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**New South Wales Auditor-General's Report**  
Financial Audit

**Volume Eight 2011**

Focusing on Transport and Ports

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## The role of the Auditor-General

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983*.

Our major responsibility is to conduct financial or 'attest' audits of State public sector agencies' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to agencies to ensure sound financial management.

Following a financial audit the Office issues a variety of reports to agencies and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on agency compliance with certain laws, regulations and Government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an agency is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an agency's operations, or consider particular issues across a number of agencies.

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General's Reports to Parliament – Financial Audits.

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Pursuant to the *Public Finance and Audit Act 1983*,  
I present Volume Eight of my 2011 report.

A handwritten signature in black ink that reads 'Peter Achterstraat'.

**Peter Achterstraat**

Auditor-General

30 November 2011

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# Significant Items

This summary shows those matters I identified during my audits that I believe are the most significant issues agencies need to address.

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# Recommendations

This summary shows my more significant recommendations to agencies to address issues I identified during my audits.

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The Corporation should review the underlying causes hindering growth in the rail mode and develop and implement strategies to address the unfavourable trend.	12

## Transport Overview

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## Chief Investigator of the Office of Transport Safety Investigations

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## Rail Corporation New South Wales

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# Section One

Overview

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Ports Overview

Transport Overview



# Ports Overview

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PORTS OVERVIEW

## Port Operations

The following State owned corporations provide and facilitate port operations in New South Wales:

- Newcastle Port Corporation (NPC)
- Port Kembla Port Corporation (PKPC)
- Sydney Ports Corporation (SPC).

Small ports also operate at Eden and Yamba under the control of the Roads and Maritime Services (formerly named Maritime Authority of New South Wales). These ports are not covered in this Overview due to their small size relative to the ports listed above.

## Audit Opinion

The audit of the above corporations' financial statements for the year ended 30 June 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports.

## Operational Snapshot

### New South Wales Ports Corporations

The port corporations provide and facilitate services to their customers at a number of locations. Trade at each port varies depending on local conditions and strategic advantages for types of trade.

Corporation	Ports location	Major commodities/services	Profit after tax (2010–11) \$m	Dividend to government (2010–11) \$m
Newcastle Port Corporation	Newcastle Port	Coal	13.2	9.0
Port Kembla Port Corporation	Port Kembla	Coal Iron ore Motor vehicles Steels Grain	17.0	--
Sydney Ports Corporation	Port Botany Sydney Harbour	Containerised trade Bulk liquids Dry bulk, gas and oil Cruise vessels	73.5	--

## Performance Information

The port corporations provided the following information regarding their trade performance:

### Trade Volumes

Year ended 30 June	Target*			Actual		
	2011	2010	2009	2011	2010	2009
<b>Total Container Trade ('000 TEUs**)</b>						
Sydney Ports Corporation	1,954	1,709	1,867	2,020	1,928	1,784
<b>Total Trade*** ('000 mass tonnes)</b>						
Newcastle Port Corporation	121,803	95,550	98,835	114,576	103,026	95,840
Port Kembla Port Corporation	29,186	21,277	25,747	29,977	27,216	24,387
Sydney Ports Corporation	28,300	27,900	31,800	29,732	28,200	27,800
<b>Total Chargeable Vessel Visits</b>						
Newcastle Port Corporation	1,936	1,607	1,633	1,862	1,712	1,560
Port Kembla Port Corporation	1,080	900	932	1,014	1,001	862
Sydney Ports Corporation	2,028	1,920	2,261	2,087	1,940	2,275
<b>Total Chargeable Vessel Gross Tonnage ('000)</b>						
Newcastle Port Corporation	80,158	60,755	66,681	77,320	67,801	63,506
Port Kembla Port Corporation	39,500	33,587	32,074	39,609	37,357	29,665
Sydney Ports Corporation	66,400	58,800	67,900	68,200	61,000	67,700

Sources: Information provided by respective port corporations (unaudited).

\* Target agreed with shareholder Ministers in the Statement of Corporate Intent (SCI). If not available in SCI, target set by the corporations.

\*\* TEU (20-foot equivalent unit) represents the cargo capacity of a standard shipping container. Newcastle Port Corporation and Port Kembla Port Corporation had small volumes of container trade.

\*\*\* Including containerised and non-containerised cargo.

### Newcastle Port Corporation

Trade activities continued to trend upwards mainly due to increasing coal exports to Asia. The Corporation advises total trade has not met target due to lower actual coal throughput than budgeted.

### Port Kembla Port Corporation

The increase in trade activities was mainly due to the growth in iron ore imports and grain exports. The grain trade increase was due to higher harvests in the south and south western regions of New South Wales.

### Sydney Ports Corporation

The increases in trade activities and chargeable vessel visits were largely due to the increase in container trade which represents over 49 per cent of total trade. Four new container shipping lines entered the Australian market during 2010-11 focusing on Asian trades.

Total trade increased through New South Wales ports by 10 per cent

## Financial Performance

The table below compares New South Wales port corporations' financial results against their targets set in the Statements of Corporate Intent.

Year ended 30 June	Target*			Actual		
	2011	2010	2009	2011	2010	2009
<b>Return on Average Equity (%) (a)</b>						
Newcastle Port Corporation	3.8	2.1	10.4	4.9	4.3	6.5
Port Kembla Port Corporation	5.6	8.0	28.3	5.1	8.0	11.9
Sydney Ports Corporation	5.3	6.6	9.8	7.4	6.6	7.1
<b>Return on Average Assets (%) (b)</b>						
Newcastle Port Corporation	5.1	4.1	8.6	6.1	6.1	5.9
Port Kembla Port Corporation	6.5	7.1	19.7	5.8	10.4	14.5
Sydney Ports Corporation	4.7	5.8	9.5	6.3	6.1	7.1
<b>Interest Cover (Times) (c)</b>						
Newcastle Port Corporation	4.0	4.0	17.5	4.4	3.4	na
Port Kembla Port Corporation	7.9	6.3	8.0	7.5	10.4	12.8
Sydney Ports Corporation**	2.0	3.0	6.9	3.4	2.8	7.5
<b>Debt to Equity Ratio (%) (d)</b>						
Newcastle Port Corporation	27.1	28.5	20.6	24.3	28.7	19.8
Port Kembla Port Corporation	17.4	23.5	48.0	15.4	18.2	19.9
Sydney Ports Corporation	71.0	71.4	48.7	57.2	64.8	41.1
<b>Dividend to Government (\$m)</b>						
Newcastle Port Corporation	6.9	--	4.4	9.0	3.1	2.0
Port Kembla Port Corporation	--	--	--	--	--	--
Sydney Ports Corporation	--	--	--	--	--	--

Sources: Information provided by respective port corporations (unaudited).

\* Target agreed with shareholder Ministers in the Statement of Corporate Intent.

\*\* SPC utilised a different definition of interest cover in its 2010-11 financial statements, which excluded net revaluation adjustments, interest revenue and construction costs recoverable from the Barangaroo Deliver Authority

Calculated as:

- a profit after income tax expense divided by average equity
  - b profit before income tax and net interest expenses divided by average assets
  - c profit before income tax expense plus net interest expense, depreciation and amortisation divided by interest expense
  - d external debt divided by equity (net assets).
- (Note : SPC figures are calculated using gross interest expense rather than net interest expense for Interest Cover and Return on Average Assets in the table above.)

na: not available.

### Newcastle Port Corporation

Increases in the return on average equity and interest cover were mainly due to a \$7.8 million increase in profit before tax. The decrease in the debt to equity ratio was due to increased equity largely resulting from the revaluation increment on land and buildings of \$60.5 million.

### Port Kembla Port Corporation

The decreases in the return on average equity, return on average assets and interest cover were primarily due to the drop in rental revenue of \$20.7 million resulting from the expiration of the performance rent component of a coal terminal lease at 30 June 2010.

Debt to equity decreased due to the repayment of borrowings of \$6.8 million. Management advises that due to funding requirements for major projects, no dividend was included in the Statement of Corporate Intent.

### Sydney Ports Corporation

The decrease in the debt to equity ratio was largely due to the increase in the value of total equity resulting from a revaluation increment on property, plant and equipment of \$73.4 million and profit after tax of \$73.5 million.

Management advises that due to funding requirements for major projects, no dividend was included in the Statement of Corporate Intent.

### Major Commodities Trade

The Corporations' major trade commodities were:

Year ended 30 June	2011	2010	2009	2008	2007
<b>Newcastle Port Corporation ('000 tonnes)</b>					
Coal	108,257	97,077	90,490	88,900	80,800
Other	6,319	5,949	5,350	4,400	4,800
<b>Total</b>	<b>114,576</b>	<b>103,026</b>	<b>95,840</b>	<b>93,300</b>	<b>85,600</b>
<b>Port Kembla Port Corporation ('000 tonnes)*</b>					
Coal	14,256	13,875	13,233	12,557	11,681
Iron Ore	8,194	7,125	5,768	8,057	7,776
Motor vehicle	3,842	4,004	2,005	739	--
Steels	3,278	2,902	1,931	2,951	2,896
Wheat	1,281	589	768	--	352
Other	2,746	2,551	2,700	3,005	2,733
<b>Total</b>	<b>33,597</b>	<b>31,046</b>	<b>26,405</b>	<b>27,309</b>	<b>25,438</b>
<b>Sydney Ports Corporation</b>					
Containerised trade ('000 TEUs):**:					
Machinery and transport equipment	262	245	235	233	205
Miscellaneous manufactured articles	249	228	221	229	190
Chemicals	181	170	159	164	150
Others	767	751	704	647	624
<b>Total Containerised Trade ('000 TEUs)</b>	<b>1,459</b>	<b>1,394</b>	<b>1,319</b>	<b>1,273</b>	<b>1,169</b>
Non-containerised trade ('000 tonnes):					
Oil	12,217	11,603	11,198	12,587	11,842
Dry bulk	1,209	1,115	1,234	1,225	1,184
Bulk liquids and gas	474	502	684	797	675
Others	1	1	144	481	679
<b>Total Non-Containerised Trade ('000 tonnes)</b>	<b>13,901</b>	<b>13,221</b>	<b>13,260</b>	<b>15,090</b>	<b>14,380</b>

Source: Information provided by respective port corporations (unaudited).

\* PKPC provided this information in revenue tonnes. A revenue tonne is a revenue-generating cargo shipment of either one metric tonne or one cubic metre whichever yields the greatest amount of revenue for the carrier.

\*\* Excluding empty containers trade.

Coal remains a key commodity for New South Wales ports, increasing by 10.4 per cent in 2010–11

In September 2011, the government announced it planned to refinance Port Botany under a long-term lease of 99 years

Container freight movements by rail through Sydney Ports Corporation was 14 per cent against a target of 40 per cent for 2010–11

## Other Information

### Port Botany

On 6 September 2011, the New South Wales Government announced it planned to go to market to refinance Port Botany under a long-term lease of 99 years. The anticipated completion date of this transaction is in the first half of 2013. It will undertake a pre-transaction scoping study including an assessment of the best way to deal with Sydney Ports Corporation's residual Sydney Harbour facilities.

### Container Freight Movements by Rail

#### Recommendation

Sydney Ports Corporation should continue working with other government authorities and industry stakeholders to improve the effectiveness of program initiatives for increasing container freight movements by rail.

The Corporation should review the underlying causes hindering growth in the rail mode and develop and implement strategies to address the unfavourable trend.

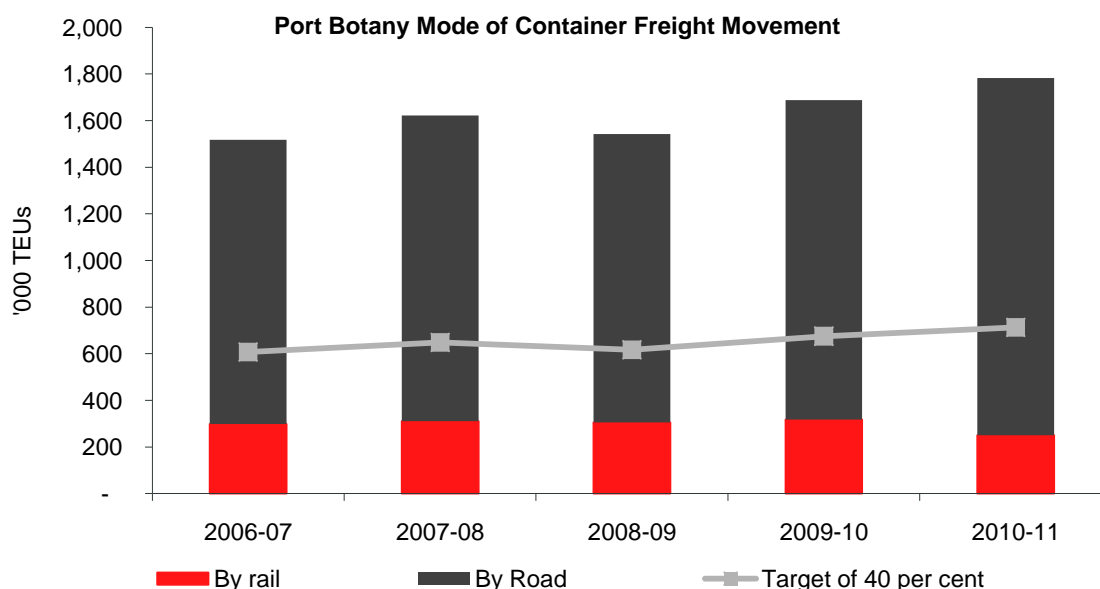
The management of Sydney Ports Corporation advises that this strategy is now being implemented in conjunction with Transport for NSW as part of the development of its State Freight Strategy.

In December 2004, the Minister for Infrastructure, Planning and Natural Resources announced a rail mode share target of 40 per cent of container traffic in and out of Port Botany by 2011. The target was not achieved in 2010–11. The actual share achieved was only 14 per cent.

In September 2011, the government updated the target to 'double the proportion of container freight movement by rail through NSW ports by 2020' under its ten-year State Plan 'NSW 2021'. It comprises the following priority actions:

- develop and deliver the NSW Freight Strategy
- prioritise the delivery of the Port Botany Landside Improvement Strategy
- complete the creation of a third terminal and five new container berths at Port Botany
- undertake detailed modelling to determine future operating capacity of NSW ports including options to increase the use of rail to service ports.

