
Roads and Traffic Authority of New South Wales

AUDIT OPINION

The audits of the Authority and its controlled entity's financial reports for the year ended 30 June 2008 resulted in unqualified Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

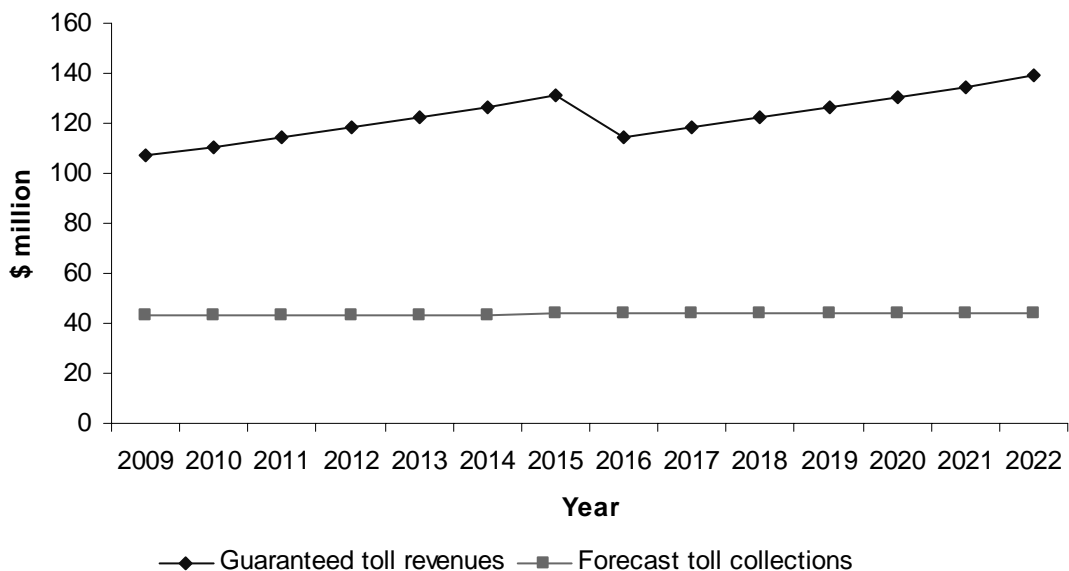
Sydney Harbour Tunnel

We recommend the Authority review the accounting treatment and reassess the basis used to recognise tunnel assets and liabilities for future Ensured Revenue Stream (ERS) payments.

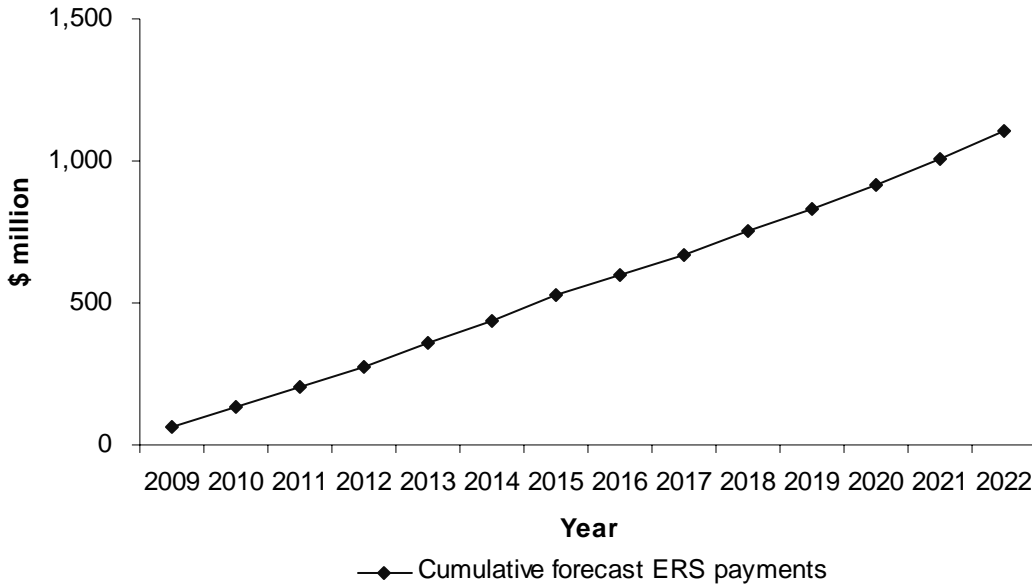
The Sydney Harbour Tunnel is operated by a private operator. The Authority makes ERS payments to the operator under a contract entered into in 1992. The ERS payments represent the shortfall between the tolls collected and those guaranteed by the government under the contract.

