From: San Midha
To: Peter Crimp; Stewart Walters; Benedicte Colin; Jeanne Vandenbroek
Subject: Re: Request for information and points for consideration by NSW Treasury
Date: Saturday, 18 December 2021 2:18:28 PM
Attachments: image002.png
image006.png

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Thanks Peter.

From: Peter Crimp
Sent: Saturday, December 18, 2021 1:50:11 PM
To: Stewart Walters ; Benedicte Colin ; San Midha ; Jeanne Vandenbroek

Subject: RE: Request for information and points for consideration by NSW Treasury

Hi all, attached are draft responses to the AO questions TAHE received from Somaiya.

These are shared with you for comment and consistency check.

Please advise any feedback so we can issue to Somaiya later this afternoon.

Regards

Peter

Peter Crimp
Executive General Manager, Finance & Business Performance
Transport Asset Holding Entity (TAHE) NSW

470 Pitt Street, Haymarket NSW 2000
tahensw.com.au

NSW GOVERNMENT Transport Asset Holding Entity

From: Stewart Walters
Sent: Saturday, 18 December 2021 11:05 AM
To: Benedicte Colin ; Peter Crimp
san.midha ; Jeanne Vandenbroek

Subject: FW: Request for information and points for consideration by NSW Treasury

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Hi Benedicte and Peter

I also share the email of information request from Renee in the AO received late yesterday.

We have reviewed the info and conclude that most of the critical info or audit evidence is info we collectively have or have agreed to procure and is supported by the return expectations communicated from govt, the updated cashflow and the intended HoA.

We have commenced a draft response, creating a tabular format – please see attached.

Some of the info requires your assistance.

Some is likely a double up with what Somaiya has requested.

Would appreciate @Peter Crimp if you can assist primarily Jeanne who is coordinating much of the info that you can assist with.

Many thanks

Stewart

Stewart Walters | Chief Financial and Operations Officer
Finance and Operations Group
52 Martin Place, Sydney (enter via 127 Phillip Street)

Angela Kirby, Executive Assistant

I acknowledge and pay my respects to the traditional owners and custodians on whose land I walk, work and live.

Proudly supporting dsi diversity & inclusion

From: Renee Meimaroglou
Sent: Friday, 17 December 2021 5:17 PM
To: Stewart Walters
Cc: Scott Stanton ; ray bailey ; Ian Goodwin ; Cassandra Wilkinson ; Jeanne Vandenbroek
Subject: Request for information and points for consideration by NSW Treasury

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Dear Stewart

After hearing NSW Treasury's feedback on Wednesday on our comments sent to you on the same day, we have further thoughts to share with you on the TAHE matter. This email also serves as an opportunity to ensure NSW

Treasury understands our request for critical information relating to this issue, most of which was discussed in that meeting.

Our commentary with NSW Treasury has consistently referred to a key point, that the spreadsheet representing the Government's expected returns from TAHE should reflect reality and be auditable. Keeping this in mind, it is critical to ensure NSW Treasury considers and responds to the following, to assist us in finalising our conclusion on the TSSA and TAHE audits.

Information required	Reasons
In reviewing the recent ERC and Cabinet decision relating to TAHE, we would like to sight any other information submitted to Cabinet supporting this decision made on 14 December 2021. Furthermore, we observed the financial implications data submitted to Cabinet excluded any forward estimates beyond FY2025. Can you please provide evidence that the financial implications of the additional access fee arrangements beyond FY2025 were shared or discussed with Cabinet as part of their decision? Did ERC and Cabinet review NSW Treasury's calculation of returns for the period FY2021-55 which was provided to our Office? Can you also please explain why there are variances in the total financial implications reported in the cabinet submission vs the cabinet decision. What was the basis of this change? Please reconcile the revenue implications in the ERC decision for the period FY22-25 to the expected returns calculation provided to us. Have returns in the form of dividends and income tax equivalents relating to TAHE been included in previous budget estimates? If so, please provide the amounts.	Supports an intention to earn a realistic rate of return.
Evidence is required justifying TAHE's access fee increases beyond the FY2021-22 published forward estimates and how this will be achieved. Based on NSW Treasury's current returns calculation, access prices will increase from FY2023 to FY2025 by $1.1 billion, compared to a $4.1 billion increase expected from FY2026 to FY2031. To support these changes, we require a signed agreement updated to reflect the revised fees. The above evidence is critical, otherwise, this key balance within the calculation is unsupported.	Supports an intention to earn a realistic rate of return and TAHE's DCF model.
Information/updates related to the return's calculation including:	
• explanation/rationale for key assumptions	Understand the reasonableness of key assumptions supporting the calculation.
• the basis for determining expected returns of 2.5% and whether the calculations are performed on a compounding basis, or are a simple average • a written policy on the expected rate of returns by	If inflation (the benchmark) is determined on a compounding basis the expected return should also be calculated on a consistent basis.