The graph and table below show the Port Botany container freight movements by road or rail over the past five years.



Year ended 30 June	2011	2010	2009	2008	2007
<b>Port Botany Proportion of Container Freight Movement (%)</b>					
Rail	14.0	18.8	19.8	19.2	19.6
Road	86.0	81.2	80.2	80.8	80.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Port Botany Container Freight Movement* ('000 TEUs)</b>					
Rail	250	317	305	311	298
Road	1,533	1,371	1,237	1,311	1,220
<b>Total</b>	<b>1,783</b>	<b>1,688</b>	<b>1,542</b>	<b>1,622</b>	<b>1,518</b>

Source: Sydney Ports Corporation (unaudited).

\* Excluded transshipments (cargo unloaded from one vessel and reloaded onto another vessel at the port within 14 days from the date of unloading).

The proportion of freight movement by rail remained stable at approximately 19 per cent from 2007 to 2010. It dropped to 14 per cent in 2010–11 or 0.25 million TEUs (a decrease of 21.1 per cent). Sydney Ports Corporation advises that the closure of a private sector intermodal facility at Camellia, due to environmental contamination issues, was the significant contributor to the decrease.

The trend above demonstrates that implementation of policy and program initiatives since 2004 has not effectively increased rail mode share.

There have been numerous initiatives released since 2004 to increase the share of freight transported by rail, including:

- Sydney Metropolitan Strategy (2005), which contained initiatives that relate to the modal shift of freight transport from road to rail, including:
  - maximise the efficiency of freight transport and proportion transported by rail
  - develop the next elements of the Sydney Freight Strategy
  - facilitate the upgrading of the metropolitan rail freight network
  - plan for the provision of sufficient freight transport capacity in key corridors
  - protect corridors and land for freight related activities in the future
- State Infrastructure Strategy 2008–09 aimed to increase the capacity and efficiency of the New South Wales rail network
- Establishment of the Freight Infrastructure Advisory Board (FIAB) in 2004. It made a number of recommendations relating to rail freight transport in its report 'Railing Port Botany's Containers' (2005) including to ensure that Sydney has sufficient additional intermodal terminal capacity to meet a rail freight share target of 40 per cent
- Infrastructure Implementation Group established by the New South Wales Government in 2007 to help government agencies deliver priority infrastructure projects
- Sydney Ports Corporation established the Port Freight Logistics Plan in June 2008, which is a framework with program initiatives to improve road and rail performance at Port Botany
- Sydney Ports Corporation leads on the Port Botany Landside Improvement Strategy (PBLIS) which commenced in 2008. It aims to improve competitive access and service arrangements of container movements between stevedores and transport carriers at Port Botany
- Under PBLIS, a specific taskforce, the Port Botany Rail Team (PBRT), chaired by Sydney Ports Corporation, was set up in 2008 and continues to meet regularly to enhance rail operational performance and support the modal shift to rail. The current Sydney Ports rail strategy was developed in conjunction with the PBRT and includes supply chain optimisation, operational performance and pricing initiatives

The \$725 million Port Botany Expansion project was completed in 2011 with operations scheduled to commence in 2013

The proportion of freight movements by rail is not considered a significant issue at the other port corporations. Newcastle Port Corporation advises most of its freight movement is by rail mode. The proportion has remained stable at approximately 94 per cent over the past five years.

### Major Projects

The table below provides the completion dates and costs for port corporations' projects over \$20 million, based on estimates in the New South Wales Budget Papers.

Project	Original target date	Forecast/actual completion date	Months late	Project approval* \$m	Forecast/actual final cost \$m
<b>Port Kembla Port Corporation</b>					
Outer Harbour Stage 1A – Reclamation for Bulk Products (including Master Plan and Environmental Assessment)	June 2012	November 2012	5	24.5	24.5
<b>Sydney Ports Corporation</b>					
Port Botany Expansion	July 2011	June 2011	--	725.5	725.5
Intermodal Logistics Centre at Enfield	June 2011	January 2013	19	**	na
Second Bulk Liquids Berth	August 2011	November 2012	15	**	na
White Bay Passenger Terminal	June 2012	December 2012	6	**	na

Source: Port Kembla Port Corporation, Sydney Ports Corporation (unaudited).

\* This reflects the most recent project approval costs. It does not represent the original budget costs.

\*\* Under tender.

na Not available.

### Port Kembla Port Corporation

Management advises the project was delayed by additional planning approvals.

### Sydney Ports Corporation

Management advises the project delays were mainly due to the need to address unplanned technical, design and planning issues.

### Port Kembla Outer Harbour Development

In 2008, the Minister for Ports and Waterways announced a \$700 million outer harbour development project. This will include 42 hectares of port area reclamation and 1.8 kilometres of berths. The development will be constructed in three discrete stages by 2037.

Stage one comprises the reclamation and dredging for the footprint of the total development and construction of one new multi-purpose terminal and container berth. In March 2011, the Department of Planning granted the development approval for Stage one.

Stages two and three will comprise construction and operation of additional berths and associated cargo storage and handling facilities.

### Port Botany Expansion

The Port Botany Expansion is a \$725 million project to create capacity for a third terminal, which was completed in June 2011. After the cranes and other stevedoring infrastructure are installed by the private operator, it will commence operations in 2013.

The new terminal is 63 hectares of reclaimed land from the waters of Port Botany. It has a quay length of 1.85 kilometres which will berth five container vessels. The management of Sydney Ports Corporation advises the third terminal will double container trade capacity at Port Botany.



## Property Management

Year ended 30 June	2011	2010	2009	2008	2007
<b>Newcastle Port Corporation</b>					
Value of rental properties (\$m)	227.0	164.4	68.2	60.0	59.8
Rental revenue (\$m)	24.5	20.4	8.0	7.2	6.7
Return on rental properties (%)	10.8	12.4	11.7	12.0	11.2
<b>Port Kembla Port Corporation</b>					
Value of rental properties (\$m)	130.9	133.2	126.2	106.8	69.9
Rental revenue (\$m)	8.7	29.5	19.8	15.9	4.0*
Return on rental properties (%)	6.6	22.1	15.7	14.9	5.7*
<b>Sydney Ports Corporation</b>					
Value of rental properties (\$m)	355.9	338.9	338.9	338.9	329.1
Rental revenue (\$m)	54.4	49.2	49.0	47.6	44.6
Return on rental properties (%)	15.3	14.5	14.5	14.0	13.6

Sources: Information provided by respective port corporations (unaudited).

\* The PKPC rental revenue of 2007 has excluded the throughput trading component of a coal terminal lease.

### Newcastle Port Corporation

The increase in the value of properties was due to a revaluation of the properties and the lease of additional land. Rental revenue increased mainly due to new leases for coal terminal related land.

### Port Kembla Port Corporation

The decrease in the value of properties was due to the reclassification of land valued at \$2.3 million to non-rental properties. The drop in rental revenue was due to the expiration of the performance rent component of a coal terminal lease at 30 June 2010.

### Sydney Ports Corporation

The increased value of properties reflects a revaluation of those properties. The increase in rental revenue was mainly due to increases in market and performance rents.

## Human Resources

### Workforce Ageing

Last year, I recommended each port corporation review the effectiveness of their policies to manage their ageing workforces. The port corporations advise that this is occurring through human resource strategies, succession planning and knowledge sharing initiatives. I encourage all port corporations to continue to ensure they have appropriate strategies and policies in place to manage this issue.

Twenty seven per cent of the port corporations' employees were aged 55 years or older at 30 June 2011, and 41 per cent were 50 years or older.

### Long Service Leave Liability

The long service leave liability for the port corporations has increased by 19.2 per cent over the past five years to \$14.9 million at 30 June 2011. Although the port corporations have strong cash flows, they will need to ensure they have plans to fund these liabilities, which generally increase over time with increases in employee remuneration levels. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

The table below provides details of the long service leave liability of each port corporation over the past five years.

Year ended 30 June	Trend	2011 \$m	2010 \$m	2009 \$m	2008 \$m	2007 \$m
Newcastle Port Corporation	↑	4.6	4.4	4.1	4.1	3.8
Port Kembla Port Corporation	~	1.4	1.4	1.1	1.1	1.1
Sydney Ports Corporation	↑	8.9	8.5	8.4	7.6	7.6
<b>Total</b>	<b>↑</b>	<b>14.9</b>	<b>14.3</b>	<b>13.6</b>	<b>12.8</b>	<b>12.5</b>

Source: Respective port corporation's financial statements.

Key: ↑Trend upwards, ~ No trend

### Annual Leave Balances

Last year, I recommended port corporations with high levels of excessive annual leave continue with their plans to reduce leave balances. It is pleasing to note some port corporations have achieved reductions to these balances during 2010–11. Sydney Ports Corporation was the most successful in reducing the number of staff with more than 40 days accrued annual leave.

Managing excessive annual leave balances remains a challenge for port corporations. At 30 June 2011, 73 employees (84) or 15.1 per cent (18.6 per cent) of all staff had accrued more than 40 days annual leave. Liabilities for excessive annual leave generally increase over time as salary rates increase, which negatively impacts costs and cash flows. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

## Financial Information

### Abridged Statements of Comprehensive Income

Year ended 30 June	Newcastle Port Corporation		Port Kembla Port Corporation		Sydney Ports Corporation	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Port revenue	49.9	43.7	39.4	32.0	164.2	137.5
Rental revenue	24.5	20.4	10.4	31.1	54.8	49.3
Other	4.3	1.5	3.2	9.5	36.6	33.4
<b>Total Revenue</b>	<b>78.7</b>	<b>65.6</b>	<b>53.0</b>	<b>72.6</b>	<b>255.6</b>	<b>220.2</b>
Employee benefits	18.4	15.6	6.8	7.0	41.5	38.7
Depreciation and amortisation	5.2	4.6	6.0	5.8	23.9	19.3
Finance costs	7.6	7.1	4.3	4.9	13.8	14.5
Other expenses	28.0	26.6	11.6	12.9	71.5	62.6
<b>Total Expenses</b>	<b>59.2</b>	<b>53.9</b>	<b>28.7</b>	<b>30.6</b>	<b>150.7</b>	<b>135.1</b>
<b>Profit Before Tax</b>	<b>19.5</b>	<b>11.7</b>	<b>24.3</b>	<b>42.0</b>	<b>104.9</b>	<b>85.1</b>
Income tax equivalent expense	6.3	3.7	7.3	17.1	31.4	26.0
<b>Profit After Tax</b>	<b>13.2</b>	<b>8.0</b>	<b>17.0</b>	<b>24.9</b>	<b>73.5</b>	<b>59.1</b>
<b>Total Other Comprehensive Income/(Expense), Net of Income Tax</b>	<b>41.5</b>	<b>29.6</b>	<b>(0.3)</b>	<b>3.1</b>	<b>52.2</b>	<b>21.5</b>
<b>Total Comprehensive Income</b>	<b>54.7</b>	<b>37.6</b>	<b>16.7</b>	<b>28.0</b>	<b>125.7</b>	<b>80.6</b>
<b>Dividends</b>	<b>9.0</b>	<b>3.1</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>

**Newcastle Port Corporation**

The increase in total revenue reflects the growth in trade activities.

The increase in employee benefits was largely due to the increase in the number of staff from 124 in 2009–10 to 134 in 2010–11.

Other comprehensive income rose mainly due to the revaluation increment on property, plant and equipment being \$17.3 million higher than the previous year.

**Port Kembla Port Corporation**

The increase in port revenue was mainly due to the increase in trade and port charges during 2010–11.

The drop in rental revenue of \$20.7 million was mainly due to the expiration of the performance rent component of a coal terminal rental lease at 30 June 2010 with an annual rental income of approximately \$24 million. This was marginally offset by additional income associated with the Inner Harbour Development.

The decrease of other revenue of \$6.3 million was due to no revaluation increment on investment properties recognised as revenue in 2010–11 (\$7 million).

Other comprehensive income decreased largely due to the decrease in the revaluation increment on property, plant and equipment.

**Sydney Ports Corporation**

Port revenue rose mainly due to the increase in port charges and trade growth in 2010–11.

Other revenue included a revaluation increment of \$3.8 million in 2010–11.

Other expenses' increase was mainly due to the revaluation decrement on property, plant and equipment being \$3.5 million higher than the previous year. The increase in other expenses was also due to an increase in services contractors of \$5 million resulting from more projects undertaken.

Other comprehensive income rose mainly due to the revaluation increment on property, plant and equipment being \$30.8 million higher than the previous year.

**Abridged Statements of Financial Position**

At 30 June	Newcastle Port Corporation		Port Kembla Port Corporation		Sydney Ports Corporation	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Current assets	18.6	11.3	54.9	55.6	187.5	274.2
Non-current assets	453.8	392.8	397.1	392.9	1,779.6	1,535.7
<b>Total Assets</b>	<b>472.4</b>	<b>404.1</b>	<b>452.0</b>	<b>448.5</b>	<b>1,967.1</b>	<b>1,809.9</b>
Current liabilities	32.6	22.7	19.6	24.8	77.3	80.7
Non-current liabilities	147.1	134.4	87.8	95.8	833.5	798.6
<b>Total Liabilities</b>	<b>179.7</b>	<b>157.1</b>	<b>107.4</b>	<b>120.6</b>	<b>910.8</b>	<b>879.3</b>
<b>Net Assets</b>	<b>292.7</b>	<b>247.0</b>	<b>344.6</b>	<b>327.9</b>	<b>1,056.3</b>	<b>930.6</b>

**Newcastle Port Corporation**

The increase in current assets represented an improved cash balance generated from profit.

Non-current assets increased mainly due to a revaluation increment on land and buildings of \$60.5 million.

The increase in current liabilities was largely due to a dividend payable of \$9 million (\$3.1 million).

The non-current liabilities increased mainly due to a higher deferred tax liability resulting from the revaluation increment of land and buildings.

**Port Kembla Port Corporation**

The decrease in current liabilities was primarily due to no income tax equivalent payable at 30 June 2011 (\$6 million).

Non-current liabilities decreased largely due to the repayment of borrowings of \$6.8 million during 2010–11.

