barangaroo Avenue
Sydney NSW 2000 Australia

| kpmg.com.au



Lyon, Brendan

From: Lyon, Brendan
Sent: Monday, 21 September 2020 2:54 PM
To: Watson, Heather; Hunter, James (Sydney); Linke, David; Heathcote, David; Yates, Andrew J; Low, Paul; King, Andrew (AUS); Lucas, Joel
Subject: RE: CABINET-IN-CONFIDENCE: Fin model feedback

Thanks Heather; for clarity I noted only that Treasury indicated they were happy with the model's construction and function – based on Cass's comments to that effect.

I also took it as a good sign that there were 'no red flags' in the op model as you and they indicated from a fiscal point of view.

In any case, thanks for your responses and I'll note these.

Regards to all.

Brendan.

From: Watson, Heather
Sent: Monday, 21 September 2020 2:48 PM
To: Hunter, James (Sydney); Linke, David; Heathcote, David; Yates, Andrew J; Low, Paul; King, Andrew (AUS); Lucas, Joel
Cc: Lyon, Brendan
Subject: RE: CABINET-IN-CONFIDENCE: Fin model feedback

Afternoon all,

I appreciate Brendan's keen desire to address Andy's feedback. It is important for me to clarify that at the Friday working group:

- I stated a widely held accounting structuring view that the operating model should be developed to meet commercial, operational and safety needs in the first instance and that meeting fiscal and accounting parameters is then considered having regard to a principle of 'have the least impact possible'. This is what we did for 30 June and what we would do as TAHE transitions.
- I confirmed that I am holding various discussions with Treasury and TAHE as the operating model is developed with a view to identifying whether there are any red flags i.e. indications that something is insurmountable from an accounting perspective. I advised that there was nothing insurmountable identified at this stage.
- I did not endorse the KPMG financial model or file note. I clarified that I had no formal role in its development.

In terms of me saying there is nothing insurmountable at this stage, it is also important to note that:

- I agree with Andy's points, which I think outline action required to manage risks to our clients and ourselves and I think should not be downplayed – they are broader than questions and comments I have seen from TAHE.

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Lyon, Brendan

From: Low, Paul
Sent: Wednesday, 23 September 2020 2:59 PM
To: Linke, David; Heathcote, David
Cc: Lyon, Brendan
Subject: TAHE fin model feedback session with Treasury et al - NSW Cabinet in Confidence

Follow Up Flag: Follow up
Flag Status: Flagged

Hi Davids

I attended the TAHE financial model feedback session today. Anne, Cass et al were in attendance. Fiona was not able to make the meeting. The meeting was run cordially though with good sound dialogue between the NSW Govt reps in attendance from Treasury, TAHE and TfNSW and our team with discussion facilitated by Brendan and support by Jessie.

The conversation was productive, positive and in my view continued the process underway to flush out stakeholder views on assumptions finalisation (a number of these remain with Treasury for advice) and agree on what should/should not be referenced in the cab sub. There were some questions in 1-2 areas around model methodology (eg how access charges are set) but in my modelling layman's view these ultimately came down to needing clarity from Treasury in 6 or so areas of assumptions and agreement between Fiona, San/Cass and Anne regarding the level of financial model outputs required to be disclosed in the final cab sub.

An overriding theme from Treasury (and to some extent TAHE) was that given the many unknowns and that TAHE would sequence 'turning on' of functions over a number of years it will be important that the financial model is considered as providing a preliminary point in time view. In that regard Treasury felt that the current model may provide too much detail given a number of areas remain uncertain still and won't be resolved prior to Cabinet (eg TAHE commercial strategy, Statement of Corp Intent, etc). On this basis, Treasury maintained a view that the cab sub should be careful in making observations re the full scale of the financial model impacts at this time noting the areas of further work required and that TAHE would refine these areas further with stakeholders as implementation moved forward.

Brendan noted that our scope (and file note purpose) was to provide as much detail and insight re financial model that aligned with the evolving operational model and that it was for NSW Govt stakeholders - namely TfNSW, Treasury and TAHE - to agree how and which financial model outputs are relevant.

Brendan also noted that KPMG was maintaining a change log which reflects advice received on the model assumptions and final agreements reached including any specific directions around those assumptions and who that was provided by. This was so we can ensure the model is supported by good documentation for those that follow after.

Another important point to note – and this is relevant to the conversation with James Hunter last night re risks to KPMG – is that our file note is not a deliverable. Our deliverable is the separate doc as per the outline in the word doc we discussed last Friday /commented on over the weekend – and that this is what will be attached to the cab sub. It will be branded. That note will determine how our final observations, qualifications and confirmation of assumptions to support our views will be presented. This deliverable not the file notes would accompany the cab sub. **Brendan please correct me if I have this wrong**

FYI Andy and Heather were also observers on call.

Regards

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Lyon, Brendan

From: Lyon, Brendan
Sent: Monday, 21 September 2020 1:22 PM
To: King, Andrew (AUS); Low, Paul
Cc: Linke, David; Hunter, James (Sydney); Watson, Heather; Yates, Andrew J; Heathcote, David; Lucas, Joel
Subject: RE: CABINET-IN-CONFIDENCE: Fin model feedback

Hi Andy; I just a quick chat with the team.

Your questions/comments are essentially the same as TAHE's. For the benefit of the Committee, I have written to Andy, Heather and Treasury to seek their direct guidance to resolve the substantial questions raised by Andy below.

Re your comments on the File Note I'll take each on board; but it would be useful if Treasury are uncomfortable to confirm again that:

- 1) The file note and model have been provided to only six officials (two each)
- 2) We used previously agreed assumptions, data and inputs
- 3) We applied the previously agreed model architecture
- 4) We presented Treasury's preferred scenario as the main option

I am very cognisant of the audit office overlay; and we are seeking to limit visibility so these sensitive issues can be discussed and agreed before wider circulation.

It was pleasing that the model itself was received well by Treasury and TAHE; which sets a basis for a comfortable discussion about assumptions and inputs.

You'll note we provided 24 different options in total; the intent this week is reach an agreed scenario/s for Cabinet and our final deliverable.

Thanks again for your inputs; and please provide any others that you feel appropriate.

Regards,

Brendan -

From: King, Andrew (AUS)
Sent: Monday, 21 September 2020 12:30 PM
To: Lyon, Brendan ; Low, Paul
Cc: Linke, David ; Hunter, James (Sydney) ; Watson, Heather
; Yates, Andrew J ; Heathcote, David
; Lucas, Joel
Subject: CABINET-IN-CONFIDENCE: Fin model feedback

CABINET-IN-CONFIDENCE

Brendan/Paul

Thank you for the provision of the Financial Model and associated file note last Wednesday. I understand that feedback has already been provided by various stakeholders, but thought it would be useful to note a few observations – apologies if this duplicates some of the TAHE feedback – I saw your email come through this

morning, Brendan, but have not gone through it and/or annotated my comments below for it – am playing catch up. We are also still working through the document and model.

