PARLIAMENTARY BUDGET OFFICE
NSW Parliament • Parliament House, Macquarie Street Sydney 2000

Referred by:	Australian Labor Party	**Proposal No:**	C1507
Date Referred:	3/03/2023	**Date Published:**	20/03/2023
Proposal Title:	Review TAHE		
Cluster:	Transport		

General Government Sector Impacts

	2022-23 $'000	2023-24 $'000	2024-25 $'000	2025-26 $'000	4 year Total $'000
Expenses (ex. depreciation)	-	-	-	-	-
Depreciation					
Less: Offsets					
Revenue	-	102,000	111,300	129,900	343,200
Net Operating Balance:	**-**	**102,000**	**111,300**	**129,900**	**343,200**
Capital Expenditure	-				
Capital Offsets					
Net Capital Expenditure:	**-**	**-**	**-**	**-**	**-**
Net Lending/(Borrowing):	**-**	**102,000**	**111,300**	**129,900**	**343,200**

Total State Sector Impacts

Net Lending/(Borrowing):	**-**	**-**	**-**	**-**	**-**

Notes and costing assumptions:

The proposal is to:

- Review the operating model of the Transport Asset Holding Entity (TAHE) to determine whether it remains fit for purpose and to consider a new operating model. This review will be supported by representatives of Transport, Treasury, Sydney Trains, NSW Trains and TAHE and be carried out within the existing resources of each agency.
- Require TAHE to pay 100% of its profits as dividends during the period of the review, commencing in 2023-24.

The PBO assess:

- The proposed review of TAHE could be undertaken by each of the nominated agencies at no Budget cost.
- Increasing the TAHE dividend pay out ratio to 100% will slightly reduce current projected dividend and tax equivalents due to a loss of TAHE investment earnings. Cash payments associated with declared dividends (and therefore accrued revenue) are payable in the following financial year.

Notes and costing assumptions continued:

TAHE Review

The PBO has assumed that the proposed review of the TAHE operating model could be undertaken by each of the nominated agencies at no Budget cost, and any actions arising from this review will occur outside the period of the Forward Estimates.

Change to Dividend Pay Out Ratio

NSW Treasury has provided information to the PBO indicating that a dividend payout ratio at 100 per cent, while conceptually feasible for a strictly time limited period, raises several significant implications and risks. These are outlined at Attachment A.

In costing this part of the policy, the PBO has made a small adjustment to current projected TAHE dividends and tax equivalent payments to allow for lower investment earnings on cash balances held by TAHE. Under current policy, cash payments associated with declared dividends (and therefore accrued budget revenue) are payable in the following financial year.

Under the policy proposal, the change in TAHE dividends is shown in the following table:

	2023-24 $m	**2024-25 $m**	**2025-26 $m**
Current Dividend Projection (at 70% payout ratio)	238.0	266.9	320.6
Additional Dividends from moving to 100% payout ratio	102.0	114.4	137.4
Adjustment to Dividends for lost interest earnings*	-	-3.1	-7.5
Net increase in Dividends	**102.0**	**111.3**	**129.9**

* Cash dividends are assumed to be paid on 30 September in the following year

Given TAHE is a State Owned Corporation, adopting a 100 per cent dividend payout ratio will involve discussions with the TAHE Board.

Summary Costing:

Based on the above, the PBO has concluded that the proposed policy will improve the Net Operating Balance by $343.2 million over the 3 years to 2025-26.

Notes and costing assumptions continued:

Attachment A

Implications and Risks of an increased dividend payout ratio – information from NSW Treasury and TAHE

A decision to require a dividend pay out ratio of 100 per cent would require the TAHE Board to consider suspending or terminating several current commercial projects that are in advanced stages of development or early delivery. This is because the TAHE commercial model relies on retained earnings to provide the equity contributions necessary to support these projects.

TAHE advises that the Board would need to give consideration to terminating or suspending a range of commercial projects including:

- Central Station Revitalisation: includes the upgrade of the heritage building and retail precinct;
- Redfern North Everleigh Clothing Store: TAHE proposes to invest with a partner in the ownership, delivery and operation of the Build to Rent asset for the Clothing Store which will achieve up to 600 affordable homes. The EOI stage has been completed and a recommended shortlist for RFP achieved;
- Affordable Housing Pilot Program: expected to deliver up to 300 new affordable homes on five sites (currently under an EOI process);
- Chief Mechanical Engineer Building: upgrade of the building which is an office lease (currently under an EOI process);
- Transport Asset Revitalisation Program: TAHE invests in numerous programs that are supported by Transport as TAHE's agent to assist TAHE unlock commercial opportunities. This typically includes feasibility, heritage, environmental, safety and contamination studies;
- Redevelopment of Wynyard Upper Concourse: to allow a similar experience to the Concourse including unlocking retail and commercial opportunities and improving customer experience; and
- Retail uplift programs: investment in retail around stations CBD and regional to increase investment and patronage to the stations.

If TAHE were to operate in a less commercial way, including by substantially scaling back its broader commercial activities over the long term, there would be risks to the classification of TAHE as a commercial entity and as a Public Non-Financial Corporation (PNFC) for budget reporting purposes. These risks are potentially significant, and if realised, would have substantial implications for the reported general government sector budget result.

These risks could only be definitively resolved once the details of the arrangements giving effect to the 100 per cent dividends requirement are determined, and following consultation with the Auditor General and ABS.