**Sydney Ports Corporation**

Cash applied to major projects contributed to a decrease in cash and current assets by \$86.7 million.

The Port Botany Expansion project and the revaluation increment on property, plant and equipment were the primary contributors to an increase in the non-current assets.

**Entity Activities**

All New South Wales port corporations are statutory State owned corporations incorporated under the *Ports and Maritime Administration Act 1995*.

The Corporations' principal objectives are to:

- operate at least as efficiently as any comparable businesses
- maximise the net worth of the State's investment in the Port Corporation
- exhibit a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate these when able to do so
- promote and facilitate trade through port facilities
- ensure port safety functions are carried out properly
- promote and facilitate a competitive commercial environment in port operations
- improve productivity and efficiency in its ports and the port related supply chain.

For further information on Newcastle Port Corporation, refer to [www.newportcorp.com.au](http://www.newportcorp.com.au).

For further information on Port Kembla Port Corporation, refer to [www.kemblaport.com.au](http://www.kemblaport.com.au).

For further information on Sydney Ports Corporation, refer to [www.sydneyports.com.au](http://www.sydneyports.com.au).

## Controlled Entity

### Voluntary Winding up of Controlled Entity of Sydney Ports Corporation

The Board of Directors and shareholders resolved that the controlled entity of Sydney Ports Corporation, Sydney Pilot Service Pty Ltd, cease operations on 31 August 2010 and subsequently undergo voluntary winding up. Sydney Pilot Service Pty Ltd transferred its business to Sydney Ports Corporation on 1 September 2010.

On 30 June 2011, Sydney Pilot Service Pty Ltd ceased to be a legal entity and was deregistered with the Australian Securities and Investments Commission.

The 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 of Sydney Ports Corporation.

Entity Name	Website
Sydney Pilot Service Pty Ltd	*

\* This entity does not have a website.

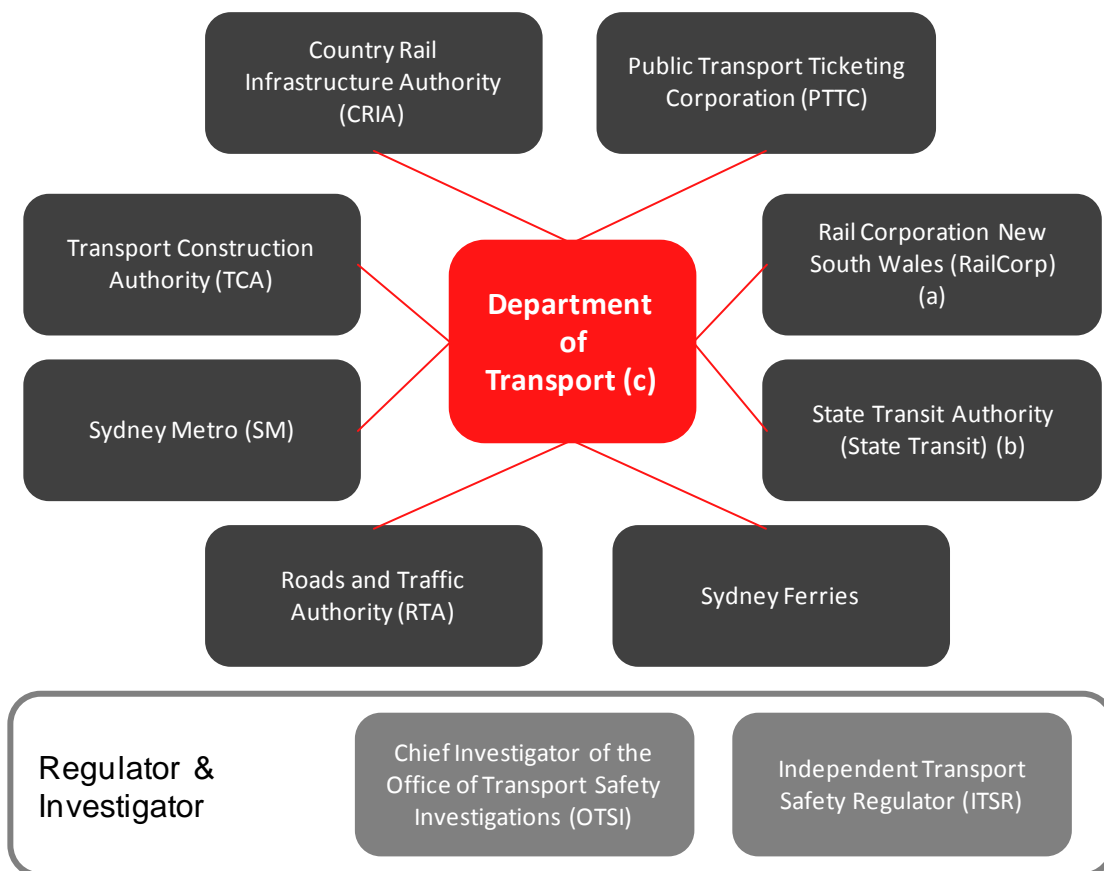
# Transport Overview

20

NSW Auditor-General's Report  
Volume Eight 2011  
TRANSPORT OVERVIEW

## Transport Services

The following government entities provided, facilitated and regulated the State's transport services during 2010-11:



a RailCorp includes CityRail and CountryLink.

b State Transit includes the Authority, Western Sydney Buses, STA Division and WSB Division.

c The Department of Transport was previously named Transport NSW, and prior to 1 July 2010 was named the Department of Transport and Infrastructure.

### Transport Administration Amendment Act 2010

The *Transport Administration Amendment Act 2010* commenced on 1 July 2010 and established a new framework for the administration and governance of the delivery of transport services and infrastructure by public transport agencies.

The Department of Transport was established as the lead transport agency with primary responsibility for transport policy, planning and coordination functions as well as oversight of infrastructure delivery and asset management. The streamlined transport structure was designed to deliver integrated transport planning and service delivery, and consolidation of similar functions to reduce costs and provide additional funds for front line staff and services.

The legislation gave the Department, through the direction of the Director General, responsibility for the range of functions above. For the year ended 30 June 2011, the Department controlled most public transport agencies for accounting and consolidation purposes.

CRIA and TCA, previously not-for-profit State owned corporations became statutory authorities on 1 July 2010.

## Transport Legislation Amendment Act 2011

On 1 November 2011, the *Transport Legislation Amendment Act 2011* established a new statutory body Transport for NSW (TfNSW) to assume certain functions and responsibilities from the Department and from other entities which provide transport services. TfNSW is now responsible for:

- Policy and Planning
- Transport coordination
- Transport infrastructure, and
- Transport services.

The legislation abolishes a number of existing transport agencies and creates a new entity, Roads and Maritime Services (RMS). RMS took over the functions of the RTA and the Maritime Authority of NSW.

TCA and CRIA are expected to be abolished during 2011-12 and their functions will be taken over by TfNSW.

The Department will continue to provide policy advice to the Minister for Transport and the Minister for Roads and Ports and the Director General will manage the affairs of TfNSW, Sydney Metro and PTTC.

## Audit Opinions

The audit of the above entities' financial statements for the year ended 30 June 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports.

The Independent Auditor's Report for Sydney Ferries drew attention to significant uncertainty relating to whether Sydney Ferries will be able to realise its assets and discharge its liabilities in the normal course of business. The uncertainty arose because of the nature and timing of proposed franchising arrangements for Sydney Ferries. The Minister for Transport announced, on 11 May 2011, that the government will retain ownership of Sydney Ferries, but with a non-government operator leasing, maintaining and operating the fleet.

## Key Issues

### Conflict of Interest Risk (Repeat Issue)

#### *Recommendation*

**I again recommend the Department finalise development of an appropriate framework to manage potential conflicts of interests within the new transport structure.**

Since 1 July 2010, the Director General of the Department has had authority to issue directions to the various transport agencies covering a range of functions. The Director General is also responsible for allocating funds to these agencies and may enter into contractual arrangements with these agencies for the provision of transport services.

Conflicts of interest may occur within broader procurement projects, which may involve statutory agencies competing with private sector operators. The Department advises a framework for managing the probity risks (including conflicts of interest) is expected to be covered in probity plans relating to those specific procurement projects. The Department is establishing a central unit responsible for Procurement Policy within TfNSW and the Department to provide business units with good practice frameworks to address these issues.

The Audit and Risk Committee and the Director General approved a Corruption Control Framework for the Department with a 12 month action plan, which includes development of a revised Code of Conduct, a Statement of Business Ethics, a Conflict of Interest and Gifts and Benefits Policy and Procedure, and a Public Interest Disclosures Policy. These documents were launched in September 2011 for the Department and will be in place for TfNSW in November 2011.

Positive drug test results are significantly higher than positive alcohol test results at RailCorp, State Transit and Sydney Ferries

At RailCorp contractors consistently return much higher rates of positive drug and alcohol test results compared to employees

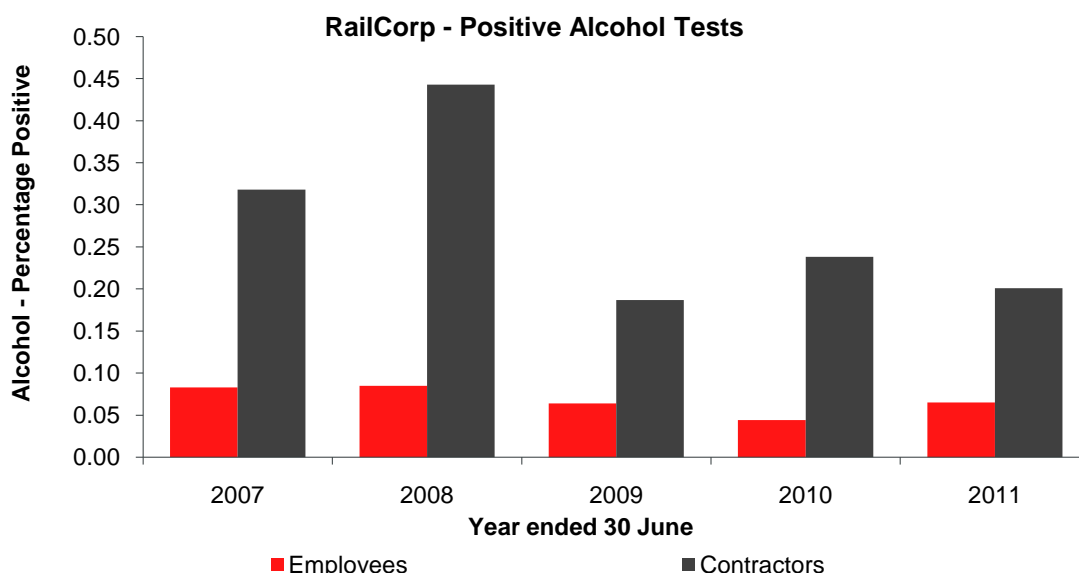
Training programs are to commence early next year, including Code of Conduct training and special training around corruption risks, including those related to procurement. In the interim, new staff and contractors are briefed as part of inductions on the Code of Conduct and Statement of Business Ethics. The latter is being installed as a compliance document in all contracts with external suppliers and contractors.

The Department is also updating its Code of Conduct, Statement of Business Ethics, and its Public Interest Disclosures Policy, to comply with recent amendments to the Public Interest Disclosures Act 1994. This will include updated conflict of interest policy and procedures reflecting the business of the Department.

### Drug and Alcohol Testing

Positive drug test results are significantly higher than positive alcohol test results at RailCorp, State Transit and Sydney Ferries. These agencies have achieved a trend of reducing positive results for both drugs and alcohol over the last few years. At RailCorp contractors consistently return much higher rates of positive drug and alcohol test results compared to employees.

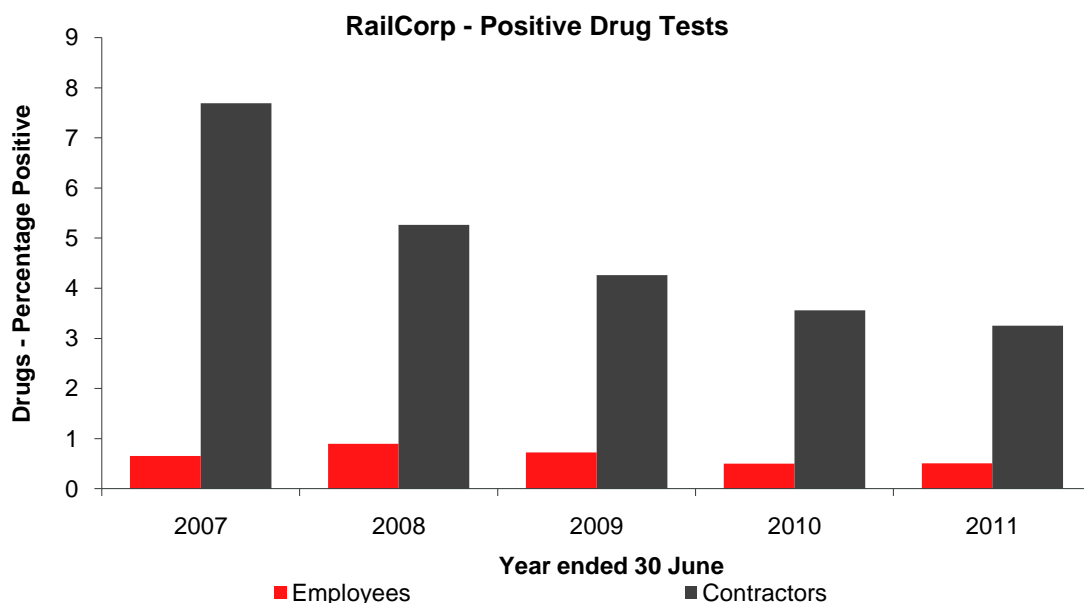
Drug and alcohol testing is performed on a random basis to provide safer networks for customers and staff.



Based on data provided by RailCorp (unaudited).

From the chart above, contractors historically have a much higher positive outcome to alcohol tests than employees. In 2010-11, 0.07 per cent of tests on employees recorded a positive alcohol result, and this has remained rather stable in the five years examined. Contractor alcohol results tend to fluctuate over the five year period examined, being 0.2 per cent in 2010-11, the highest of 0.44 per cent in 2007-08 and lowest of 0.19 per cent in 2008-09.