Scenario 1

- The document states: “Our first scenario contemplates TAHE returning to the General Government Sector – effectively characterising the impacts should government contemplate a different treatment for TAHE”. Our first scenario therefore infers that KPMG has developed a scenario that is not currently government policy (“should government contemplate a different treatment for TAHE”) and which we understand was not requested by Cabinet. Understand that the document is not anticipated to be for Cabinet Submission, but further understand that it is for support of a Cab Sub – and it references Cabinet throughout. We believe that the June Cabinet decision required returning to Cabinet with an exploration of fiscal and financial impacts of proceeding with TAHE as a SOC/PNFC, not of alternatives, and so we suggest we need to be careful this filenote is not perceived to be an attempt to influence government policy.
- Scenario 1 potentially oversimplifies the implications of TAHE being in the GGS (e.g. if TAHE is no longer a PNFC, it is unlikely that Rail Operators would remain as PNFCs – such an outcome would clearly have a material impact on the model, but is not contemplated). There is also an inference that GGS classification is an option that is available to government, which it is not. Any reclassification is a matter for the ABS and the timing of any such reclassification is likely to be some years down the track. Until the ABS changes the classification, TAHE will remain as PNFC and cannot be treated as GGS ‘in advance’ of any reclassification.
- The accounting impacts outlined in the model in Scenario 1 are inaccurate, inasmuch as if TAHE is in the GGS, the amount transferred to TAHE for capex since 2015 would be capitalised (not an expense impact as indicated in the model), with no additional expense in the GGS, i.e. crown payment and grant revenue in TAHE is eliminated. This causes overstatement in the impact on the GGS budget result.

Valuation of assets

- The document asserts that its outputs include a DCF valuation of assets (p2, 15-17 and elsewhere, including references on the model methodology diagram). The KPMG accounting advice on valuation of assets at 1 July 2020 concludes that it is not possible to apply an income approach (such as DCF) at that date – and this advice is currently under review by NSW AO. Whilst acknowledging that the DCF model in this document is a hypothetical model, based on broad assumptions, and not premised on any agreed commercial arrangements or specific and supportable information, even inferring that a DCF can be determined contradicts the current accounting advice. It also exposes TAHE to audit risk as a result of potential inconsistency of evidence to support year end accounting positions.
- In addition, inclusion of a single alternative approach oversimplifies the appropriate steps to determine appropriate valuation technique for the assets, which will be informed by the accounting treatment for each commercial arrangement that covers a class of asset (noting that commercial arrangements are yet to be finalised). Different valuation techniques are permitted (or not permitted) under different accounting treatments. In order to be able to perform analysis of different scenarios, the model would require this nuance to be incorporated.

Comparison to June Cabinet Submission

- We suggest caution in comparing the table provided in the June Cabinet Submission (which we understand was a FIS table), and the outputs of the financial model (cf table on page 4 and the section on “Why are the numbers so different”). Our understanding is that numbers provided in June Cabinet Submission were for a different purpose – it was not intended to be a detailed financial model for inclusion in the forward estimates. The presentation of a “relatively large deterioration in the net budget benefit” may therefore be challenged. In addition, as we note above, Scenario 1 numbers should be reviewed.
- The consideration of “scenario 14” assumptions and the June 2020 Cab Sub numbers raises some issues which may be challenged:
 - Whether dividend payout is constrained by NPAT, or by cash: if the latter, depreciation becomes irrelevant
 - Higher depreciation is premised on higher asset value, which is yet to be (and, as argued, cannot be) determined
 - Statements on post FY26 cash balances likely to be challenged, especially given the robust conclusion (as drafted) that “As a result, TAHE does not have sufficient cash to pay the dividend required to achieve its ROE objectives in the long term.”

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That the File Note only provides The consideration of “scenario 14” assumptions and the June

Return to the Crown / RoE

- RoE calculation: Return to the Crown is not limited to dividends – it should, for example, include tax. So numerator should increase for RoE.
- RoE calculation: as I believe was raised in the WG on Friday by TAHE, the RoE calc uses Total Net Assets of TAHE as the denominator – which number includes (by definition) capex funding pre-2015 (which has already been expensed by the Government in GGS). Denominator for RoE should therefore include only capital injections since 2015 – thereby reducing the denominator for RoE calc.
- Both points above may materially impact on model outputs.
- Rail operators appear to be modelled for accounting breakeven, and not cash breakeven. We would expect the former (operators have historically operated at an accounting loss). Current treatment is contributing to GGS impact.
- Given lack of discussion in the File Note, COVID impacts in modelling are presumably unsubstantiated and/or not offset by potential government initiatives/support/interventions? This circumstance may be challenged, with the thinking being that government’s covid response should be separately considered from TAHE impacts. This is also contributing to the “accounting breakeven” noted above, and therefore increasing negative GGS impact.

Branding, wording, and disclaimers

- There are a number of references to the “2017 KPMG Cost and Access Pricing Model”. This 2017 model was developed by KPMG as an unbranded deliverable. TfNSW refers to it as KPMG’s model when discussing it and so we understand the reference, but it was an unbranded model prepared by KPMG for Transport in 2017, with the model eventually becoming a Transport model. It should therefore be referenced as Transport’s model.
- Overall questions of branding, as noted in COGC discussion.
- We note some wording may lead to increased risk, and present the below as examples for consideration:
 - Page 8: “The model has been subject to independent peer reviews by KPMG Financial Modelling division, to ensure robust outputs are provided to serve as reliable inputs to the overall assessment of TAHE’s long-term operating model against Cabinet’s objectives.”
 - KPMG Financial Modelling division unlikely to be seen as independent
 - “ensure robust outputs are provided”: review likely only to review model integrity, not outputs (which are a function of inputs and assumptions, which should be “owned” by stakeholders, not KPMG). Also, as above, some model treatments (eg GGS) are not correct.
 - As noted previously, suggest document should not refer to Cabinet objectives
 - Page 8: “As a PNFC entity, budget accounting treatment provides for capital grants to TAHE to be treated as equity injections and depreciation expenses for rail assets to be structured outside of the GGS”
 - Treatment as equity injections is based on expectations of returns, not PNFC status
 - “to be structured outside of the GGS” is likely to be challenged by Treasury, in a similar vein to their concern re “budget first” approach
- The Executive Summary states that the document provides no accounting opinions. However, the document and model applies accounting concepts, treatments and assumptions and the disclaimer includes content that we would ordinarily use for accounting advisory services. The document also includes assertions about accounting treatments (e.g. as above: “As a PNFC entity, budget accounting treatment provides for...”)
- The disclaimers do not include those which would ordinarily be used for model delivery, which address data sources, validation and ownership of assumptions etc.

Andrew King

Partner
Audit, Assurance & Risk Consulting
CFO Advisory

KPMG
Level 38, Tower 3, 300 Barangaroo Avenue

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Lyon, Brendan

From: Russell, Dave
Sent: Monday, 21 September 2020 12:59 PM
To: Lyon, Brendan; Hui, Jessie
Cc: Hudson, Nick
Subject: RE: CABINET-IN-CONFIDENCE: Fin model feedback

This is really just an iteration of Andrew Allam's email – are they working together?

As a friendly response, practically all of this has been raised by Andrew, addressed by Jessie and is being enquired via Treasury.

The valuation bit is interesting and definitely does contradict the accounting advice. I guess we need to know which is correct 😊

The only thing worth reading in the below is the capital grants not being treated as revenue – Jess can you look into that one?

From: Lyon, Brendan
Sent: Monday, 21 September 2020 12:47 PM
To: Hui, Jessie Russell, Dave
Cc: Hudson, Nick
Subject: FW: CABINET-IN-CONFIDENCE: Fin model feedback

I've not read this but it appears long.

Jessie can you scan and the four of us can chat?