ERS payments for the year totalled \$58.9 million (\$52.0 million in 2006-07).

Guaranteed toll revenue and forecast collections for the next 14 years to the end of the contract are shown as below:



The Authority forecasts it will pay about \$1.1 billion (present value \$764 million) to the operator over the next 14 years as demonstrated in the following graph:



The Authority is reviewing the accounting treatment and reassessing the basis for recognition of tunnel assets and liabilities for future ERS payments.

Payroll Costs

We recommend the Authority review the basis of capitalising employee related costs to infrastructure assets.

During the year, the Authority incurred employee related costs of \$822 million (\$528 million). Of this, \$215 million (\$210 million) was capitalised to infrastructure assets.

The basis of allocating these costs has not been reviewed by the Authority for over ten years.

Overtime

We recommend the Authority review the overtime approval procedures and monitor overtime levels to ensure the benefits of overtime payments are realised.

Details of overtime paid to staff over the past three years are:

Year end 30 June	Number of employees		
	2006	2007	2008
Overtime			
Greater than \$50,000	6	10	20
\$20,000 to \$50,000	387	576	578
\$10,000 to \$20,000	782	645	774
Under \$10,000	4,890	3,604	3,675
Total number of employees receiving overtime	6,065	4,835	5,047
Total \$'000	31,160	36,640	41,356

The Authority advised that the continuing rise in overtime costs was primarily due to the increased number of infrastructure projects and road maintenance.

PERFORMANCE INFORMATION

The Authority provided the following information regarding its performance:

Maintenance of State Roads

Year ended 30 June	Actual				Target
	2005	2006	2007	2008	2008
Road maintenance (\$ million)	722	680	688	755	774
Pavement rebuilding rate (%)	na	na	1.1	1.1	2.0*

na: not available.

* The target is set by the Authority.

The Authority has not achieved its annual target of maintenance expenditure nor pavement rebuilding rate. It plans to reassess the practicality of achieving these targets in 2008-09.

The Authority has been developing a process to determine maintenance priorities, treatment and renewal of roads and bridges across New South Wales. In 2008-09, it expects to finalise a new ten year road Strategic Asset Maintenance Plan to achieve sustainable infrastructure asset management.

Ride Quality and Pavement Durability

Ride quality measures the 'roughness' of travel over road surfaces (including national highways) and is a primary indicator of road condition. Pavement durability measures road surface cracking on sealed country State roads. Results over the last four years have been:

Year ended 30 June	Actual				Target
	2005 %	2006 %	2007 %	2008 %	2008 %
Ride quality					
Good	87.4	87.5	87.9	<i>88.6</i>	<i>87.6</i>
Fair	8.1	7.9	7.7	<i>7.2</i>	<i>7.9</i>
Poor	4.5	4.6	4.4	<i>4.2</i>	<i>4.5</i>
Pavement durability					
Good	79.4	78.1	76.5	<i>78.0</i>	<i>76.5</i>
Fair	11.8	12.4	14.0	<i>13.5</i>	<i>14.0</i>
Poor	8.8	9.5	9.5	<i>8.5</i>	<i>9.5</i>

Road Safety Performance Outcomes

The New South Wales Government State Plan issued in November 2006 (State Plan) includes safer roads as one of the priorities. The Authority will play a role towards reducing road fatalities to achieve the State Plan target of 0.7 road fatalities per 100 million vehicle kilometres travelled by 2016.

Road fatalities have decreased over the past five years. This was achieved through a number of strategies implemented by the Authority's 'Executive Road Safety Management Committee'.

Statistics on fatalities and injuries from road traffic crashes were:

Year ended 30 June	Actual				
	2004	2005	2006	2007	2008
Road fatalities per 100 million vehicle kilometres travelled*	0.90	0.82	0.86	0.71	<i>0.62</i>
Total Fatalities	545	503	536	442	<i>392</i>
Key Factors**					
Speed related	211	197	205	163	<i>135</i>
Fatigue related	80	82	103	84	<i>69</i>
Illegal level of alcohol	87	88	109	92	<i>78</i>
Seat belt fitted but not worn	68	67	59	51	<i>41</i>
Total Injuries	26,626	25,732	25,125	26,065	<i>24,708</i>
Key Factors**					
Speed related	4,641	4,381	4,298	4,221	<i>4,037</i>
Fatigue related	1,983	1,890	1,939	2,018	<i>2,027</i>
Illegal level of alcohol	1,501	1,389	1,429	1,470	<i>1,482</i>
Seat belt fitted but not worn	376	365	340	335	<i>326</i>

* Fatality and population figures for 2007-08 are provisional and subject to change. Fatality rates for 2007-08 have been calculated using projected estimated travel growth since 2007.