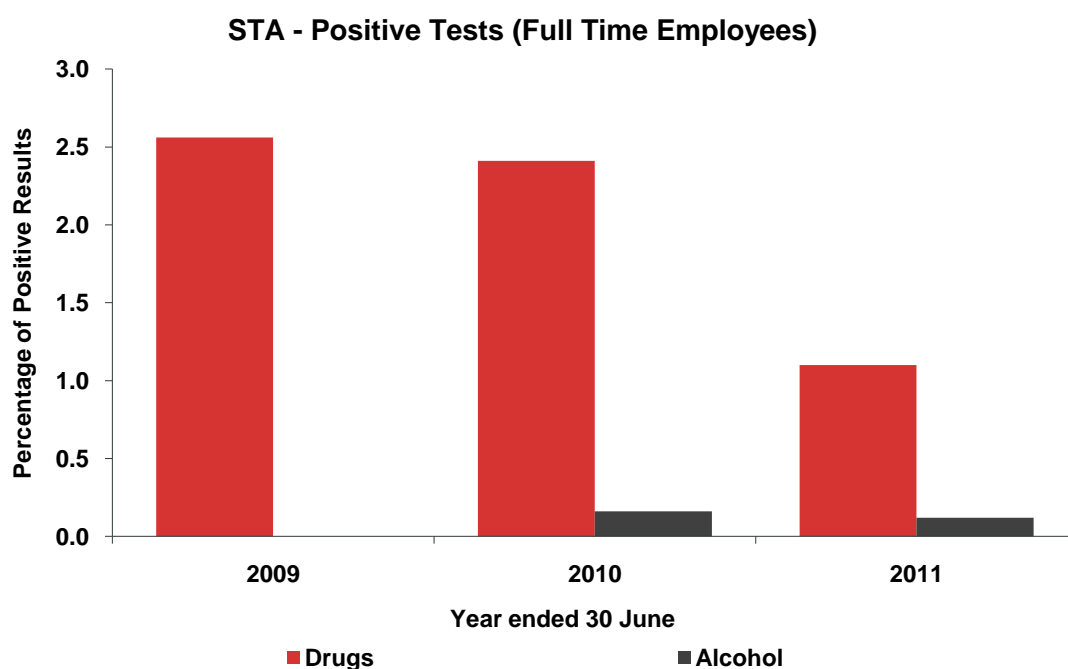


Based on data provided by RailCorp (unaudited).

Contractors historically have much higher positive outcomes to drug tests than employees as shown above. In 2010-11, 0.5 per cent of drug tests on employees recorded a positive result, and has varied between 0.5 and 0.9 per cent over the five years examined. Positive contractor drug test results have decreased over the same period, varying between 7.7 per cent and 3.3 per cent.

Tests are conducted on all employees and contractors and at all locations in RailCorp. Most tests use breath-based equipment with instantaneous results. Drug (urine) tests have an average turn-around time of 48 hours.

Railcorp's testing is conducted strategically according to a plan. Whilst most tests are random, the plan provides for increased focus on areas of the business which historically have more positive returns.

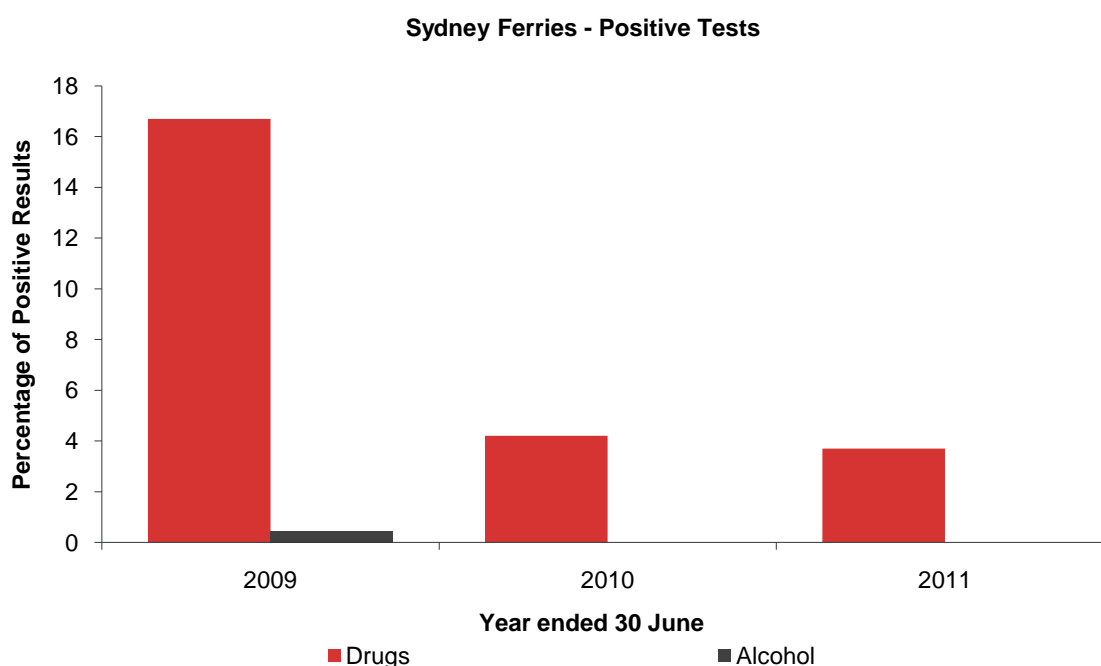


Based on data provided by State Transit (unaudited)

The chart above shows that, historically, positive drug test results have been higher than those for alcohol at State Transit. However, positive drugs results show a decreasing trend over the three years analysed, falling from 2.6 to 1.1 per cent in 2010-11. The actual number of positive alcohol tests remained stable with nil in 2008-09, two in 2009-10, and two in 2010-11).

Breath alcohol tests are performed and the results are immediate, while drug (urine) test results are received within 24 hours. Currently, Transport Safety Workers are alcohol and drug tested as required by the Passenger Transport (Drug and Alcohol Testing) Regulation 2010. However, State Transit is moving towards a policy of randomly testing all employees.

State Transit's drug and alcohol testing program includes random, reasonable cause and incident testing.



Based on data provided by Sydney Ferries (unaudited).

The chart above shows alcohol has not been an issue for Sydney Ferries, although there was one positive result in 2008-09. Positive drugs results show a decreasing trend over the three years analysed, falling from 16.7 to 3.7 per cent in 2010-11. The actual number of positive drug tests has remained stable over the last two years at four in 2009-10 and 2010-11 (Sydney Ferries advised two of these results were for prescription medication).

Breath alcohol tests are performed and the results are returned immediately, while drug (urine) test results normally take about three days. All staff at Sydney Ferries are subject to drug and alcohol tests and the approach is a mix of random monthly testing, incident based, target and suspicion testing.

## Carbon Footprint

### Recommendation

RailCorp and State Transit should increase their efforts to reduce the impact of their activities on the environment.

Greenhouse gases emitted as a result of the provision of transport services have an adverse effect on our environment. Transport service providers, RailCorp, State Transit Authority, and Sydney Ferries, have developed strategies to measure and reduce their carbon footprint and impact on the environment.

RailCorp and State Transit report to the Federal Department of Climate Change and Energy Efficiency under the National Greenhouse and Energy Reporting Scheme on greenhouse gas emissions and energy use.

#### RailCorp

Measure	2009-10	2008-09	Movement %
Total scope 1 greenhouse gas emissions*^	86,273	85,128	1.3
Total scope 2 greenhouse gas emissions*#	638,463	617,508	3.4
Total energy consumption**	3,817,961	3,673,271	3.9

Sourced from the Department of Climate Change and Energy Efficiency's reports: Greenhouse and Energy Information 2008-09 and 2009-10.

\* Measured as tonnes of carbon dioxide equivalent (t CO<sub>2</sub>-e)

\*\* Measured as gigajoules (GJ)

^ Scope 1 emissions are the release of greenhouse gases into the atmosphere as a direct result of an activity, or series of activities (including ancillary activities) that constitute the facility (e.g. transportation of materials, products, waste and people by a transport company).

# Scope 2 emissions are the release of greenhouse gases into the atmosphere as a direct result of one or more activities that generate electricity, heating, cooling or steam that is consumed by the facility but not form part of the facility.

#### State Transit

Measure	2009-10	2008-09	Movement %
Total scope 1 greenhouse gas emissions*^	142,904	137,825	3.7
Total scope 2 greenhouse gas emissions*#	10,775	9,052	19.0
Total energy consumption**	2,293,569	2,178,923	5.3

Sourced from the Department of Climate Change and Energy Efficiency's reports: Greenhouse and Energy Information 2008-09 and 2009-10.

\* Measured as tonnes of carbon dioxide equivalent (t CO<sub>2</sub>-e)

\*\* Measured as gigajoules (GJ)

^ Scope 1 emissions are the release of greenhouse gases into the atmosphere as a direct result of an activity, or series of activities (including ancillary activities) that constitute the facility (e.g. transportation of materials, products, waste and people by a transport company).

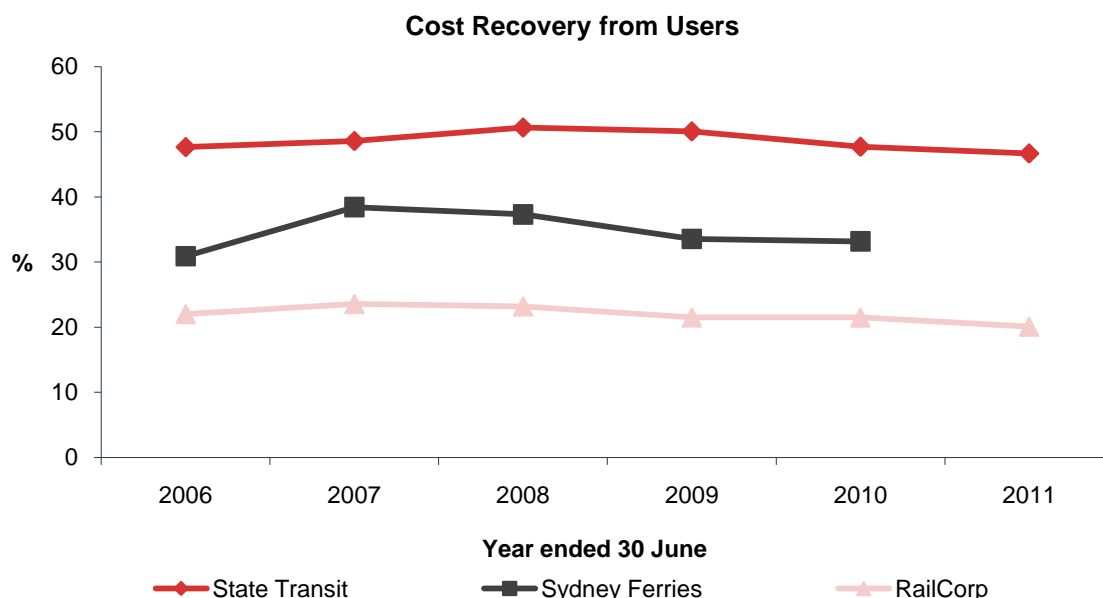
# Scope 2 emissions are the release of greenhouse gases into the atmosphere as a direct result of one or more activities that generate electricity, heating, cooling or steam that is consumed by the facility but not form part of the facility.

Greenhouse gas emissions and energy consumption have increased for both State Transit and RailCorp, which is consistent with increased rail services, and the introduction of the Metrobus network and new bus services.

RailCorp is introducing 78 Waratah trains to its network, requiring an upgrade to the electrical infrastructure as these trains require more energy. This will make it more difficult for RailCorp to reduce its greenhouse gas emissions and total energy consumption.

## Cost Recovery from Users

The transport sector incorporates rail, bus and ferry services. As well as providing direct benefits to users, these services generate substantial indirect benefits to the wider community, including reduced road congestion, traffic accidents and greenhouse gas emissions. These external benefits are funded by taxpayers through government subsidies.



Source: Amounts were calculated based on published financial information and passenger numbers advised by RailCorp, State Transit and Sydney Ferries.

Rail services continue to depend significantly on government funding to meet both operating expenses and capital investment. The level of cost recovery has remained consistently low, notwithstanding increases in the absolute level of fare income. In 2010-11 passenger revenue declined to cover only 20 per cent of RailCorp's operating costs (22 per cent in 2009-10).

State Transit is a for-profit entity and has the best level of cost recovery from users of the three transport services. State Transit's cost recovery was approximately 47 per cent in 2010-11 (48 per cent).

Sydney Ferries advises the cost recovery for ferry services could not be accurately determined for 2010-11. This is due the new contract arrangements, which became effective from 1 April 2010. Service payments are made to Sydney Ferries in accordance with the Ferry System Contract by the Department. The payments include fixed and variable components based on patronage and meeting key performance indicators. Ticket fares collected by Sydney Ferries are remitted to the Department and it did not recognise any passenger revenue in 2010-11.

Sydney Ferries advises that as a result of the MyZone fare structure, most customers using Sydney Ferry services purchase tickets from other transport agencies and not from Sydney Ferries making the analysis difficult.

Year ended 30 June	RailCorp***		State Transit		Sydney Ferries	
	2011 \$	2010 \$	2011 \$	2010 \$	2011 \$	2010 \$
Cost of services provided per passenger journey	11.82	11.09	2.98	2.85	8.47	9.62
Passenger revenue per passenger journey	2.37	2.38	1.39	1.36	na**	3.19
Net cost per passenger journey*	9.44	8.71	1.59	1.49	na**	6.43

Source: Amounts were calculated based on published financial information and passenger numbers advised by RailCorp, State Transit and Sydney Ferries (unaudited).

\* The net cost per passenger journey essentially represents the amount subsidised by taxpayers through government contributions, less any other revenue sources.

\*\* Sydney Ferries passenger revenue reported in 2010-11 is nil, due to the new Service Contract Payments where Sydney Ferries recognises revenue based on fixed and variable components as per the Ferry System Contract.

\*\*\* 2010 comparative amounts for RailCorp is different from the amounts reported in the 2010 Auditor General's Report to Parliament Transport Overview section, as CityRail passenger journeys for 2010 and 2011 have been re-stated as a result of the Department of Transport's major review of the methodology measuring CityRail patronage.

