



10 March 2022

Mr David Shoebridge MLC  
Chair, Public Accountability Committee  
Parliament House  
Macquarie Street  
SYDNEY NSW 2000

Dear Chair,

**Re. PAC Inquiry Questions on Notice**

Thank you once again for the opportunity to appear before the committee on 10 February 2022. Please find attached with this correspondence our responses to questions taken on notice at our last appearance before the Committee.

In addition to those responses, on behalf of the Transport Asset Holding Entity of NSW (TAHE), I wish to re-emphasise the commitment of our organisation to the highest standards of integrity, accuracy and excellence. This approach is essential to maintaining trust with our stakeholders – and this is in turn fundamental to our ability to successfully provide safe, reliable rail assets and drive economic growth for NSW.

We again place on record our respect for the Audit Office's process and our appreciation that it has resulted in a robust and well-tested structure for TAHE in which the people of NSW can take confidence.

TAHE is pleased that the Auditor General has confirmed our accounts and we welcome the opportunity it provides us to get on with delivering the important benefits for NSW that are our primary focus.

We acknowledge the matters raised in the Auditor-General's Emphasis of Matter paragraph. TAHE notes that some longer-term uncertainty is not unusual for business – particularly regulated infrastructure – however, we are grateful that these issues have been highlighted as it allows the associated risks to be proactively and transparently managed. This outcome is precisely the purpose of an effective audit process.

Further, I would like to address the misconception that emerged in recent hearings that the establishment of TAHE means value may be lost or trapped in the new structure.

This incorrect characterisation is based on a simple focus on costs alone. Over time, if allowed to focus on its function and purpose, TAHE will deliver a significant net benefit to government. The additional



costs to operators will be more than offset through the value and ongoing earnings to be generated from a more strategic focus on our high-quality asset base.

The value that TAHE generates will be either reinvested into the network to further grow its value, or returned to the government in the form of dividends. This structure also offers additional transparency in that – for the first time – the true costs of investments and operating our extensive rail transport network are disclosed and reflected in access and licence fees for use of those assets. This transparency ensures TAHE and Government are held accountable for ensuring our rail system is operated safely, sustainably and continues to grow and improve long into the future.

Yours sincerely,

Benedicte Colin

Chief Executive Officer

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OFFICIAL



# **Transport Asset Holding Entity**

## **Questions on Notice**

Public Accountability Committee

Hearing Date – 10 February 2022

## QUESTIONS ON NOTICE

**QUESTION 1: page 33.**

The Hon. DANIEL MOOKHEY: Can I ask you, Ms Colin—my final question here—to table all correspondence between you and Mr Midha, and any other Treasury official that you were in with, from 11 December to 18 December, if you do not mind.

BENEDICTE COLIN: I will take that question on notice. Thank you.

**ANSWER:**

All correspondence is included in Appendix A.

**APPROVAL:**

Name	Title	Signature/ Date approved
Benedicte Colin	Chief Executive Officer	

**QUESTION 2: page 36.**

The Hon. DANIEL MOOKHEY: My time is limited and I did want to pick up on the point you are making. TAHE had provided the Auditor-General with draft accounts prior to you formally signing the accounts [inaudible]. That is correct?

BRUCE MORGAN: Correct.

The Hon. DANIEL MOOKHEY: And you as directors would have seen the draft accounts. This is correct?

BRUCE MORGAN: Correct.

The Hon. DANIEL MOOKHEY: At the time you saw the draft accounts, as directors, no aspect of

them caused you to question whether or not they were accurate. Is that fair?

BRUCE MORGAN: Correct, but they were draft accounts awaiting audit.

The Hon. DANIEL MOOKHEY: And then some time you provided—if on notice you can provide us the exact date you provided the Auditor-General with the draft accounts that would be helpful, but we will ask the Auditor-General as well. But the Auditor-General—

BRUCE MORGAN: Subsequently we would be delighted to do that.

**The Hon. DANIEL MOOKHEY:** But the Auditor-General by this point had indicated to you, had she not, that she was not going to sign your accounts unless there were substantive changes?

**BRUCE MORGAN:** I would have to take that on notice but I do not believe so. At that point in time, the majority of discussion would have been—and the Auditor-General should be asked whether this is the case— between Treasury and the Auditor-General because the principal issue that we are narrowing down on is whether the injections into TAHE would be equity or otherwise.

**The Hon. DANIEL MOOKHEY:** I appreciate that but the Auditor-General is your independent auditor as well, is she not?

**BRUCE MORGAN:** I beg your pardon?

**The Hon. DANIEL MOOKHEY:** The Auditor-General is your independent auditor, is she not?

**BRUCE MORGAN:** Correct.

**The Hon. DANIEL MOOKHEY:** So I am not asking about her interaction with Treasury in respect of Treasury accounts. I am asking in respect of her function as your independent auditor. She indicated to you in respect of your own financial status that, on the base of the drafts she had seen, they were not accurate. Is that fair?