From: King, Andrew (AUS)
Sent: Monday, 21 September 2020 12:30 PM
To: Lyon, Brendan ; Low, Paul
Cc: Linke, David ; Hunter, James (Sydney) ; Watson, Heather
; Yates, Andrew J ; Heathcote, David
; Lucas, Joel
Subject: CABINET-IN-CONFIDENCE: Fin model feedback

CABINET-IN-CONFIDENCE

Brendan/Paul

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180
Lyon, Brendan

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Sent: Monday, 21 September 2020 12:47 PM
To: King, Andrew (AUS); Low, Paul
Cc: Linke, David; Hunter, James (Sydney); Watson, Heather; Yates, Andrew J; Heathcote, David; Lucas, Joel
Subject: RE: CABINET-IN-CONFIDENCE: Fin model feedback

Thanks Andy;

I am drafting at the moment; but will work through your comments and revert in detail.

For the committee's benefit it is worth noting that Friday saw a much more professional tone at the TAHE steering committee; which among other things saw:

- 1) Treasury and HW each minute that there were no accounting issues visible in our operating model; and
- 2) Saw Treasury minute that they are happy with the structure and function of our financial model; with a meeting on Wednesday to refine the previously agreed assumptions.

This is good news that positions us well for a more collaborative return to cabinet – at least on the content of our final report. If TfNSW and Treasury still want to fight it – I hope that we'll have delivered a joined up report that achieves the outcomes, most particularly fiscal.

I am sure Heather will update the committee but reflecting that our prior advice is relevant to 30 June/1 July, TfNSW have requested Treasury to provide all relevant inputs to the long-term operating model on fiscal aspects – with Heather and Andy's input.

For clarity, these are contemplated as remaining separate engagements – that is Heather advising treasury and my team advising TfNSW – but with an expectation that we will appropriately collaborate to understand each other's work where relevant.

Regards to all.

Brendan

From: King, Andrew (AUS)
Sent: Monday, 21 September 2020 12:30 PM
To: Lyon, Brendan ; Low, Paul
Cc: Linke, David ; Hunter, James (Sydney) ; Watson, Heather
; Yates, Andrew J ; Heathcote, David
; Lucas, Joel
Subject: CABINET-IN-CONFIDENCE: Fin model feedback

CABINET-IN-CONFIDENCE

Brendan/Paul

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Lyon, Brendan

From: Lyon, Brendan
Sent: Monday, 21 September 2020 9:26 AM
To: Linke, David; Heathcote, David; Low, Paul
Subject: FW: NSW CABINET IN CONFIDENCE - KPMG RESTRICTED | GUIDANCE SOUGHT
Importance: High

FYI – driving consistency

From: Lyon, Brendan
Sent: Monday, 21 September 2020 9:25 AM
To: Cassandra Wilkinson ; Watson, Heather

Cc: King, Andrew (AUS) ; Low, Paul ; Andrew Alam
 < ; Fiona Trussell ; Anne Hayes

Subject: NSW CABINET IN CONFIDENCE - KPMG RESTRICTED | GUIDANCE SOUGHT
Importance: High

Dear Cassandra and Heather,

We are seeking to respond to a range of questions raised by TAHE regarding assumptions relevant to the KPMG TAHE Financial Model.

Most of these require guidance from Treasury/KPMG CFOA to resolve.

To assist, I have outlined below TAHE's feedback; our initial response – and our desired/suggested next step.

Could you please review and provide an estimate of when we might be able to receive guidance on each.

Regards,

Brendan

TAHE feedback	KPMG initial response	Desired next step:
1) The model seems to solve for a ROE required using total net assets as the denominator, and no scenario calculates / envisions ROE where Crown equity contributions capitalised since 2015 is the denominator. Given capex funding pre-2015 has already been expensed by Government (in the form of grants on the basis no return was expected on these	Our opinion is that the government should assess their return with consideration of the opportunity cost of owning all assets, instead of simply the \$8-9bn that have been classified as equity contributions on the budget. The government are technically the owners of a company holding ~\$40bn worth of assets and from an investment perspective, could either sell their shares in the company holding \$40bn of assets today or continue earning X% return on the total value. Further to this, we had a look at other SOCs – FY19 Essential Energy financial statements specifically state that they calculate Return on equity and Return on assets "including gifted assets". As such, this is the approach we are proposing to stick with. However, if TAHE can provide evidence of other SOCs calculating ROE based on	Treasury/ CFOA to provide guidance.


Lyon, Brendan

From: Linke, David
Sent: Friday, 18 September 2020 2:59 PM
To: Hunter, James (Sydney)
Cc: Heathcote, David; Low, Paul; Lyon, Brendan
Subject: TAHE COGC

James

I need to speak to Brendan and Paul and David this afternoon having regard to my discussion with Rodd. The only time available is the time of your proposed COGC meeting.

As such can you cancel that meeting and we can circle back once I have had the opportunity to discuss with the above. I had a good session with Rodd and Fiona this morning.

 Jayle can you set up a meeting at 4.30pm with David H, Paul, Brendan and I .

Thanks

David

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Lyon, Brendan

From: Linke, David
Sent: Wednesday, 16 September 2020 11:38 AM
To: Lyon, Brendan; Heathcote, David; Low, Paul
Subject: TAHE Fiona discussion

Dear All

I just got off the phone with Fiona. Key points:

1. She will organise a meeting with Rodd and her in the next few days. I said we would move whatever we need to to have that meeting.
2. She was complimentary Brendan of the way you handled the meeting yesterday in what was a difficult situation
3. She and Rodd are not agreeable to an integrated approach. As such we cannot agree with the Treasury proposition. Fiona will be the funnel , she can send the deliverables, the other limbs such as accounting, safety etc can give their input and it will be iterative. She indicated this would be Rodd /Mike discussion.
4. The final product will be integrated but the separate streams are in place at the moment.
5. I also explained why a second partner was important and Paul's ongoing involvement.

Lets wait for the meeting .

David

Lyon, Brendan

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From: Lyon, Brendan
Sent: Wednesday, 16 September 2020 11:47 AM
To: Linke, David; Heathcote, David; Low, Paul
Subject: RE: TAHE Fiona discussion

Thanks David.

After a few days of fury; I no longer care about James email; and do not care about any proposed response. The proposal that James would use 'talking points' to clarify his (disgraceful) email is really a bit sad.

The damage has been done to me - and also to KPMG. Rodd rang me last night and it would be fair to say that he's not particularly enamoured of KPMG's conflict management process or regard for their interests.

David Linke – I've asked Paul Low to speak to you today about a minor but important matter that I would appreciate you tidying up – regarding the vexatious complaints early in the engagement. Noting the absence of wins for me – I would appreciate if you addressed that one today – it is important to me with all the mud that's been allowed to be thrown, that this one is clarified in writing before you leave.

Regards.

From: Linke, David
Sent: Wednesday, 16 September 2020 11:38 AM
To: Lyon, Brendan ; Heathcote, David ; Low, Paul
Subject: TAHE Fiona discussion

Dear All

I just got off the phone with Fiona. Key points:

1. She will organise a meeting with Rodd and her in the next few days. I said we would move whatever we need to to have that meeting.
2. She was complimentary of the way you handled the meeting yesterday in what was a difficult situation
3. She and Rodd are not agreeable to an integrated approach. As such we cannot agree with the Treasury proposition. Fiona will be the funnel, she can send the deliverables, the other limbs such as accounting, safety etc can give their input and it will be iterative. She indicated this would be Rodd /Mike discussion.
4. The final product will be integrated but the separate streams are in place at the moment.
5. I also explained why a second partner was important and Paul's ongoing involvement.

Lets wait for the meeting .