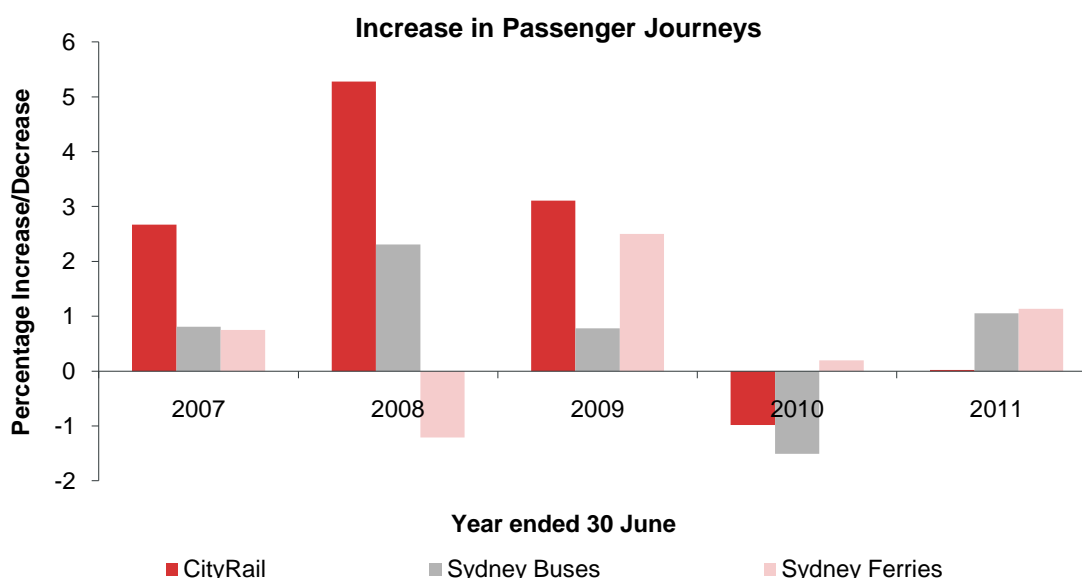
The cost of providing services per passenger journey increased for both RailCorp and State Transit. RailCorp recorded a 6.6 per cent increase and State Transit a 4.3 per cent increase. However, Sydney Ferries' costs per passenger journey have significantly decreased.

RailCorp recorded a 0.4 per cent decrease in passenger revenue per journey, while State Transit recorded a 2.1 per cent increase. Passenger revenue per journey for Sydney Ferries could not be reliably calculated due to a change in the method of calculating revenue, as explained in the above paragraphs.

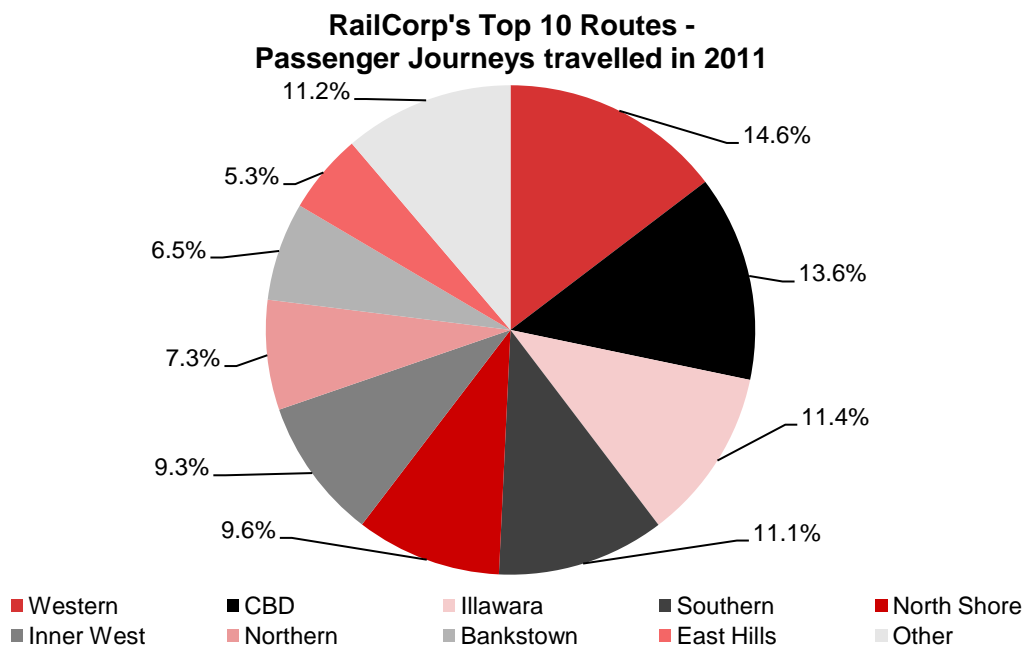
For more detail please refer to the comment on each agency elsewhere in this volume.

## Patronage Growth

In 2010-11, there were 501 million (493 million) passenger journeys on CityRail services, Sydney Buses and Sydney Ferries, a 1.6 per cent increase from the prior year. All carriers recorded an increase in passenger journeys, with CityRail recording the largest increase of 1.8 per cent (CityRail passenger journeys for 2010 and 2011 have been re-stated as a result of the Department of Transport's review of the methodology used to measure CityRail patronage). The chart below shows passenger growth over the last five years.



CityRail advises the increase in passenger journeys in 2010-11 was due to improved economic conditions following the global financial crisis. Sydney Buses advises the expansion of its Metrobus network and introduction of five new services in 2010-11 (8 Metrobus services in total) has contributed to the increase in its passenger journeys. The decrease in 2009-10 was due to the shift to rail following the opening of the Epping to Chatswood rail link in February 2009. Sydney Ferries advises the October 2010 timetable changes and favourable summer weather conditions contributed to the increase in its passenger journeys.

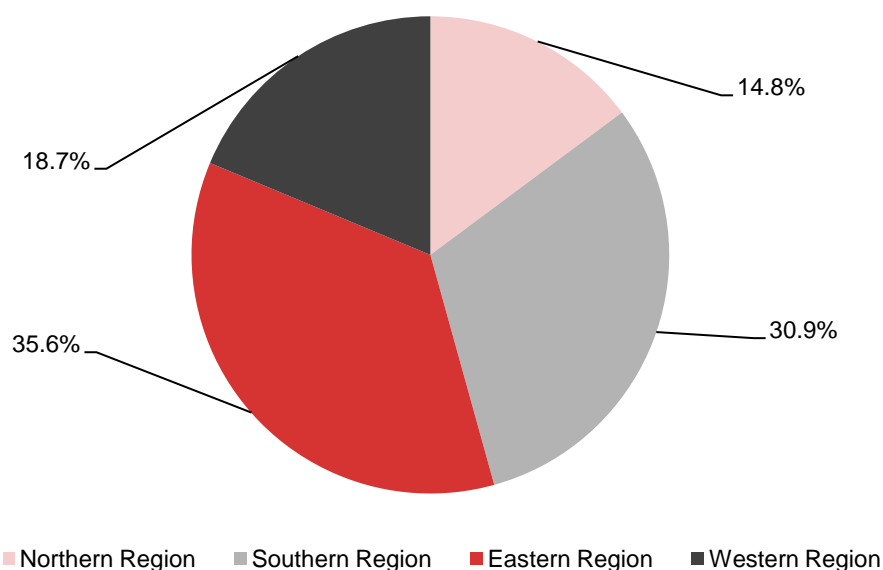


Source: Information provided by RailCorp (Unaudited).

The Western and Central Business District lines continue to be the main contributors to CityRail patronage, accounting for 28.2 per cent of its total passenger journeys in 2010-11 (28.7 per cent). Higher demand for train services has been experienced on the western route compared to other train lines primarily due to:

- a greater reliance on train services to travel to work from the west compared to other regions
- western lines serving a large proportion of Sydney's working population, whereas some other lines have much smaller catchments close to train lines
- consistently high population growth rates in the western region compared to other parts of Sydney
- fewer practical public transport options, other than rail, being available to passengers the further they live from the CBD.

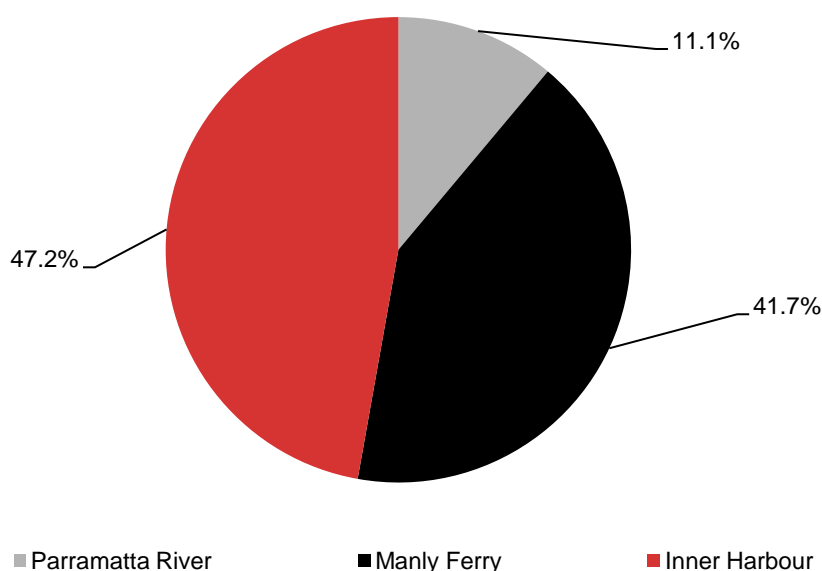
**Sydney Buses Routes - Passenger Journeys  
travelled in Year ended 30 June 2011**



Source: Information provided by State Transit (Unaudited).

Sydney Bus services in the eastern region continue to generate the highest patronage levels, accounting for 35.6 per cent (37.2 per cent) of Sydney Buses total passenger journeys. More bus service routes are required in this region to cater for the higher population density and fewer train lines available in Sydney's eastern suburbs.

**Sydney Ferries Routes - Passenger Journeys  
travelled in year ended 30 June 2011**

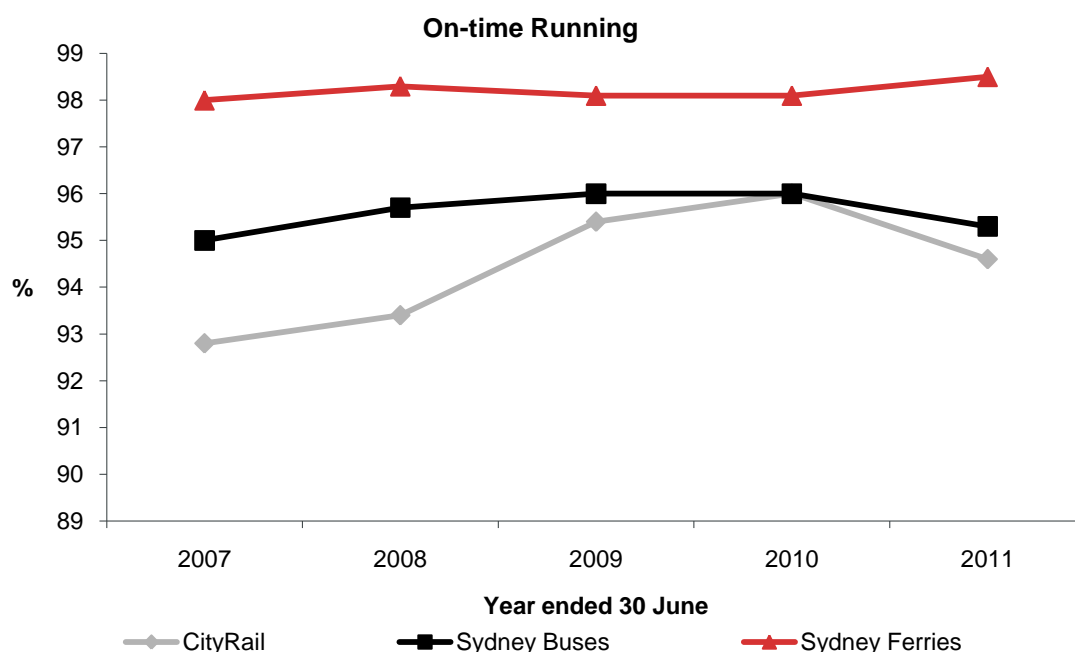


Inner Harbour ferry services account for 47.2 per cent (47.8 per cent) of total ferry patronage. Over the past five years, this continues to be the route with the highest passenger journeys.

For further information on passenger journeys, refer to the comments on RailCorp, State Transit and Sydney Ferries in this volume.

### On-time running

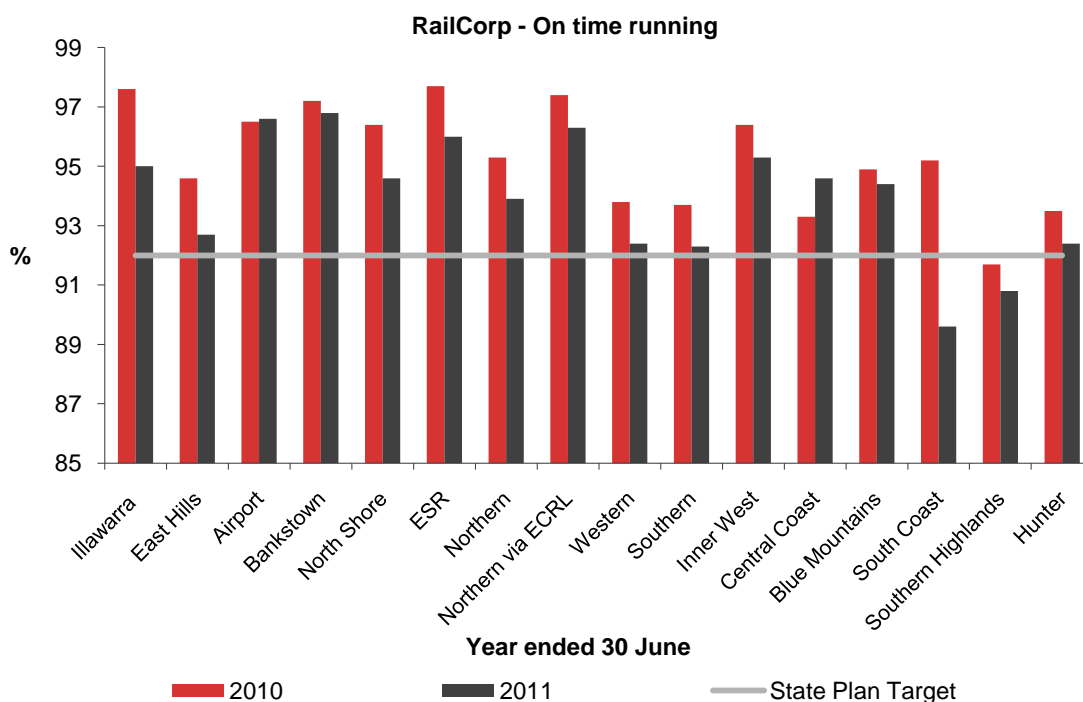
On-time running performance for Sydney Ferries, CityRail and State Transit services has remained steady since 2007. In 2011, on-time running performance for these services was 98.5, 95 and 95.3 per cent respectively.