** Factors are not mutually exclusive. For example, a speed related fatality may also involve illegal levels of alcohol. In this case the fatality would be counted in both the speed related and the illegal level of alcohol categories.

Average Travel Speed on Seven Major Routes to and from Sydney

As part of the State Plan, the Authority will also play a role towards improving the efficiency, as measured by travel speeds, on Sydney's major roads during peak times.

Average speed trend for seven major routes to and from Sydney:

Year ended 30 June	Actual				
	2004	2005	2006	2007	2008
Morning Peak Speeds (km/h)					
F3/Pacific Highway/F1	39	35	38	35	35
M2/Lane Cove Tunnel/Gore Hill Freeway**	36	34	36	38	31
M4/Parramatta Road/City West Link	33	32	31	25	28
M5/Eastern Distributor	45	39	44	40	34
Pittwater Road/Military Road/F1	28	27	25	27	26
Princes Highway	31	28	28	28	28
Victoria Road	29	22	23	22	23
Combines seven routes*	34	31	32	30	30
Afternoon Peak Speeds (km/h)					
F3/Pacific Highway/F1	46	50	52	45	52
M2/Lane Cove Tunnel/Gore Hill Freeway**	45	39	40	47	61
M4/Parramatta Road/City West Link	39	41	43	38	40
M5/Eastern Distributor	55	52	50	50	48
Pittwater Road/Military Road/F1	39	39	40	38	39
Princes Highway	33	33	36	35	36
Victoria Road	33	32	32	31	32
Combines seven routes*	41	41	42	41	43

* Combined seven routes average speed was calculated by the total travel distance over total travel time of the seven routes.

** From 2007-08, the Lane Cove Tunnel is part of the M2 corridor (formerly parallel sections including Epping Road).

Management provided us with the following analysis of the above data:

- average travel speeds for the combined seven routes have remained unchanged for the morning peak period and improved for the afternoon peak period due to the opening of Lane Cove Tunnel
- in the morning peak, there was a decrease in travel times on the M2/Epping Road/Gore Hill Freeway corridor. Although the introduction of the Lane Cove Tunnel was positive, the overall result for the M2 corridor was influenced by slower speeds west of Pennant Hills road. Traffic flows through Lane Cove have improved. However, travel times have been affected by heavier volumes of traffic around the western end of the M2 and the M7 connection
- in the afternoon peak, travel speeds on this corridor improved significantly, due to the Lane Cove Tunnel and widening of the Gore Hill Freeway and outbound sections of the M2
- the M5/Eastern Distributor corridor experienced a decrease in travel speeds in the morning peak. This decrease was general in nature with no individual sections falling markedly. The route remains one of the fastest of the seven corridors to Sydney in the morning peak, with average speeds of 34km/h
- the F3/Pacific Highway corridor experienced an increase in travel speeds in the afternoon peak, due in part to the widening of the Gore Hill Freeway.

OTHER INFORMATION

We identified opportunities for improvement to accounting and internal controls procedures and have reported them to management.

Revaluation of Infrastructure Assets

We recommend the Authority enhance its quality review processes to reduce the risk of significant spreadsheet errors occurring and remaining undetected.

Our review of the revaluation of infrastructure assets identified spreadsheet errors, highlighting risks associated with the use of spreadsheets. These errors were corrected in the financial report.

Financial Reporting Timetable

We recommend the Authority improve its year end processes to ensure reporting timeframes are achieved.

The audit was not completed within the statutory timeframe due to delays in the provision of some work papers supporting the financial report and the need for additional audit information and explanations arising during the course of the audit.

Private Sector Funded Project - Cross City Tunnel

The consortium that constructed the Cross City Tunnel went into receivership during 2006-07. The Tunnel was subsequently sold to another entity in June 2007 and the contract was amended on 27 November 2007. The Authority submitted an updated contract summary to the Audit Office for review on 23 July 2008, six months later than the deadline specified in the 'Guidelines for Privately Financed Projects - December 2006'.

Administered Items

Our review of the Authority's administered revenue identified that it had not disclosed the State's liability arising from multi-year licence fees as an administered liability and had not done so in prior years. However, it was determined during the course of the audit this year that any liability the State may have in respect of multi-year licence fees be disclosed by way of note. Administered liabilities amounted to \$151 million at 30 June 2008.