David

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Lyon, Brendan

From: Hunter, James (Sydney)
Sent: Wednesday, 16 September 2020 12:04 PM
To: Yates, Andrew J; Lucas, Joel; Heathcote, David; Linke, David; Davim, Catia; King, Andrew (AUS); Watson, Heather; Low, Paul; Lyon, Brendan
Subject: COGC Deferred

Team, David(s) and I have just discussed this meeting and believe it is best to defer until we have greater clarity on some procedural items being discussed between TAHE TSY and TRAN.
I will confirm a new time in the next few days, thank you for your patience, James

Cabinet-In-Confidence
James Hunter | Partner KPMG
NSW Treasury

Star L

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Lyon, Brendan

From: Linke, David
Sent: Wednesday, 16 September 2020 12:12 PM
To: Lyon, Brendan
Cc: Heathcote, David; Low, Paul
Subject: RE: NSW CABINET IN CONFIDENCE - TAHE FINANCIAL MODEL

Brendan

Thanks for taking the time to walk people through the model yesterday.

Consistent with the discussions this morning with Fiona and previous discussions with us all , can we ensure Fiona distributes these as the funnel.

Regards



David

From: Lyon, Brendan
Sent: Wednesday, 16 September 2020 10:30 AM
To: Hunter, James (Sydney) ; Yates, Andrew J ; Heathcote, David
; Lucas, Joel ; Linke, David
Subject: NSW CABINET IN CONFIDENCE - TAHE FINANCIAL MODEL
Importance: High

Colleagues;

Attached are two draft deliverables that will be circulated shortly. They are:

- 1) The 'KPMG Financial Model'; and
- 2) Our related draft File Note.

The passwords are:



Model:
Draft File Note:

Context:

Noting the very high level of sensitivity and impact, we held a briefing yesterday for Treasury, TAHE and TfNSW on the model approach. We structured the briefing to:

- 1) Reach explicit agreement with Treasury on the assumptions applied
- 2) Reach explicit agreement with Treasury on the architecture of the model
- 3) Reach explicit agreement with Treasury on the scenarios applied.
- 4) Then – reveal the modelled results.

For clarity, this shows a large deterioration in the FE benefits assumed by NSW Treasury in the June cabinet submission; of the order of circa \$6bn.

This is because Treasury did not model the inputs to the Cabinet Submission; instead the summed the avoided depreciation and capital expenses. This obviously neglects the very large access charges that form costs to the budget.

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Obviously, the FE impacts are sensitive to when costs/access charges begin etc – but for crystal clarity, the numbers here use Treasury's preferred scenario.

It also shows that TAHE has negative cash reserved by FY2027 without further contributions. Obviously, this could be addressed by further capital injections; but at the moment we have been advised by Treasury to assume only the numbers in PRIME.

Note that the level of access fee anticipated by treasury appears to breach the NSW RAU.

Note that the NSW RAU appears to require the budget/operators to be charged at least the floor – from 1 July this year which would also impact the FE

Note I also met last night with the TAHE Board – with very good feedback on the professionalism of our work.

I very much look forward to the meeting today.

Regards to all.

Brendan.



Lyon, Brendan

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From: Lyon, Brendan
Sent: Wednesday, 16 September 2020 3:40 PM
To: Linke, David; Heathcote, David; Low, Paul
Subject: FW: did i just hear that it's not going well with audit?

FYI, not sounding very good for audit.

On Heather's weekly call now. Treasury and TAHE had just finished with the audit office and they are worried.

Appears Matt Box and Heather have been responding to audit office inquiries on valuations; on 1059 etc.

Not declared or shared.

No one sounding very positive.

Anyway, just FYI.

From: Peter Perdikos
Sent: Wednesday, 16 September 2020 3:09 PM
To: Lyon, Brendan
Subject: RE: did i just hear that it's not going well with audit?

Appears so.....

WE should speak to Elise / Brenda this week where they can speak more freely

From: Lyon, Brendan [[mailto:](#)]
Sent: Wednesday, 16 September 2020 3:08 PM
To: Peter Perdikos
Subject: did i just hear that it's not going well with audit?

Brendan Lyon | Partner

Deal Advisory - Infrastructure & Projects
International Towers
300 Barangaroo Avenue
Sydney NSW 2000 Australia

M: +

E: brandon.lyon@kpmg.com.au



17/
Lyon, Brendan

From: Lyon, Brendan
Sent: Friday, 18 September 2020 8:07 AM
To: Watson, Heather; King, Andrew (AUS); Low, Paul
Subject: Re: TAHE Working Group Papers - 18 September 2020

Heather/andy - FYI we are now starting our final paper I'll circulate the skeleton and welcome any initial views either of you might have on structure or emphasis.

Brendan Lyon
Partner
Infrastructure & Projects Group
KPMG

From: Watson, Heather
Sent: Friday, September 18, 2020 7:47:47 AM
To: Hunter, James (Sydney) ; Linke, David ; Heathcote, David
; Lucas, Joel ; Yates, Andrew J ;
Davim, Catia
Cc: King, Andrew (AUS) ; Lyon, Brendan
Subject: FW: TAHE Working Group Papers - 18 September 2020

Morning all,

Working group papers for later this afternoon attached FYI. Same password as previous weeks.

HW

From: Bobby Li **On Behalf Of** Strategic Projects
Sent: Thursday, 17 September 2020 9:54 PM
To: Strategic Projects ; Anne Hayes ;
Peter Crimp ; George Roins ; Andrew Alam
; san.midha ; Cassandra Wilkinson
; Scott Ellis ; Fiona Trussell
; Peter Perdikos ; Sally Webb
; Lyon, Brendan ; Brenda Hoang
; Kathryn Freytag ; Tracey Taylor
; Watson, Heather ; Nicole Albert
; Elise Naylor ; Sean Osborn
; Jeanne Vandenbroek ; John
Hardwick ;
Subject: TAHE Working Group Papers - 18 September 2020

Hi All,

Please find attached papers for the TAHE Working Group meeting (18 September).

Apologies for the late distribution.

The attachment is password protected and a separate email will be sent shortly with the password.

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Lyon, Brendan

From: Lyon, Brendan
Sent: Wednesday, 16 September 2020 10:30 AM
To: Hunter, James (Sydney); Yates, Andrew J; Heathcote, David; Lucas, Joel; Linke, David
Subject: NSW CABINET IN CONFIDENCE - TAHE FINANCIAL MODEL
Attachments: TAHE October Op Model_160920.xlsm; TAHE Financial Model File Note DRAFT_160920.pdf

Importance: High

Colleagues;

Attached are two draft deliverables that will be circulated shortly. They are:

- 1) The 'KPMG Financial Model'; and
- 2) Our related draft File Note.

The passwords are:

Model:
Draft File Note:

Context:

Noting the very high level of sensitivity and impact, we held a briefing yesterday for Treasury, TAHE and TfNSW on the model approach. We structured the briefing to:

- 1) Reach explicit agreement with Treasury on the assumptions applied
- 2) Reach explicit agreement with Treasury on the architecture of the model
- 3) Reach explicit agreement with Treasury on the scenarios applied.
- 4) Then – reveal the modelled results.

For clarity, this shows a large deterioration in the FE benefits assumed by NSW Treasury in the June cabinet submission; of the order of circa \$6bn.

This is because Treasury did not model the inputs to the Cabinet Submission; instead they summed the avoided depreciation and capital expenses. This obviously neglects the very large access charges that form costs to the budget.