Source: Information provided by the respective transport entities (Unaudited).

Over the last five years, CityRail's on-time running performance improved to a record high of 96 per cent in 2010, due to operational improvements and capital investments, and remained steady at 95 per cent in 2011. Since July 2005, the on-time running benchmark for suburban and intercity services has been five and six minutes respectively.

The chart below shows RailCorp's on-time running performance for 2010 and 2011 by train line against the NSW State Plan target.



Source: Information provided by RailCorp (Unaudited).

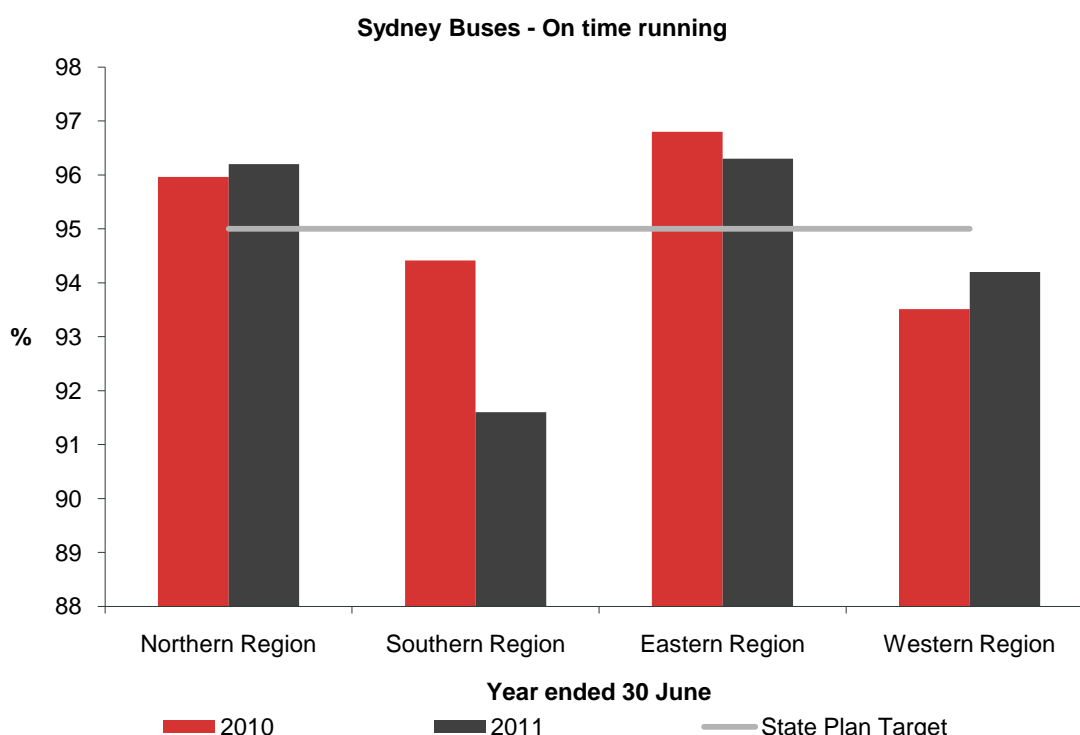
During the year ended 30 June 2011, most train lines performed substantially better than the State Plan Target of 92 per cent, with the exception of the South Coast (90 per cent) and Southern Highlands (91 per cent). Performance on these lines was impacted by severe flooding in March 2011.



The most common cause of peak hour delays in 2010-11 were signal failures, track obstructions and flooding caused by heavy rain.

Cityrail is working on the Clearways Program, a rolling stock replacement program, and other initiatives, to help maintain reliability across the network. For more information, refer to the comments on RailCorp and TCA in this volume.

The chart below shows Sydney Buses' on-time running performance during 2010-11 by region compared to NSW State Plan targets.

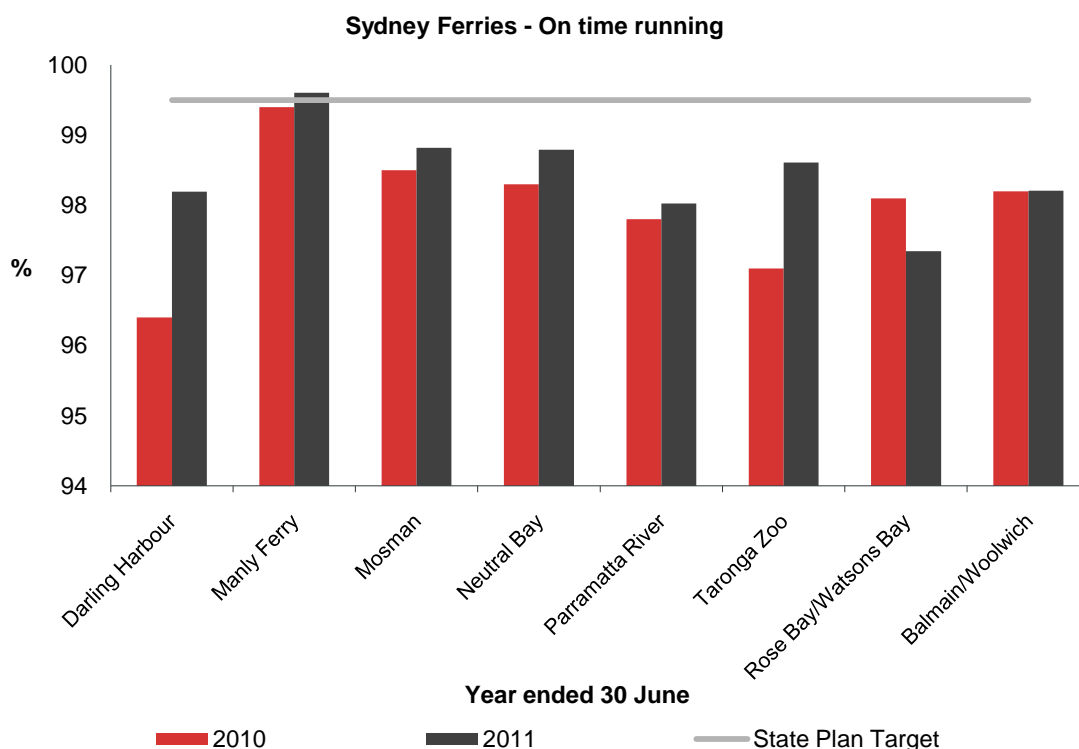


Source: Information provided by State Transit (Unaudited).

Note: Sydney Buses refers to State Transits Metropolitan services and excludes Private Bus Operator services.

Sydney Buses on-time running was below the State Plan target of 95 per cent in two of the four regions. Both the Southern and Western Regions performed below target in 2009-10 and 2010-11. The Southern Region's on-time performance deteriorated from 94.4 to 91.6 per cent in 2010-11, while the Western Region improved from 93.5 to 94.2 per cent. Management advises the below target performance was primarily due to unusual traffic conditions and increased road congestion in the Western and Southern Regions. Sydney Buses is implementing bus priority systems to improve reliability. For more information, refer to the comments on State Transit in this volume.

On-time running performance for Sydney Ferries was above the 2009 NSW State Plan target of 99.5 per cent for one route in 2010-11. The Manly Ferry Service achieved the highest on-time running of 99.6 per cent, while Rose Bay/Watsons Bay Service reported the lowest on-time running performance of 97.3 per cent.



Source: Information provided by Sydney Ferries (Unaudited).

Note: On-time running data by individual route was not captured prior to April 2009.

On-time running performance has improved since timetable changes were introduced in October 2010. Some systemic, scheduling related delays remain especially on the Watsons Bay route. Sydney Ferries has proposed timetable changes to address these issues to the Department. Berthing congestion due to lack of wharf access at Circular Quay also contributes to service delays.

### Crowding on Trains, Buses and Ferries

Crowding remains the top issue of concern with rail and bus passengers, based on the latest available customer surveys.

In December 2010, the Department released survey results on CityRail and Sydney metropolitan bus services. Fifty one per cent of train users and 19 per cent of bus users were dissatisfied with crowding at peak times.

For more details on the survey results, refer to the comments on RailCorp and State Transit in this volume.

A separate customer survey on crowding has not been performed for ferry services, but crowding on ferry services, especially on Sundays and the Parramatta River services, is an issue.

The Bureau of Transport Statistics carried out a 'Transport Customer Survey' across train, bus and ferry services in 2011, the results of which are available at <http://www.bts.nsw.gov.au>.

### Management of Crowding

#### CityRail

CityRail has an ongoing rollingstock procurement program, including the procurement of OSCARs and Waratahs, to increase the number of carriages on train services. It also has Clearways projects to increase network capacity and reliability. The infrastructure upgrades and timetable changes resulted in 42 additional weekday services being introduced in October 2010 for customers at stations between Cronulla and Kirrawee and extra evening peak services from the City to Cronulla, Waterfall and Hurstville.

## State Transit

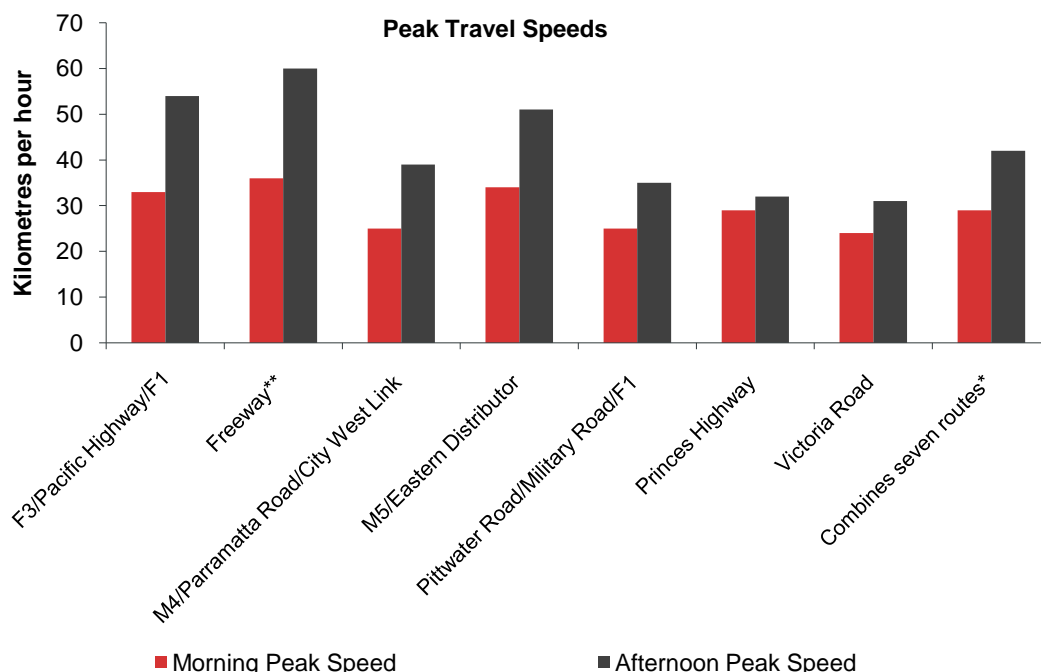
State Transit continually monitors loading levels on bus routes across its network to determine where increased services are required. Since October 2009, State Transit has expanded its Metrobus network and introduced five new services in 2010-11 (8 Metrobus services in total). The four routes (routes 20, 30, 40, and 50) from Tempe depot cost around \$25 million in 2010-11. The project has been completed, with the last Metrobus route (route 41) out of Burwood depot being introduced in December 2010.

## Sydney Ferries

Crowding on ferry services, especially on Sundays and the Parramatta River services, is an issue. A proposal for timetable changes to address capacity constraint problems on the Parramatta River has been submitted to the Department of Transport for review.

## Average Travel Speed on Major Routes

The RTA has advised that, since 1996, the number of cars on our roads has increased by one million vehicles impacting travel times and road congestion.



Based on two surveys performed each year. Information obtained from RTA (unaudited).

\* 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).

Between 2009-10 and 2010-11, overall travel speeds decreased for the AM peak period and remained unchanged for the PM peak period. The AM peak's overall average speed decreased from 31 to 29 km/h.

Speeds were generally lower across each of the seven routes, with decreases of up to 3 km/h. The M4 corridor was down from 28 to 25 km/h reflecting changes in travel patterns following removal of the toll on this corridor. The M2/Lane Cove Tunnel/Gore Hill Freeway corridor decreased from 39 to 36 km/h, due to road works and associated reductions in speed limits. The other five corridors all recorded slight decreases of 2 km/h or less.

The PM peak's overall average speed of 42 km/h remained unchanged. The speed on the M4 corridor was up from 35 to 39 km/h, a reversal of the reduction in 2009-10 caused by road works to remove the toll plazas. The M2/Lane Cove Tunnel/Gore Hill Freeway corridor decreased from 65 to 60 km/h due to the road works and speed limit changes mentioned above. The Victoria Road corridor decreased from 34 to 31 km/h due to road works during the November 2010 survey period. Speeds had, however, improved by the March 2011 survey following completion of the Inner West Busway. The changes on the other four corridors were minor.

Some of the initiatives to manage travel time/congestion are outlined below.