Government on its investments in the PNFC/PFC sector. Noting, ERC signed off on a 2.5 percent return (based on the long-term inflation rate). Will this expectation of a minimum return be applied across all other investments?	
• how depreciation estimates have been calculated and the basis of escalation from FY2021 and over the forward years	Impacts on net profit after tax, and therefore profits available for distribution.
• assumptions around the amount of capital expenditure for all CGUs and how this will be funded from FY2021 and beyond	This understanding is essential for us to understand the expected movement in TAHE's net assets. It also requires clarification as it is unclear whether equity contributions may be required beyond the 10 year period, which would impact on total returns.
• support for the dividend payout ratio	We request the TAHE board confirm this key assumption of the expected dividend payments over the forward years in writing.
Support for the average remaining useful lives of TAHE's assets and relevant calculations. PWC noted this were circa 30 years in its report and other discussions have suggested this is closer to 34 or 35 years.	Required to support the return horizon.
We understand TAHE is subject to the TER and will eventually transition to a NTER. How has this been factored in Treasury's return calculation?	Required to support the return anticipated from income tax equivalents.
Updated financial statement disclosures. We require drafts of proposed additional disclosures in the TSSA to explain: • all key assumptions and judgements relating to the expected returns calculation, including sensitivity analysis • the Government's expected rate of return and the period within which it is expected to be achieved • inclusion of expected cash flows over each year of the contracted period and details of assumptions made beyond the contracted period used to assess the expectation that a realistic rate of return will be earnt, highlighting which years are approved by Cabinet and those years that aren't. • details of actions taken by the Government and TAHE after balance date (i.e. signing of revised access agreements), which support the assertion that there is an intent for TAHE to earn a realistic rate of return and for the state to earn a realistic return on its investment in TAHE. • that an ERC decision approved an additional $1.1 billion in access and license fees, with these included in the 2021-22 Half Year Review forward estimates. • All uncertainties on the returns calculation need to be disclosed including managements projections beyond FY2031.	Financial statements should reflect significant uncertainties related to NSW Treasury's judgements.

Revised DCF valuation (and not a scenario analysis) from TAHE reflecting the revised access pricing, along with endorsement by the TAHE Board. TAHE's advisor PwC should consider in the revision if the changes to the access pricing requires an amendment to the DCF assumptions. An updated PWC report is required to reflect the revised valuation outcome.	Supports the DCF model.
Updated TAHE Business Plan and revised Statement of Corporate Intent to support the revised access and licence fees for the period FY21-FY31. These documents should be approved by the TAHE board.	Supports an intention to earn a realistic rate of return and TAHE's DCF model.

Modelling provided to the TAHE Advisory Board on 6 February 2018 and not shared with the Audit Office casted doubt on whether it was reasonable to expect that the Government could earn a realistic rate of return on its equity injections into TAHE. The information considered in 2017-18 would have raised material questions on whether it could be concluded that there was a reasonable expectation of a realistic rate of return from TAHE and whether the equity injections reported from 2017-18 to 2019-20 should be treated as a grant expense, resulting in the restatement of the prior period Budget Result and opening retained earnings from 1 July 2019. If the current years accounting treatment proves not supported, then that could confirm a prior period error.

In accordance with normal practice, we would appreciate proposed journals and disclosures are shared with us in draft so we can provide feedback.

Thanks for your assistance with the above.

Regards

Renee Meimaroglou
Director - Financial Audit
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