Obviously, the FE impacts are sensitive to when costs/access charges begin etc – but for crystal clarity, the numbers here use Treasury's preferred scenario.

It also shows that TAHE has negative cash reserved by FY2027 without further contributions. Obviously, this could be addressed by further capital injections; but at the moment we have been advised by Treasury to assume only the numbers in PRIME.

Note that the level of access fee anticipated by treasury appears to breach the NSW RAU.

Note that the NSW RAU appears to require the budget/operators to be charged at least the floor – from 1 July this year which would also impact the FE

Note I also met last night with the TAHE Board – with very good feedback on the professionalism of our work.

I very much look forward to the meeting today.

Lyon, Brendan

From: Lyon, Brendan
Sent: Tuesday, 15 September 2020 8:56 PM
To: Rodd Staples
Cc: Linke, David; Heathcote, David; Low, Paul; Blakey, Gayle
Subject: PRIORITY: DISCUSSION RE KPMG TAHE ENGAGEMENT AND RELATED ISSUES

Importance: High

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Dear Rodd,

I am writing to suggest/request a discussion between you and Fiona – and David Linke, David Heathcoate and Paul Low from KPMG.

Rodd, Fiona can update you on her call with San – but he suggested that arrangements had changed within KPMG. This meeting is about confirming to you and Fiona the leadership and accountability for KPMG's TAHE engagement with you.

It would be helpful for me if this could be resolved quickly; noting your diaries Rodd and Fiona.

Regards to all.

PS: David Heathcoate is replacing David Linke, who's taking a global role; Paul Low is my second Partner – both are in the NDA.

Brendan Lyon | Partner

Deal Advisory - Infrastructure & Projects
International Towers
300 Barangaroo Avenue
Sydney NSW 2000 Australia

[. | kpmg.com.au](https://www.kpmg.com.au)



Lyon, Brendan

From: Lyon, Brendan
Sent: Tuesday, 15 September 2020 1:29 PM
To: Heathcote, David; Linke, David; Low, Paul
Subject: Re: NEW EXEC SUMM AND FIN MODEL RESULTS

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They assumed it was written off by half. Which it isn't.

Brendan Lyon
Partner
Infrastructure & Projects Group
KPMG

From: Lyon, Brendan
Sent: Tuesday, September 15, 2020 1:28:47 PM
To: Heathcote, David ; Linke, David ; Low, Paul
Subject: Re: NEW EXEC SUMM AND FIN MODEL RESULTS

Dorc

Brendan Lyon
Partner
Infrastructure & Projects Group
KPMG

From: Heathcote, David
Sent: Tuesday, September 15, 2020 1:23:08 PM
To: Lyon, Brendan ; Linke, David ; Low, Paul
Subject: RE: NEW EXEC SUMM AND FIN MODEL RESULTS

Thanks Paul – agree reads well.

For my further understanding, with respect to the comment below re the difference in the TAHE asset valuation back in June – how did they come up with the previous valuation? Regulated Asset base value??

Thanks
David

From: Lyon, Brendan
Sent: Tuesday, 15 September 2020 12:19 PM
To: Linke, David ; Heathcote, David ; Low, Paul
Subject: RE: NEW EXEC SUMM AND FIN MODEL RESULTS

It's because we now (finally) have guidance from Treasury about when and what level the access fees start – eg the payments are starting later and lower. (

Lyon, Brendan

From: Lyon, Brendan
Sent: Tuesday, 15 September 2020 12:19 PM
To: Linke, David; Heathcote, David; Low, Paul
Subject: RE: NEW EXEC SUMM AND FIN MODEL RESULTS

It's because we now (finally) have guidance from Treasury about when and what level the access fees start – eg the payments are starting later and lower. (

From: Linke, David
Sent: Tuesday, 15 September 2020 12:18 PM
To: Lyon, Brendan ; Heathcote, David ; Low, Paul
Subject: RE: NEW EXEC SUMM AND FIN MODEL RESULTS

Brendan

This reads well. Paul may have some comments .

It would be good to understand why we are now \$6bn down and not \$9bn as previously modelled.

Thanks

David

From: Lyon, Brendan
Sent: Tuesday, 15 September 2020 12:03 PM
To: Linke, David ; Heathcote, David ; Low, Paul
Subject: NEW EXEC SUMM AND FIN MODEL RESULTS

Friends;

Attaches is the new exec sum for the file note on the fin model.

It's now intended to go tomorrow first thing to Treasury and TAHE – after we brief them on it late this afternoon.

The overestimation of the budget benefit by treasury falls to a health \$6 bn over four years.

Happy to have any further comments on language, tone etc.

Regards to all.

Executive Summary

Introduction

This draft File Note outlines the structure, function and output of the '**KPMG Financial Model**', developed as a keystone of our work assisting TfNSW and NSW Government stakeholders to define and analyse TAHE against Cabinet's objectives.

In our June Report to Cabinet, KPMG identified limitations to the financial modelling and analysis; which is remedied in our **KPMG Financial Model** by:

- Applying accurate data and up-to-date forecasts
- Applying agreed assumptions
- Extending the evaluation horizon to 20 years
- Quantifying required access and license fees
- Quantifying the Full Economic Cost of Rail to ensure access pricing compliance with NSW RAU
- Allowing preliminary valuation under an income approach; and
- Providing holistic outputs reflecting TAHE and wider GGS costs and impacts.

The KPMG Financial Model provides a more accurate basis to understand the form and effect of TAHE's long-term operating model.

KPMG Financial Model: stage one - agreed assumptions

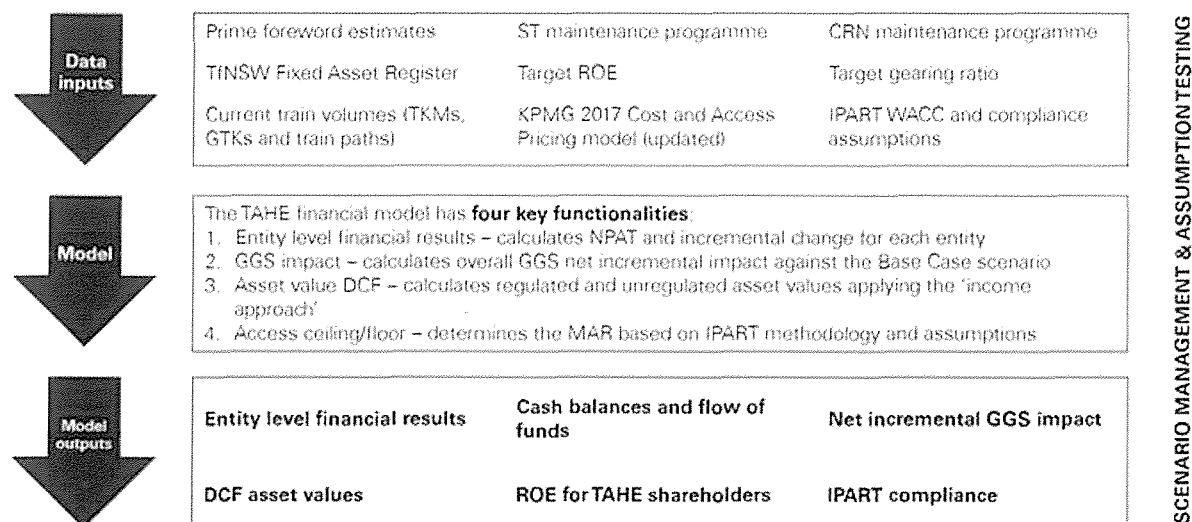
The key model assumptions applied are outlined below:

- **Access Fees:** two core functionalities are designed for Access Fees, one being a model input to determine financial outcomes, compliance with IPART bounds, and TAHE commerciality; and the other being a model output, to determine the level of access fees required to achieve a required return to TAHE shareholders.
- **IPART compliance:** updated the '2017 KPMG Cost and Access Pricing Model' to calculate the floor and maximum allowable revenue or ceiling price for Access Fees to both, test compliance of Access Fees with regulatory bounds and to determine the maximum revenue TAHE could charge.
- **License Fees:** license fees were determined using the same 'building block' model input that was applied to calculate the regulated asset ceiling, but by applying an unregulated WACC to allow for a return on the unregulated asset base.
- **Resourcing and other overheads:** assumes a cost of \$50m each year – to be updated for outputs from KPMG *Resourcing and Evolving Transport File Note*.
- **Equity injections and grant funding:** forward equity injections are derived from the budgeted movements in TAHE's contributed equity in PRIME.
- **Capital investment programme:** TfNSW's 10-year Transport Investment Plan is the key input to ascertain the amount TAHE must pay annually as a 'Fee for Service' and is calculated as the total of TfNSW Managed, Sydney Trains Managed and Sydney Metro Managed projects.
- **Operating maintenance costs:** based on current Sydney Trains budget in PRIME for the Metropolitan Rail Network; Country Regional Network operating maintenance costs are obtained from the budget according to agreement with the maintenance contractor.
- **Asset valuations:** the lower of the 'income approach', or in this instance a discounted cash flow, and the 'cost approach' or current valuation technique. No asset write off has been applied.
- **Borrowings:** assumption of nil balance for additional debt and no corresponding borrowing costs or government guarantee fees; however, the model has the capability to include debt, but it is not yet understood which revenue streams new debt could be borrowed against.
- **Return to the Crown:** dividends are calculated as 90 per cent of NPAT, but limited to the lower of net profit after tax, retained earnings and retained cash. Additional functionality exists to set a target ROE and determine revenue targets to be met via Access Fees.

Further detailed assumptions are captured in this File Note in Section 2 below and enclosed in Appendix One.

KPMG Financial Model: stage 2 – agreed architecture

We consulted with NSW Government stakeholders on all relevant aspects of our financial model; which is outlined in the figure below. This sees the outputs delivered within a context of agreed inputs



KPMG Financial Model: stage 3 - agreed scenarios

Until now, TAHE's transitional existence has allowed rail capital and depreciation expenses to be placed outside of the General Government Sector – without the need for the budget to fund resulting access fees paid by public rail operators.

To allow an understanding of the relative fiscal impacts, we have used 1 July 2020 as the **TAHE Base Case**.

Our first scenario contemplates TAHE returning to the General Government Sector – effectively characterising the impacts should government contemplate a different treatment for TAHE.

Scenarios 2-15 then contemplate different variations of TAHE remaining on the PNFC as a State-Owned Corporation.

For clarity, the financial model only includes known and budgeted equity injections.

KPMG Financial Model: stage four – apply Treasury-preferred assumptions

NSW Treasury have advised us to assume the following for the purpose of the financial model of TAHE's performance:

- Access fees are set at \$700m commencing in FY21 for the public rail operators
- Access fees are assumed to remain constant at current levels for freight operators in FY21
- Access fees uplift for all access seekers to provide a 1 per cent ROE in FY22, escalating by 1 per cent pa until it reaches 4 per cent in FY25; after which it remains constant
- Unregulated license fees are calculated by the same building blocks model to provide an unregulated WACC return to TAHE
- TAHE is accountable, as the asset owner and manager, to provide funding for both capital and operational maintenance.

KPMG Financial Model: stage five - net incremental impacts and results

The initial results for the KPMG model are included below; which apply:

- The agreed assumptions;
- The agreed model architecture;
- Treasury's preferred revenue and commercial assumptions.

These have been presented against the numbers provided to NSW Cabinet in the June submission; showing a relatively large deterioration in the net budget benefit.

Scenario	Incremental impact to GGS results		
	FY21	FY21-24	FY21-30

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June Cabinet Submission – Net benefit / (disbenefit) of TAHE as PNFC versus GGS	\$3.9bn	\$14.8bn	N/A
Base Case	Nil	Nil	Nil
Scenario 1: TAHE within the GGS	(\$4.1bn)	(\$14.1bn)	(\$25.3bn)
Scenario 14: TAHE as a commercial SOC + Access Fees at \$700m for FY21 + ROE at 1-3 per cent for 2 - 5 years + ROE at 4 per cent for > year 5 annually (Treasury's view)	(\$1.6bn)	(\$8.1bn)	(\$26.8bn)
KPMG Financial model – Net benefit / (disbenefit) of TAHE as PNFC versus GGS	\$2.5bn	\$6.0bn	(\$1.5bn)

KPMG Financial Model: Why are the numbers so different?

We have spent considerable time interrogating and reviewing the detailed TAHE financial model; including to understand why there are divergences between the numbers presented in the June 2020 Cabinet submission; and those from the sophisticated model.

Our consultation with Treasury officers finds that the June numbers were not modelled; but were a more simple sum of avoided capital and depreciation costs.

This saw two material fiscal costs excluded from that analysis, being:

- The material access fees paid by public rail operators; and
- The reduced dividends due to higher than estimated TAHE asset value.

Our 'scenario 14' reflects Treasury's preferred assumptions; with the initial numbers highlighting several issues for focus, including:

- The assumed \$700m in access fees in FY21 appear to be below the allowable floor under the NSW RAU
- From FY22 onwards, access fees are within IPART compliance.
- Without further budget support TAHE's retained cash balance is negative by FY27
- In FY22, TAHE provides a 1 per cent ROE, escalating each year until it reaches 4 per cent in FY25 and is modelled to remain constant thereafter.
- However, from FY27 onwards TAHE's retained cash balance fluctuates; in most periods being negative and always remains lower than 90% of NPAT. As a result, TAHE does not have sufficient cash to pay the dividend required to achieve its ROE objectives in the long term.

Note: These are not conclusions of the model; but scenarios drawn from our consultation with NSW Government stakeholders – reflecting our good faith understanding of relevant inputs and preferences.

The KPMG Financial Model has the sophistication to model scenarios and sensitivities as requested.

Limitations to this File Note:

This File Note has sought to assess the financial impacts of the TAHE model using our understanding of relevant financial, fiscal and operational drivers – informed by feedback from key stakeholders.

Note that this draft File Note is:

- Provided in draft form solely to inform consultation with NSW Government stakeholders
- Is subject to material change, based on those inputs
- Is subject to Cabinet in Confidence provisions
- Is subject to the provisions of the NDA between KPMG and each recipient and may not be shared beyond named recipients without our express written permission; and
- Remains the property of KPMG until such as time as it is finalised, whereupon it becomes the joint intellectual property of KPMG and TfNSW.

This File Note provides no legal or accounting opinions – and is subject to change in every regard.

No reliance should be placed on the contents of this File Note for any purpose other than for the purpose of confidential consultation.

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Lyon, Brendan

From: Lyon, Brendan
Sent: Tuesday, 15 September 2020 11:40 AM
To: Linke, David; Low, Paul; Heathcote, David; Hunter, James (Sydney); Yates, Andrew J
Subject: TO SHOW THE LEVEL OF AGREEMENT
Attachments: RE: Word version of draft business rules file note; RE: Word version of draft business rules file note

Colleagues;

Here's a classic example of the level of disagreement for the TAHE and Treasury stakeholders.