**BRUCE MORGAN:** I do not believe that, but I would be happy to take that on notice because the way that presentation of draft accounts works is that we obviously have a process through the year where the Auditor- General interacts with the organisation. We prepare a set of draft accounts. They are not signed off by directors. They are not the directors' signed accounts. They are accounts which are submitted for audit—

**ANSWER:**

TAHE provided its draft accounts to the Auditor-General on 16 August 2021.

During the audit process there were a range of matters considered and discussed with the Audit Office. One key matter was the valuation of the TAHE assets on an income basis. There was a difference of opinion on aspects of the valuation at one stage, but the Audit Office revised their acceptable range of values, and the Directors adopted an amendment to the initial valuation that proved to be acceptable to the Audit Office.

TAHE and the Audit Office maintained a professional and constructive relationship throughout the audit process.

The Directors and management were pleased that the Auditor General issued an unmodified opinion on the financial statements of TAHE.

**APPROVAL:**

Name	Title	Signature/ Date approved
Peter Crimp	Chief Financial Officer	

**QUESTION 3: pages 37-38.**

**The CHAIR:** Just to be clear—did you give versions of estimated returns to Treasury during that period between July and December 2021?

**BENEDICTE COLIN:** I will have to take that question on notice. My recollection is that we did provide some information to assist Treasury in the development of the financial model that we provided to Treasury.

**The CHAIR:** So cannot say whether or not what Treasury told us which is that the models that were unsophisticated, contained errors, omissions and of poor logic were your models, you cannot say whether they were your models? Is that what you are telling me?

**BENEDICTE COLIN:** Correct.

**The CHAIR:** Treasury said they were, though—

**BRUCE MORGAN:** Excuse me—

**The CHAIR:** I will come to you in a second, Mr Morgan. Treasury said that they were your models. Should we accept Treasury's word? Do you think we should?

**BENEDICTE COLIN:** I cannot comment on Treasury work. I cannot comment on the information that Treasury provided to the Audit Office.

**The CHAIR:** Mr Morgan?

**BRUCE MORGAN:** We have probably dealt with this but as far as I am aware, and I did this with Ms Colin before, I do not believe that there has been any criticism by the Audit Office of the quality of the modelling that we did within TAHE that they looked at and relied on, so I am not sure of what was provided by Treasury to the Audit Office or who the source really was. I do not know—

**The CHAIR:** Ms Colin, did TAHE provide separate modelling to the Audit Office?

**BENEDICTE COLIN:** TAHE provided information to support the valuation of our assets.

**The CHAIR:** Did you provide modelling?

**BENEDICTE COLIN:** As Rob indicated, the models were on both sides TAHE and the Audit Office and that was for the purpose of establishing assets.

**The CHAIR:** Ms Colin, my question was about modelling. Did you provide modelling about the expected returns to the Audit Office?

**BENEDICTE COLIN:** I would have to take that question on notice Mr Shoebridge.

**ANSWER:**

TAHE provided NSW Treasury with a range of information during the year-end and audit process. Beside the draft Financial Statements, TAHE provided their ten year income statement and balance sheet consistent with its then forward estimates. TAHE cannot comment on how NSW Treasury used this information.

TAHE then at Treasury's request undertook modelling in mid-December on what access and license fees would be necessary to meet the Government's revised shareholder expectations of returns on equity which were communicated to TAHE by

the Treasurer on 14 December 2021 along with the holding loss arising from the revaluation decrement.

This modelling then formed the basis for a Heads of Agreement that was entered into by TAHE with TfNSW, Sydney Trains and NSW Trains.

**APPROVAL:**

Name	Title	Signature/ Date approved
Peter Crimp	Chief Financial Officer	

**QUESTION 4: page 39.**

**The CHAIR:** Ms Colin and Mr Morgan, thank you for your attendance today. I think a couple of questions have been taken on notice. I also ask you to take on notice if you have any forward adopted strategies for recovering that \$20.3 billion to provide the Committee with the details? I also ask that you provide the Committee with a copy of the Heads of Agreement and relevant correspondence to the Heads of Agreement it would be much appreciated.

**The Hon. DANIEL MOOKHEY:** Can I ask Mr Morgan to provide the updated statement of expectations that was issued on 14 December last year too?

**ANSWER:**

The proposed access and licence fees underpinning the Heads of Agreement are designed to provide the necessary returns to Government.

The \$20.3 billion decrement caused by the revaluation of the assets on an income basis is not a real loss, just an accounting loss. There is no difference in the way these assets are used or in the way we draw value from them. The only difference is, under the new accounting treatment it is valued based on the income derived.

The following documents have been attached:

Appendix B: Heads of Agreement signed 18 December 2021

Appendix C: Letter from the Treasurer advising revised shareholders' expectations of returns on equity issued on 14 December 2021.

**APPROVAL:**

Name	Title	Signature/ Date approved
Peter Crimp	Chief Financial Officer	