TfNSW, the new integrated transport authority, was established to bring together all transport and road functions in an integrated way. The NSW Transport Management Centre manages incidents and planned events on the network. It has a transport coordination function that brings together the RTA, CityRail, State Transit, Sydney Ferries and private bus operators to manage the day to day movement of people and goods.

The NSW Government has committed \$200 million over the next four years to an RTA package to tackle congestion and safety on key routes. Of this amount, \$41 million is allocated to 2011-12. This is in addition to key, long term RTA programs to address congestion, including the Bus Priority Program, Pinch Point Program and the development of Intelligent Transport Systems designed to improve operational management of the urban road network, particularly for Motorways.

The five year, \$100 million Pinch Point Program targets peak hour traffic 'hotspots' in 23 corridors in Sydney. It includes treatments to maintain travel speeds, provide reliable travel times and improve the information Sydney motorists have access to while travelling on the road network.

## Safety Performance

Passenger safety performance indicates the number of passenger injuries/fatalities that occurred as a result of the agency's service operations. Management of RailCorp, State Transit and Sydney Ferries advise there were no passenger fatalities. Non-passenger related fatalities do occur, but these are primarily outside the agencies' control.

Year ended 30 June Number of passenger Injuries	2011	2010	2009	2008	2007
RailCorp (Trains)*	895	613	478	348	363
State Transit (Buses)	338	370	383	404	370
Sydney Ferries (Ferries)	17	15	12	16	35

Source: Information provided by the respective transport entities (Unaudited).

\* On-train incidents involving passengers which may or may not have involved an injury. Information specifically on passenger injuries is not currently available.

The table above shows most agencies had an increase in passenger injuries in 2010-11. RailCorp experienced the highest increase of 46 per cent, while State Transit had a decrease of nine per cent.

## MyZone and Ticket Revenue

On 18 April 2010, the NSW Government introduced a new fare structure called MyZone. These new fares apply across a wide geographical area in New South Wales. MyZone tickets are accepted on the entire CityRail, State Transit and Sydney Ferries networks, as well as lightrail and all private bus services and the Stockton ferry. As a result, the agencies have less control over their fare revenue as, for example, tickets sold by CityRail can be used on State Transit and Sydney Ferries.

For Sydney Ferries the change was more fundamental as all ticket revenue in 2010-11 was paid to the Department, which in turn provided the funding required to operate the service based on monthly fixed, patronage, service and fuel payments.

There are fewer fare bands on all modes of public transport under MyZone. Fare bands on trains fell from twenty to five, on buses from five to three and on ferries from five to two. There are three MyMulti tickets, which provide commuters with unlimited travel on all Sydney Ferries and government and private bus services, as well as travel within particular CityRail zones.

The Department advises the structural changes to the provision of public transport in 2011-12, mean fares policy and farebox revenue risk lie centrally within the Department, leaving the operating agencies solely focused on service delivery.

## Transport Planning

### NSW 2021

A new State Plan, NSW 2021, released in September 2011, is a ten year plan that sets priorities to guide whole-of-government decision making and resource allocation across the State. It contains five strategies, 32 goals and 180 targets. The strategies comprise:

1. rebuild the economy
2. return quality services
3. renovate infrastructure
4. strengthen our local environment and communities
5. restore accountability to government.

Of the goals included in the plan, the following are particularly relevant to transport:

Goal 7. Reduce travel times – focuses on improving the efficiency of the road network during peak times and improving the frequency of public transport to minimise waiting times and ensure public transport is a more attractive option.

Goal 8. Grow patronage on public transport by making it a more attractive choice – with targets for increased reliability of public transport services and targets to increase the proportion of trips to work by public transport and the proportion of walking and cycling trips.

Goal 9. Improve customer experience with transport services – focuses on providing better systems, such as integrated ticketing and real time information, to improve customer service and attract passengers to the public transport system.

Goal 10. Improve road safety – including a target to reduce road fatalities to 4.3 per 100,000 population by 2016.

Goal 19. Invest in critical infrastructure – with a target to double the proportion of container freight movement by rail through NSW ports by 2020.

### Transport Master Plan

TfNSW will develop a Transport Master Plan for NSW, integrating planning and policy across all modes of transport to deliver the transport services the community needs now and into the future. The Master Plan will build on key government committed projects such as the North West Rail Link, integrated ticketing, Wynyard Masterplan and investigations into an integrated light rail network to the Universities and within the CBD.

The previous 2010 Metropolitan Transport Plan has been superseded by the government's commitments, which include:

- delivery of the South West and North West Rail Links
- delivery of integrated ticketing
- investigation of light rail extensions to Sydney CBD and to Sydney and NSW Universities
- investigation of a Rapid Bus Transit corridor to service Sydney's Northern Beaches
- implementation of a Park and Travel Safety Fund
- additional express and semi-express train services for Central Coast, South Western and Western Sydney commuters
- introduction of additional NightRide bus services
- franchising Sydney Ferries and other customer service improvements.

The NSW Government has established Infrastructure NSW to take the lead role in the prioritising and coordinating infrastructure across all sectors in NSW. Infrastructure NSW will produce a 20 year State Infrastructure Strategy, a funded five year rolling infrastructure plan, and sector infrastructure plans, providing a priority list and infrastructure pipeline for the State.

TfNSW will prepare the Transport Masterplan and the strategic needs assessment and the evidence base to support transport investment decisions necessary to respond to growth and improve services into the future. The Transport Masterplan will set clear objectives for identifying and prioritising transport investment decisions, taking into account network capacity and costs.

### Previous NSW State Plan Targets

In late 2009, the Government released a revised State Plan titled 'Investing in a Better Future: NSW State Plan'.

Some of the public transport targets included in that plan and still applicable for 2010-11 include:

- increasing the share of commuter trips made by public transport to and from the Sydney CBD during peak hours to 80 per cent by 2016
- increasing the proportion of total journeys to work by public transport in the Sydney metropolitan region to 28 per cent by 2016
- consistently meeting public transport reliability targets of 92 per cent on-time running for CityRail services, 95 per cent for Sydney buses and 99.5 per cent for Sydney ferries.

### NSW 2021 Targets

The State Plan, NSW 2021, contains targets for the provision of transport services, which include the three above, but slightly reduce the on-time running target for Sydney Ferries from 99.5 per cent to 98.5 per cent.

NSW 2021 also includes new targets:

- improve customer satisfaction with transport services
- provide real-time travel information to help customers better plan their journeys and avoid unnecessary delays.

### Sydney Metro

#### *Recommendation*

Last year, I recommended the government identify lessons learnt from the Sydney Metro experience and ensure future decision processes are developed to ensure the State never again expends such a large amount of scarce transport funding dollars and valuable time on a project that does not proceed.

At 30 June 2011, \$428 million had been spent on metro projects. Of the \$428 million spent, \$372 million represents expenditure for which there does not appear to be any future benefit to New South Wales.

The cost of abandoned projects to New South Wales is not just in dollar terms, but also in time delays to other transport priorities.

The Department advises that in response to my recommendation, the Sydney Metro demobilisation addressed some issues. The benefits from the expenditure on the metro projects have been captured by the project demobilisation process by identifying and preserving, for future use, the intellectual and technical knowledge gained during the project and maximising, to the extent possible, the value of property assets purchased. The Department also advises that Sydney Metro's geotechnical and design and engineering information is being used for other new transport projects.

Until the NSW Government's decision on 21 February 2010 to stop planning and procurement of Metro Network Stage 1 (CBD) and Stage 2 (West Metro), over \$600 million in State and Australian Government funding had been allocated to Sydney Metro for development of the metro projects.

### State Transit Authority - Status as a For-Profit Tax Paying Entity

Last year, I recommended the Department review the appropriateness of State Transit being a for-profit entity under the National Tax Equivalent Regime. The Department advises it has written to the Treasury recommending a change of status for State Transit to not-for-profit entity. It is awaiting the Treasury's response.

In recent years, State Transit has returned a small profit or loss (compared to total revenue) and has never paid tax under the tax equivalent regime. The regime imposes significant compliance costs on the entity compared to other tax models used by the New South Wales Government.

### Engagement of Contractors (Repeat Issue)

#### Recommendation

I again recommend transport entities review the effectiveness of their practices in monitoring their contractor workforce.

The use of contractors may have benefits for entities, particularly on projects, but extensive reliance on this employment source and the engagement of long term contractors, particularly in senior roles, generally results in higher employment costs and less ownership and commitment to organisational goals and objectives.

The length of service for all contractors employed by transport entities is shown in the table below.

Duration since contractors start date	No. of Contractors at 30 June 2011	No. of Contractors at 30 June 2010	Proportion of Total Contractors % 2011	Proportion of Total Contractors % 2010
> 6 years	91	74	7	5
5-6 years	19	19	1	1
4-5 years	21	17	2	1
3-4 years	49	69	4	5
2-3 years	175	134	12	12
1-2 years	343	448	24	29
Less than 1 year	707	760	50	50
<b>Total Contractors in all Transport Entities</b>	<b>1,405</b>	<b>1,521</b>	<b>100</b>	<b>100</b>

Source: Information provided by the respective transport entities (Unaudited).

Fifty per cent of total contractors have been engaged by respective transport entities for more than twelve months. At 30 June 2011, over 90 contractors had been engaged for more than six years.



Additional information relating to contract employees working in transport entities is shown below:

Transport Entity	2011			
	No. of Contractors at 30 June	Total Cost of Contractors for the Year \$'000	Term of Longest Serving Contractor (Years)	Highest Contractor cost for the Year \$'000
DoT	186	9,056	6.0	395
RailCorp	649	93,000	9.8	578
State Transit	51	1,606	10.6	210
Sydney Ferries	23	2,570	3.3	227
RTA	448	81,136	9.3	352
CRIA	3	214	1.0	122
TCA	42	3,333	2.5	396
ITSR	3	119	1.0	64
<b>Total</b>	<b>1,405</b>	<b>191,034</b>		

Source: Information provided by the respective transport entities (Unaudited).

State Transit has the longest serving contractor who has been engaged for over ten years. The highest paid contractor was engaged by RailCorp and paid \$578,000 in 2010-11.

The RTA has significantly reduced contractor numbers. It advises its use of contractors was managed on a case by case basis to ensure each engagement was kept to a minimum. Seventy eight contractors obtained full time employment with the RTA during 2010-11.

All transport entities, with the exception of PTTC, Sydney Metro, Sydney Ferries and ITSr, engage contract employees to provide a broad range of services. PTTC advises it primarily uses professional services firms to engage contractors on its behalf to work on the delivery of the Electronic Ticketing System program. Management believes contract employment arrangements are most appropriate due to the project based nature of its operations. Professional services firms engagements were not included as contractors in the analysis above. PTTC incurred expenses of \$16.7 million for the services provided by these firms in 2010-11 (\$13.2 million).

After 21 February 2010, Sydney Metro's resources and related contracts were either wound up or, where relevant, transferred to new NSW Government infrastructure projects, principally within the Department. As a result, Sydney Metro only incurred \$3 million in contractor costs in 2010-11 (\$100 million).

Each entity using contractors advises it had governance structures in place to effectively manage the engagement of contractors, including a regularly updated central registry of contractors. This was subject to regular review to ensure contractors were not excessive and represented value for money. Despite this and some improvements since last year, the information above indicates these measures are not always effective. Transport entities should review and assess the effectiveness of the measures implemented.

### Overtime

Managing overtime expenditure continues to be a challenge for some transport entities. While some are making progress in reducing overtime, it continues to represent a significant and increasing employment expense.



The table below shows total overtime expenditure in 2010-11 was \$232 million, a 5.5 per cent increase from 2009-10.

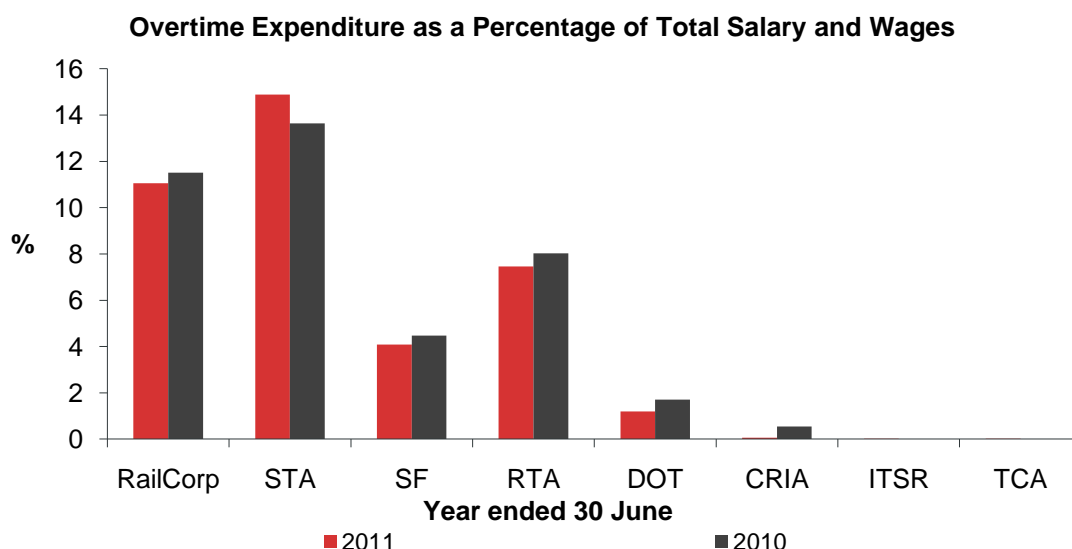
Transport Entity	Trend	Year ended 30 June	
		2011 \$'000	2010 \$'000
RailCorp	↑	133,693	130,040
State Transit	↑	47,929	40,346
Sydney Ferries	↑	2,749	2,292
RTA	↑	46,885	46,574
DOT	↑	562	483
CRIA	↓	1	13
ITSR	~	2	-
TCA	~	2	-
<b>Total</b>		<b>231,823</b>	<b>219,747</b>

Key: ↑Trend upwards, ↓ Trend downwards, ~ No trend

Source: Information provided by the respective transport entities (Unaudited).

The Sydney Ferries recorded the largest increase in overtime expenses of 19.9 per cent, while State Transit's expense increased by 18.8 per cent. Overtime at CRIA declined significantly by 90 per cent.

The chart below shows overtime expenditure as a percentage of total salaries and wages:



Source: Information provided by the respective transport entities (Unaudited).