Treasury says 'your fault, there's no disagreement'

TAHE says 'thanks'

An illustrative and current example of the challenge.

Lyon, Brendan

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From: Lyon, Brendan
Sent: Tuesday, 15 September 2020 11:27 AM
To: Linke, David; Hunter, James (Sydney); Yates, Andrew J; Low, Paul; Lucas, Joel
Subject: FW: Word version of draft business rules file note

This is good.

It's finally been revealed that the fight is between TAHE and Treasury over the operating model.

James – relevantly, Treasury have now submitted their minor comments on the rest of the paper. They are radically different to the emotional response that we saw last week.

This is a big issue – and now out in the open.

We can now let them sort it out.

Regards;

Brendan.

From: Peter Crimp

Sent: Tuesday, 15 September 2020 10:32 AM

To: Lyon, Brendan ; Sajiv De Silva ; Hudson, Nick
; Russell, Dave ; Cassandra Wilkinson
; Sean Osborn ; Anne Hayes
; Andrew Alam ; George Roins
; Peter Perdikos ; Nicole Albert
; John Hardwick ; Bobby Li
; Fiona Trussell ; Julia Cassuben
; Jeanne Vandenbroek ; Hui,

Jessie

Subject: RE: Word version of draft business rules file note

Brendan, this is not TAHE's position. The discussion yesterday was that funding for maintenance (both OPEX and CAPEX) would go direct to the Operators from TfNSW or Treasury.

Therefore maintenance funding is still an open matter from TAHE's perspective.

Regards

Peter

Peter Crimp
Acting Chief Financial Officer
Transport Asset Holding Entity of NSW

E
M



Transport
for NSW

From: Lyon, Brendan [mailto:]

Sent: Tuesday, 15 September 2020 9:15 AM

To: Sajiv De Silva ; Hudson, Nick ; Russell, Dave
; Cassandra Wilkinson ; Sean Osborn
; Anne Hayes ; Andrew Alam
; Peter Crimp ; George Roins
; Peter Perdikos ; Nicole Albert
; John Hardwick ; Bobby Li
; Fiona Trussell ; Julia Cassuben
; Jeanne Vandenbroek ; Hui,

Jessie

Subject: RE: Word version of draft business rules file note

Excellent thanks Saj

We will adjust the RACI to have capital and operating maintenance funded from TAHE to the operators.

Speak later.

From: Sajiv De Silva

Sent: Tuesday, 15 September 2020 8:16 AM

To: Lyon, Brendan ; Hudson, Nick ; Russell, Dave
; Cassandra Wilkinson ; Sean Osborn
; Anne Hayes ;
Andrew.Alam ; Peter Crimp ; George Roins
; Peter Perdikos ; Nicole Albert
; John Hardwick ; Bobby Li
; Fiona Trussell ; Julia Cassuben
; Jeanne Vandenbroek ; Hui,

Jessie

Subject: RE: Word version of draft business rules file note

Hi Brendan,

TAHE is accountable as the asset owner and manager and will need to discharge this responsibility to the operators through its chosen agreements.

As as per the advice we got from John and Anne to keep it simple, makes sense to have both CAPEX and OPEX maintenance funding to come from TAHE based on the agreed levels of maintenance to comply with safety and best value for the state.

Once agreements and pricing starts to be negotiated, it might be simpler to do it another way.

Regards,

Saj

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From: Lyon, Brendan

Sent: Monday, 14 September 2020 7:21 PM

To: Hudson, Nick ; Russell, Dave ; Sajiv De Silva ; Sean Osborn ; Cassandra Wilkinson ; Anne Hayes ; Andrew.Alam ; Peter Crimp ; George Roins ; Peter Perdikos ; Nicole Albert ; John Hardwick ; Bobby Li ; Fiona Trussell ; Julia Cassuben ; Jeanne Vandenbroek ; Hui,

Jessie

Subject: Re: Word version of draft business rules file note

Sorry that was brendan (me) - forgot I was on nicks keyboard)

Brendan Lyon

Partner

Infrastructure & Projects Group

KPMG

From: Hudson, Nick

Sent: Monday, September 14, 2020 7:19:30 PM

To: Russell, Dave ; Sajiv De Silva ; Lyon, Brendan ; Cassandra Wilkinson ; Anne Hayes ; Andrew.Alam ; Peter Crimp ; George Roins ; Peter Perdikos ; Nicole Albert ; John Hardwick ; Bobby Li ; Fiona Trussell ; Julia Cassuben ; Jeanne Vandenbroek ; Hui,

Jessie

Subject: RE: Word version of draft business rules file note

Saj,

Thanks for the inputs which we will take aboard.

I don't quite understand the point you're making on maintenance - Do you mean:

- TAHE is accountable for maintaining its asset, including funding maintenance; or
- ST is accountable for maintaining the assets in line with TAHE's requirements – but that this funded directly by the Budget/ERC and not by TAHE or TfNSW?

From: Sajiv De Silva

Sent: Monday, 14 September 2020 6:15 PM

To: Lyon, Brendan ; Hudson, Nick ; Cassandra Wilkinson ; Sean Osborn ; Anne Hayes ; Andrew.Alam ; Peter Crimp ; George Roins ; Peter Perdikos ; Nicole Albert ; John Hardwick ; Bobby Li ; Fiona Trussell ; Julia Cassuben ; Jeanne Vandenbroek

Subject: RE: Word version of draft business rules file note

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Hi Brendan,

Please find two key deliverables from today.

1. A response from our Commercial Team which clarifies some of the misunderstandings of the Commercial Model. As discussed today, we would appreciate it if the commercial benefits are incorporated at the front of the document and necessary adjustments made throughout.
2. A few dots points from us on how we believe the maintenance funding is to work, which has always been consistent with our understanding of the second reading speech.

A comprehensive set of mark ups will come tomorrow morning just to close out the loop, but the “must haves” has already been provided over the last few days and the attached.

Regards,

Saj

From: Sajiv De Silva

Sent: Friday, 11 September 2020 1:06 PM

To: Lyon, Brendan ; Hudson, Nick ; Cassandra Wilkinson
; Sean Osborn ; Anne Hayes
; [Andrew.Alam](#) ; Peter Crimp ;
George Roins ; Peter Perdikos ; Nicole
Albert ; John Hardwick ; Bobby Li
; San Midha

Cc: Fiona Trussell

Subject: RE: Word version of draft business rules file note

Hi Brendan,

Agree on the way forward. Can I suggest if you want to move towards more detailed comments we move this meeting to Monday afternoon as both my commercial and accounting colleagues at Treasury have not had sufficient time to digest the file note in detail.

It would be great if we can extend the same level of courtesy to the Treasury Commercial and Accounting team as we have with Transport Infrastructure Projects team given the complexity involved.

Regards,

Saj

From: Lyon, Brendan

Sent: Friday, 11 September 2020 12:15 PM

To: Sajiv De Silva ; Hudson, Nick ; Cassandra
Wilkinson ; Sean Osborn ; Anne
Hayes ; [Andrew.Alam](#) ; Peter Crimp
; George Roins ; Peter Perdikos
; Nicole Albert ; John Hardwick
; Bobby Li ; San Midha

Cc: Fiona Trussell

Subject: RE: Word version of draft business rules file note

Importance: High

Saj;

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Thank you.

I had a discussion with San last night about the file note and wider TAHE matters, including some concerns I have.

I note your comment about an updated 'fact based' draft.

