

INQUIRY INTO TRANSPORT ASSET HOLDING ENTITY

Organisation: Auditor-General of New South Wales

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

Contact: Margaret Crawford
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Our ref: D2118871

14 September 2021

Dear Mr Shoebridge

Inquiry into the Transport Asset Holding Entity

Thank you for the invitation to make a submission to the Public Accountability Committee's inquiry into the Transport Asset Holding Entity (TAHE).

A High Risk finding was raised by my Office last year with both NSW Treasury and TAHE due to the significance of the financial reporting impacts for TAHE and the whole of government and the fact that the establishment of TAHE was not meeting the original timetables. The announcement of TAHE in the 2015-16 Budget resulted in a change to the accounting treatment of the funding provided to RailCorp from an expense to an equity injection. The basis for Treasury's change in accounting treatment in the budget was predicated on TAHE being established by 1 July 2019 as a Public Non-Financial Corporation (classification accepted by the ABS in 2015) and an intent to provide a commercial return.

Commentary on TAHE was raised in the following 2020 financial audit reports:

- Transport 2020 published on 10 December 2020
- State Finances 2020 published on 19 November 2020.

Summaries of these reports are enclosed with this letter.

As TAHE was established on 1 July 2020, this is the first year of its operations and the audit is currently in progress. This limits my ability to provide current information to the Committee at this time.

The financial audit volumes for Transport and State Finances 2021 are both expected to include commentary on our first year 30 June 2021 year audit of TAHE and its inclusion in the Total State Sector accounts for the first time. These volumes are currently expected to be tabled around a similar time to the tabling dates achieved last year as shown above.

My [Annual work program 2021-24](#), indicates that the Audit Office will conduct a performance audit of TAHE in 2021-22. The scope of this work is currently being finalised, and I anticipate this work will be completed early in the new calendar year.

Thank you once again for the invitation to make a submission to the Public Accountability Committee's inquiry. Please don't hesitate to contact me if you would like further information about my reports to Parliament.

Yours sincerely

Margaret Crawford
Auditor-General for New South Wales

Encl.

Summaries of recent financial audit reports to Parliament related to the Transport Asset Holding Entity

Transport 2020 – published 10 December 2020¹

RailCorp Transition to TAHE – excerpt from Executive Summary – Page 2

RailCorp transition to TAHE

On 1 July 2020, RailCorp was renamed Transport Asset Holding Entity of New South Wales (TAHE) and converted to a for-profit statutory State-Owned Corporation. TAHE is a commercial for-profit Public Trading Entity with the intent to provide a commercial return to its shareholders.

A plan was established by NSW Treasury to transition RailCorp to TAHE which covered the period 1 July 2015 to 1 July 2019. A large portion of the planned arrangements were not implemented by 1 July 2020. As at the time of this report, the TAHE operating model, Statement of Corporate Intent (SCI) and other key plans and commercial agreements are not finalised. The *State Owned Corporations Act 1989* generally requires finalisation of an SCI three months after the commencement of each financial year. However, under the *Transport Administration Act 1988*, TAHE received an extension from the voting shareholders, the Treasurer and Minister for Finance and Small Business, to submit its first SCI by 31 December 2020. In accordance with the original plan, interim commercial access arrangements were supposed to be in place with RailCorp prior to commencement of TAHE.

Under the transitional arrangements, TAHE is continuing to operate in accordance with the asset and safety management plans of RailCorp. The final operating model is expected to include considerations of safety, operational, financial and fiscal risks. This should include a consideration of the potential conflicting objectives of a commercial return, and maintenance and safety measures.

This matter has been included as a high risk finding in our management letter due to the significance of the financial reporting impacts and business risks for TAHE.

Recommendation: TAHE management should:

- establish an operating model in line with the original intent of a commercial return
- finalise commercial agreements with the public rail operators
- confirm forecast financial information to assess valuation of TAHE infrastructure
- finalise asset and safety management plans.

Resolution of the above matters are critical as they may significantly impact the financial reporting arrangements for TAHE for 2020–21, in particular, accounting policies adopted as well as measurement principles of its significant infrastructure asset base.

¹ [Transport 2020 | Audit Office of New South Wales \(nsw.gov.au\)](https://www.audit.nsw.gov.au/transport-2020)

RailCorp transition to TAHE – Pages 21 and 22 of report

TAHE's operating model and commercial arrangements with public rail operators has not been finalised despite government original plans to be operating from 1 July 2019

On 1 July 2020, RailCorp was renamed Transport Asset Holding Entity of New South Wales (TAHE) and converted to a for-profit statutory State-Owned Corporation pursuant to the *Transport Administration Act 1988* and the *State Owned Corporations Act 1989*. The establishment of TAHE was announced by the NSW Government in the 2015–16 State Budget. TAHE is a commercial for-profit Public Trading Entity with the intent to provide a commercial return to its shareholders.

Prior to 1 July 2015, the government paid grants to RailCorp to deliver its capital program. These grant payments were recorded as an expense to the State Budget. From 1 July 2015, funding for RailCorp's capital projects was provided by equity injections which from that point were no longer recorded as an expense to the State Budget. The change, as explained in the 2015–16 State Budget, was due to the expectation that RailCorp will transition to TAHE, which will over time provide a commercial return. That Budget also highlighted how the accounting change improves the General Government Sector budget result each year, typically by as much as \$1.2 billion to \$1.9 billion.