Heavy Vehicle Safety

The Audit Office is undertaking a Performance Audit on Heavy Vehicle Safety. This audit will look at the Authority's role in detecting and enforcing breaches of heavy vehicle safety regulations. We will assess how well the Authority manages on-road enforcement to reduce the number and severity of accidents involving heavy vehicles. The report is expected to be released in the first quarter of 2009.

Major Projects

Year ended 30 June	Original Target Date	Forecast/ Actual Completion Date	Initial Project Approval* \$m	Forecast/ Actual Final Cost \$m	Variation \$m	Cost to 30 June 2008 \$m
Pacific Highway, Brunswick Heads to Yelgun	2006	Jul 2007	70	256	186	246
Windsor Flood Evacuation Route	2004	Sep 2007	44	127	83	120
North-West Transitway Network	2006	Nov 2007	380	500	120	495
Pacific Highway, Bonville Bypass	2003	Sep 2008	127	235	108	204
Hume Highway, Coolac Bypass	2008	Aug 2009	145	179	34	98
Pacific Highway, Karuah to Bulahdelah Section 2 and 3	2009	Oct 2009	150	262	112	136
Princes Highway, Oak Flats to Dunmore	2009	Nov 2009	114	130	16	54
Southern Hume Duplication	2009	Dec 2009	800	941	141	327
Pacific Highway, Coopernook to Herons Creek	2009	Dec 2009	286	540	254	149
Total Key Projects Capital Expenditure			2,116	3,170	1,054	1,829

* The initial project budgets represented the initial concept estimates.

The Authority advised that the variations between initial budget and forecast final costs were largely due to project scope changes and increased contract pricing.

Administered Revenue

Revenue collected on behalf of the State and remitted to the Consolidated Fund was:

Year ended 30 June	Actual				
	2004 \$m	2005 \$m	2006 \$m	2007 \$m	2008 \$m
Vehicle registration fees	198	209	223	232	243
Drivers licences fees	93	135	141	96	91
Vehicle transfer fees	34	35	35	35	38
Stamp duty	580	570	548	555	605
Other	--	--	53	58	58
Total	905	949	1,000	976	1,035

The increase in stamp duty in 2008 was largely due to increased number of vehicle transfers.

FINANCIAL INFORMATION

Abridged Operating Statements

Year ended 30 June	Consolidated		Parent	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Employee related	607	326	607	326
Maintenance	755	688	755	688
Depreciation and amortisation	812	774	812	774
Other expenses	607	564	607	564
TOTAL EXPENSES	2,781	2,352	2,781	2,352
TOTAL REVENUE	675	657	675	657
NET COST OF SERVICES	2,106	1,695	2,106	1,695
Government contributions	3,202	2,961	3,202	2,961
SURPLUS	1,096	1,266	1,096	1,266

The employee related expenses increased largely due to higher defined benefit superannuation expenses of \$139 million compared to a gain of \$109 million in 2006-07, a change of \$248 million.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Current assets	391	417	391	368
Non-current assets	84,052	75,443	84,052	75,443
TOTAL ASSETS	84,443	75,860	84,443	75,811
Current liabilities	1,036	930	1,224	1,005
Non-current liabilities	1,488	1,512	1,300	1,388
TOTAL LIABILITIES	2,524	2,442	2,524	2,393
NET ASSETS	81,919	73,418	81,919	73,418

The Authority's non-current assets increased in value by \$8.6 billion mainly due to the revaluation of infrastructure assets of \$7.3 billion.

Program Information

The table below details the Authority's net cost of services on a program basis:

Year ended 30 June	2008			2007
	Revenues	Expenses	Net Cost of Services	Net Cost of Services
	\$m	\$m	\$m	\$m
Road development	351	1,058	707	685
Road management	197	1,222	1,025	885
Road user	127	405	278	38
M4/M5 cash back scheme	--	96	96	87
Total all programs	675	2,781	2,106	1,695

The increase in net cost of services for Road management is mainly due to higher employee related expenses of \$123 million on road maintenance programs.

The Road user net cost of service increased largely due to new road safety programs of \$160 million and higher grants and contributions of \$44.0 million to councils.

AUTHORITY ACTIVITIES

The Authority is responsible for improving road and traffic safety management, enhancing road network efficiency, maintaining and renewing the existing road system and constructing new roads and bridges throughout New South Wales. Other major responsibilities include road safety education, assessing and collecting tax on the registration of motor vehicles, licensing drivers and collecting stamp duty on motor vehicle related transactions for the Office of State Revenue.

The Authority was constituted under the *Transport Administration Act 1988*.

For further information on the Authority, refer to www.rta.nsw.gov.au.

CONTROLLED ENTITY

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name
Roads and Traffic Authority Division