This is a concept of operations and business rules file note. By definition, it's a narrated opinion of how and who does what, based on the RACI allocations. Please clarify where you believe there are factual errors and we will address these. Otherwise, we have provided you with the word document and we will await your and Andrew Alam's detailed inputs, as agreed with Fiona yesterday.

I would also appreciate if today's session could move from general commentary toward detailed comments on whether the allocations and descriptions pose problems.

I look forward to the discussion this afternoon - and hope it might see a higher level of cooperation and respect.

Brendan

OS: For completeness, I have copied San in above.

From: Sajiv De Silva

Sent: Friday, 11 September 2020 10:13 AM

To: Hudson, Nick ; Cassandra Wilkinson ;
Sean Osborn ; Anne Hayes ;
Andrew.Alam ; Peter Crimp ; George Roins
; Peter Perdikos ; Nicole Albert
; John Hardwick ; Bobby Li

Cc: Fiona Trussell ; Lyon, Brendan

Subject: RE: Word version of draft business rules file note

Hi Nick

San Midha has provided our initial views on this document and we will provide a more detailed response by COB Monday given other priorities around budget proposals and TSSA accounts some of my Treasury colleagues are balancing.

Can we please ensure the next draft speaks to facts backed by available evidence and not views/interpretations.

We will provide our feedback to the group and we would appreciate if TAHE and Transport can also share they feedback with this group.

Regards,



Treasury

Sajiv De Silva | Associate Director

Infrastructure Strategy & TAHE | Policy and Budget Group

52 Martin Place, Sydney NSW 2000

(Enter by 127 Phillip Street)

PO Box 5469, Sydney NSW 2001

p:

. | www.treasury.nsw.gov.au

*I acknowledge the traditional custodians of this land on which I work and live.
I pay tribute to their continuing culture and I pay my respects to all Elders past, present and emerging.*



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From: Hudson, Nick

Sent: Thursday, 10 September 2020 5:51 PM

To: Cassandra Wilkinson

; Sajiv De Silva

; Sean Osborn

; Anne Hayes

; Andrew.Alam

; Peter Crimp

George Roins

; Peter Perdikos

; Nicole

Albert

; John Hardwick

; Bobby Li

Cc: Fiona Trussell

; Lyon, Brendan

Subject: Word version of draft business rules file note

Sensitive: NSW Cabinet in Confidence

Good afternoon everyone,

Many thanks for your time this afternoon to discuss the draft business rules file note.

Please find attached the word version of the document. As Fiona outlined, can each group - TAHE, Treasury and Transport - please provide consolidated mark ups to the document, and add examples where you believe they will assist in the explanation. Another action was for Peter and Andrew to provide a step by step outline of maintenance funding and approvals.

If possible, we would like to receive by COB tomorrow. Please advise if you require additional time.

Thanks again for your time today.

Best regards

Nick

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Lyon, Brendan

From: Lyon, Brendan
Sent: Monday, 14 September 2020 9:03 PM
To: Low, Paul; Heathcote, David; Linke, David
Subject: RE: NSW Cabinet in Confidence - Phone message from San

As discussed, I'll leave to you to resolve the now twin tracks that have been created.

I look forward to seeing James' email tomorrow.

Regards to all.

Brendan

From: Low, Paul
Sent: Monday, 14 September 2020 8:02 PM
To: Heathcote, David ; Linke, David ; Lyon, Brendan
Subject: NSW Cabinet in Confidence - Phone message from San

Hi David/s and Brendan

I returned ph call to San (NSW Treas). David L I understand you're on calls from 8 pm so cant' get you for a group call.

Brendan/David H - Can I get you both on a quick call shortly - just after 8 pm.

San relayed the outcomes of a meeting with he, Fiona T, Anne and Cass this @ 2 pm afternoon at which they decided that Fiona would be the pipe for all information from KPMG into TAHE and Treasury and that KPMG would provide a "single view" across the work of Heather and Brendan on TAHE model that will meet the State objectives.

He reiterated several times that TAHE will go ahead based on the Premier having directed so last Friday.

He said the NSW Govt is open to sequencing /switching on TAHE functions over time but the model will fulfil the State fiscal and other objectives.

The expectations of Fiona, Anne, Cass and he is that Andy King and I would work with Brendan and Heather to bring forward a considered "single KPMG" view as to what it takes to achieve TAHE within our current engagement parameters.

I was clear that Brendan would remain the engagement partner and that I would not be taking over the EP lead; and I'd expect that Andy wouldn't either given the depth of knowledge built up over sometime on TAHE with the stakeholders.

He did not raise or seek to alter the Engagement Partner arrangements.

I reiterated that Andy and I have been in close comms over recent weeks as part our engagement quality review activities.

He is awaiting advice from me that KPMG can the above point re integrated advice – and upon that he will communicate this to Rodd S and Mike Pratt as the way forward.

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Lyon, Brendan

From: Low, Paul
Sent: Monday, 14 September 2020 8:02 PM
To: Heathcote, David; Linke, David; Lyon, Brendan
Subject: NSW Cabinet in Confidence - Phone message from San

Follow Up Flag: Follow up
Flag Status: Flagged

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The only way this can work is if Andy/Heather get transport's ok to access materials and that Andy/Brendan/I and Heather can find a way to share advice/artefacts for the CFOA team to consider the alignment of ConOps and financial modelling (I assume) with the State's accounting /fiscal objectives.

Can we discuss shortly please.

Regards

Paul Low
National Leader – Infrastructure, Government and Healthcare

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Lyon, Brendan

From: Lyon, Brendan
Sent: Monday, 14 September 2020 6:23 PM
To: Linke, David; Heathcote, David; Low, Paul
Subject: UPDATE - AND IMPORTANT QUESTION
Attachments: Maintenance dot points.docx; TAHE - SOC Model Feedback - Commercial comments 14 Sep.docx

They've finally said it.

Maintenance is a key activity of TAHE.

VERY different to what they said to TAHE's directors – and shows the complete, utter and rank stupidity of Thursday's meeting; Sans carry on – and Mike Pratt's ongoing interventions via Mr Hunter.

Like last time, they've agreed with everything – but not the vibe.

At that meeting – we proposed precisely this. It's what saw all the drama – now on Monday night, they send a badly drafted memo that confirms last Thursday we were spot on.

The second page is a rant from Cass about how TAHE is a huge economic reform, not a bad way to try and hide non cash expenses.

IMPORTANT QUESTION:

I've not seen a 'clarification' from James Hunter – can you update pls?

From: Sajiv De Silva

Sent: Monday, 14 September 2020 6:15 PM

To: Lyon, Brendan ; Hudson, Nick ; Cassandra Wilkinson
; Sean Osborn ; Anne Hayes
; Andrew.Alam ; Peter Crimp ;
George Roins ; Peter Perdikos ; Nicole
Albert ; John Hardwick ; Bobby Li
; Fiona Trussell ; Julia Cassuben
; Jeanne Vandenbroek

Subject: RE: Word version of draft business rules file note

Hi Brendan,

Please find two key deliverables from today.

1. A response from our Commercial Team which clarifies some of the misunderstandings of the Commercial Model. As discussed today, we would appreciate it if the commercial benefits are incorporated at the front of the document and necessary adjustments made throughout.
2. A few dots points from us on how we believe the maintenance funding is to work, which has always been consistent with our understanding of the second reading speech.

A comprehensive set of mark ups will come tomorrow morning just to close out the loop, but the "must haves" has already been provided over the last few days and the attached.