A plan was established by NSW Treasury to transition RailCorp to TAHE. This plan extended over a four-year period commencing from 1 July 2015 to 1 July 2019, the latter date represented when TAHE was expected to be fully operational as the owner of all NSW public sector transport assets. The plan recognised that establishment and implementation of TAHE required some lead time given the need to draft legislation, develop the full commercial model and appoint a governing board.

The enactment of the Transport Administration Act resulted in the creation of TAHE on 1 July 2020, 12 months after its originally planned operational date. A large portion of the planned arrangements were not implemented by 1 July 2020. At the time of this report, the TAHE operating model and Statement of Corporate Intent (SCI) are not finalised. The *State Owned Corporations Act 1989* generally requires finalisation of an SCI three months after the commencement of each financial year. However, under the *Transport Administration Act 1988*, TAHE received an extension from the voting shareholders, the Treasurer and the Minister for Finance and Small Business, to submit its first SCI by 31 December 2020. Key commercial arrangements such as access arrangements between TAHE and the rail operators have not been finalised. TAHE has not established commercial arrangements with the public rail operators Sydney Trains and NSW Trains to provide them access to the rail network and heavy rail assets. In accordance with the original plan, interim commercial access arrangements were supposed to be in place with RailCorp prior to commencement of TAHE. However, current legacy arrangements from RailCorp have transitioned to TAHE, where no network access fees are paid by these rail operators. Maintenance expenses for the TAHE rail assets continue to be paid by the public rail operators.

Finalisation of the commercial arrangements and related financial forecast information is critical as this will impact the valuation of the TAHE infrastructure assets with a potential impairment of the asset value. In the absence of commercial arrangements with the public rail operators, there is a lack of evidence to demonstrate TAHE's ability to create a commercial return in the long term, which was the original intent and led to the changes in the Budget's accounting treatment from being an expense in the budget to an equity injection.

As of 1 July 2020, TAHE appears to be essentially carrying over the same activities of RailCorp, with the exception of a newly appointed TAHE board and executive management team on 1 July 2020. The Board consists of three independent members and the Secretary of Transport for NSW.

Under the transitional arrangements, TAHE is continuing to operate in accordance with the asset and safety management plans of RailCorp. The final operating model is expected to include considerations of safety, operational, financial and fiscal risks. This should include a consideration of the potential conflicting objectives of a commercial return, and maintenance and safety measures.

Finalisation of these arrangements, the accounting for further cash injections and the fair value of TAHE assets will be a key area of audit focus in 2020–21.

This matter has been included as a high risk finding in our management letter due to the significance of the financial reporting impacts and business risks for TAHE.

Recommendation

TAHE management should:

- **establish an operating model in line with the original intent of a commercial return**
- **finalise commercial agreements with the public rail operators**
- **confirm forecast financial information to assess valuation of TAHE infrastructure**
- **finalise asset and safety management plans.**

Resolution of the above matters are critical as they may significantly impact the financial reporting arrangements for TAHE in 2020–21, in particular, accounting policies adopted as well as measurement principles of its significant infrastructure asset base.

State Finances 2020 – Published 19 November 2020²

Transport Asset Holding Entity (TAHE) – Page 9 of report

TAHE’s operating model and corporate intent has not been created despite government plans to operate from 1 July 2019.

Prior to 1 July 2015, the government paid grants to Rail Corporation (RailCorp) to deliver its capital program. These grant payments were recorded as an expense to the budget. From 1 July 2015, funding for RailCorp’s capital projects was provided by equity injections which from that point are no longer recorded as an expense to the budget. The change, as explained in the 2015–16 State Budget, was due to the expectation that RailCorp will transition to a Transport Asset Holding Entity (TAHE), over time providing a commercial return. That Budget also highlighted how the accounting change improves the General Government Sectors’ budget result each year, typically by as much as \$1.2 billion to \$1.9 billion. The basis for the change in accounting treatment in the budget was predicated on TAHE being commercially operational from 2019.



A plan was established by NSW Treasury to transition RailCorp to TAHE. This plan extended over a four year period, from 1 July 2015 to 1 July 2019, the latter date representing when TAHE was expected to be fully operational as owner of all NSW public sector transport assets.

The plan recognised that establishment and implementation of TAHE required some lead time given the need to draft legislation, develop the full commercial model and appoint a governing board.

Enactment of the *Transport Administration Act* created TAHE on 1 July 2020, twelve months after its originally planned operational date. A large portion of the planned arrangements have not been implemented. On 1 July 2020, TAHE became responsible for the same activities as RailCorp, with a newly appointed TAHE board and executive management team.

At the time of concluding our audit, the TAHE operating model and Statement of Corporate Intent (SCI) were not finalised. While State owned corporations are required to submit a SCI three months after the commencement of each financial year, TAHE received an extension from its shareholders, the Treasurer and Minister for Finance and Small Business and will submit their first SCI by 31 December 2020. TAHE has not established commercial arrangements with rail operators, Sydney Trains and NSW Trains to provide them access to the rail network and heavy rail assets. In accordance with the original plan, interim commercial access arrangements were supposed to be in place with RailCorp prior to the commencement of TAHE. However, current legacy arrangements from RailCorp have transitioned to TAHE, and no access fees are paid by these rail operators. Maintenance expenses to the TAHE rail network continue to be paid by the rail operators.

² [State Finances 2020 | Audit Office of New South Wales \(nsw.gov.au\)](#)

Finalisation of these arrangements, the accounting for further cash injections and the fair value of TAHE's assets will be a key area of audit focus in 2020–21.