All transport entities, except for State Transit, recorded a decrease in the percentage of overtime paid to total salaries and wages over the past two years. State Transit has the highest percentage at 14.9 per cent (13.6 per cent) and advises that under its award all work on Sunday is paid as overtime. Bus drivers work a six day roster and most overtime is incurred because of staff working on Sunday rather than staff working excess hours. State Transit also monitors bus driver hours worked to ensure all bus operators work within the occupational health and safety guidelines.

RailCorp and RTA advise they implemented initiatives to control overtime and are actively managing this issue.

Major contributors to overtime at the RTA include the requirement to work at night and weekends in metropolitan areas due to traffic considerations, the need to provide around-the-clock response to traffic incidents, emergencies and traffic signal repairs and resourcing of traffic arrangements for special events throughout the year. The RTA strategies to reduce high levels of overtime include provision of additional resources for specific tasks such as the Sydney Harbour Bridge tow-trucks, supplementing staff resources through subcontracting, and limiting work on Weekends and Accrued Days Off.

The table below shows the number of employees across all transport entities who worked overtime, the amount of overtime paid, grouped by overtime paid as a percentage of annual salary.

Year ended 30 June	2011		2010	
Overtime paid as a percentage of annual salary	Number of employees	Overtime paid \$'000	Number of employees	Overtime paid \$'000
> 100	6	459	18	1,159
90 - 100	12	626	13	700
80 - 89	29	1,402	45	2,064
70 - 79	97	4,090	77	3,138
60 - 69	200	7,734	191	6,951
50 - 59	494	16,488	562	16,900
40 - 49	1,150	30,680	1,196	29,277
30 - 39	2,338	46,256	2,279	41,940
20 - 29	4,057	56,799	4,251	54,689
10 - 19	5,249	44,567	5,354	42,195
>0 - 9	9,908	22,722	9,062	18,977
Nil overtime	8,775	--	8,074	--
<b>Total</b>	<b>32,315</b>	<b>231,823</b>	<b>31,122</b>	<b>217,990</b>

Source: Information provided by the respective transport entities (Unaudited)

The table shows 72.8 per cent (74.1 per cent) of employees received an overtime payment in 2010-11 and 838 employees (906 employees) were paid 50 per cent or more of their annual salary in overtime.

The top 10 highest individual overtime earners across the transport entities are shown below:

Year ended 30 June	2011			2010		
Top 10 Individual Overtime Earners	Transport Entity	Overtime paid to employee \$	Percentage of Overtime to salary	Transport Entity	Overtime paid to employee \$	Percentage of Overtime to salary
1	RTA	101,683	127	RTA	117,589	126
2	RTA	85,344	107	RTA	102,111	133
3	RTA	83,848	109	RTA	86,614	117
4	RTA	78,688	104	RTA	76,794	73
5	RailCorp	72,103	91	RTA	73,497	101
6	RTA	71,332	73	RTA	73,386	100
7	RailCorp	70,839	71	RTA	72,660	88
8	RailCorp	70,169	70	RTA	64,272	78
9	RailCorp	65,383	70	RTA	63,544	77
10	RTA	65,134	76	RTA	62,634	76

Source: Information provided by the respective transport entities (Unaudited).

The table shows RTA and RailCorp employees received the highest overtime payments. For the other transport entities, the most overtime paid to individual employees was \$50,013 (\$41,400) at State Transit; \$36,800 (\$36,770) at Sydney Ferries; \$35,903 (\$34,070) at the Department; \$1,400 (nil) at TCA; \$1,389 (\$6,347) at CRIA; and \$953 (nil) at ITSr.

High levels of overtime can adversely affect financial and operational performance. Financially, premiums paid for overtime can lead to higher than necessary costs, while operationally, high levels of overtime may result in health and safety issues for employees.

## Excessive Annual Leave (Repeat Issue)

### Recommendation

I again recommend transport entities review the effectiveness of their policies for managing excessive annual leave balances.

Managing excessive annual leave balances remains a challenge for the transport entities. Over 2,270 (2,100) staff had accrued more than 40 days (or 50 days for RailCorp shift workers) of annual leave at 30 June 2011. This represents 7.8 per cent (7.4 per cent) of all staff at that date and an accrued liability of \$40 million (\$34 million).

The table below shows the number of staff with more than 40 days (or 50 days for RailCorp shift workers) accrued annual leave at 30 June and the value of accrued annual leave for these employees.

Year ended 30 June		2011		2010		2009	
Transport Entities	Trend	Number of employees	Amount \$'000	Number of employees	Amount \$'000	Number of employees	Amount \$'000
<b>RailCorp*</b>	↑	1,222 <sup>H</sup>	21,921	1,056 <sup>H</sup>	17,128	936 <sup>H</sup>	14,848
<b>State Transit</b>	~	363	5,202	362	4,746	420	5,323
<b>Sydney Ferries****</b>	↓	63	306	78	1,502	107	2,056
<b>RTA</b>	~	557	10,259	542	9,308	676	10,183
<b>DoT</b>	↑	49	1,472	36	621	45	766
<b>TCA</b>	↑	10	349	7	249	6	261
<b>SM</b>	↓	--***	--***	4	136	--**	--**
<b>CRIA</b>	↓	7	177	9	144	20	198
<b>OTSI</b>	↓	2 <sup>L</sup>	23	3	107	3	86
<b>ITSr</b>	↓	6	185	6	181	13	316
<b>PTTC</b>	~	--***	--***	2 <sup>L</sup>	95	2 <sup>L</sup>	94
<b>Total</b>		2,279	39,894	2,105	34,219	2,228	34,133

Source: Information provided by the respective transport entities (Unaudited).

\* Excessive leave based on 40 days for non shift workers and 50 days for shift workers.

\*\* Sydney Metro was established on 27 January 2009. No employees existed at 30 June 2009 or in any prior years. All Sydney Metro and PTTC staff had been transferred to the Department of Transport by 30 June 2011 as a result of the Transport Administration Amendment Act 2010.

\*\*\*\* Sydney Ferries staff are impacted by the future franchising arrangements.

Key: ↑ Trend upwards, ↓ Trend downwards, ~ No trend.

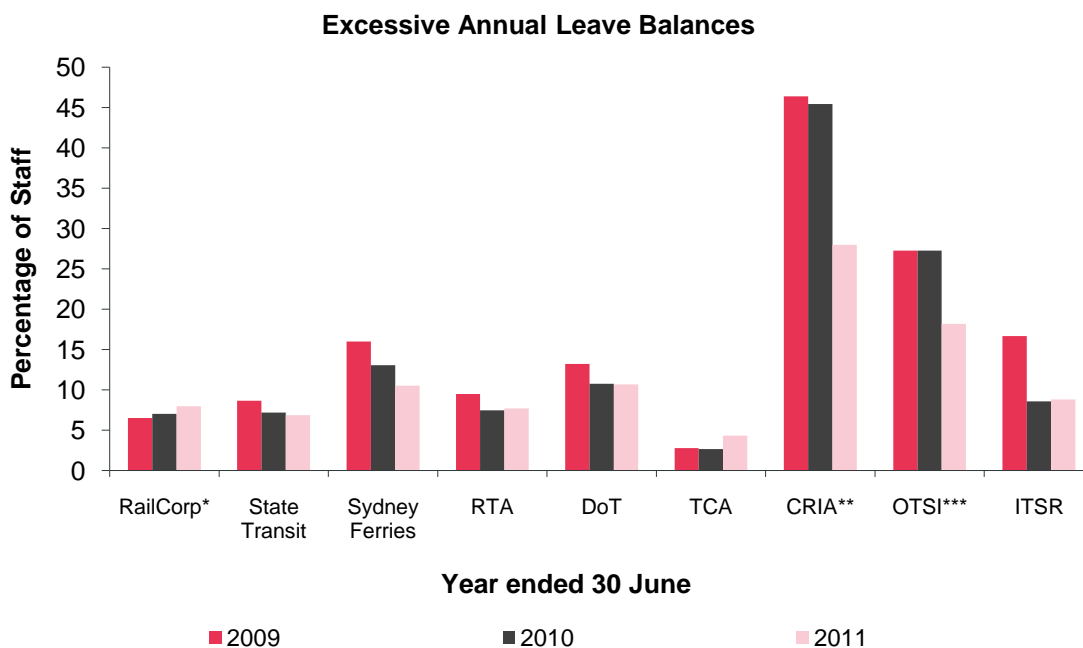
L Lowest balance in comparison to all transport entities.

H Highest balance in comparison to all transport entities.

Excess leave entitlements can have adverse effects, including an ever increasing financial liability as salary rates increase over time. The health and welfare of staff can also be adversely affected if they do not take sufficient breaks from work during the year. Allowing excess annual leave balances also means employees performing key control functions may not be rotated regularly, which is a preventive control against fraud.

For the purpose of this report, excessive annual leave has been defined as an accrued balance of more than 40 days (or 50 days for RailCorp shift workers) as at 30 June. Individual transport entities may define excessive annual leave differently for management and internal reporting purposes.

The graph below illustrates the percentage of staff with excessive annual leave balances for all transport entities over the last three years.



Source: Information provided by the respective transport entities (Unaudited).

\* RailCorp percentage of staff with excessive annual leave is based on head count data rather than Full-Time Equivalent (FTE) data.

\*\* CRIA had only 25 public sector staff at 30 June 2011, of which seven had excessive leave balances.

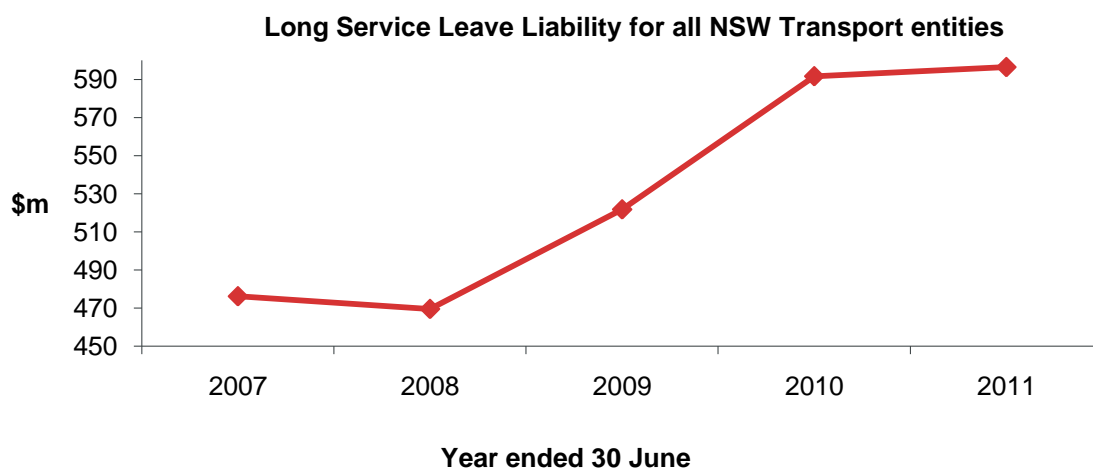
\*\*\* OTSI had only 11 public sector staff as at 30 June 2010, of which two had excessive leave balances.

The chart shows the proportions of staff with excessive annual leave at State Transit and Sydney Ferries dropped from 8.7 and 16.0 per cent in 2008-09 to 6.9 and 10.5 per cent in 2010-11 respectively. This is largely due to policies adopted by State Transit and Sydney Ferries, including the Executive's monthly and quarterly reviews. While CRIA and OTSI have the highest percentage of staff with excessive annual leave balances, staff numbers in these entities are much smaller and the total excessive leave liability is relatively low. The chart also shows the proportion of staff with excessive annual leave has declined for seven of the nine entities over the past three years. All entities advise that policies have been implemented to manage excessive annual leave. The chart demonstrates these policies are having a positive effect.

### Long Service Leave Liability

Transport entities continue to have significant long service leave liabilities that create future funding challenges. The total long service leave liability amounted to \$597 million at 30 June 2011 (\$592 million), an increase of 25 per cent over the last five years, most of which has occurred since 2008.

The graph below shows the trend in the total long service liability of all New South Wales transport entities over the past five years.



Source: Transport entities financial statements (audited).

The liability was relatively stable between 2010 and 2011 primarily because entitlements grew in only five of the nine entities and actually fell or remained steady in the other four organisations. This also reflects the fact that government bond rates, used to discount the liability to present value, remained constant over the two years.

The table below shows the long service leave liability of each New South Wales transport entity over the past five years.

Year ended 30 June Transport entity	Five Year Trend	2011 \$m	2010 \$m	2009 \$m	2008 \$m	2007 \$m
RailCorp	↑	293.6	287.9	259.5	214.2	209.3
State Transit	↑	54.9	52.7	45.1	44.0	42.6
Sydney Ferries	▲	6.5	7.2	7.5	6.9	6.9
RTA	▲	222.6	228.6	196.4	175.1	185.6
DoT	↑	12.7**	8.3**	7.2**	6.2**	5.3**
TCA	↑	1.6	1.3	1.1	1.0	0.6
CRIA	↓	1.7	1.6	2.0	19.2	23.0
ITSR	↑	2.8**	3.1**	2.9**	2.8**	2.6**
OTSI	▲	0.1**	***	***	***	***
SM	▲	--*	0.8	--*	--*	--*
PTTC	▲	--*	0.1	0.1	0.1	0.2
<b>Total</b>	▲	<b>596.5</b>	<b>591.7</b>	<b>521.7</b>	<b>469.4</b>	<b>476.1</b>

Source: Transport entities financial statements (audited).

\* All staff at SM and PTTC and the associated long service leave liabilities were formally transferred to the Department in 2010-11. Also, SM was only established on 27 January 2009 and had no employees prior to 30 June 2009.

\*\* The long service leave entitlements for these entities are assumed by the Crown.

\*\*\* OTSI was not able to provide prior year long service leave balances at the time of printing.

Key: ↑ Trend upwards, ↓ Trend downwards, ▲ No trend.

The Department recorded the largest increase in long service liabilities over the five year period, primarily because of the increase in its staff numbers resulting from the transport restructure. RailCorp and RTA recorded a \$121 million increase in their combined liability over the period, RailCorp's liability increased by 40 per cent and RTA's by 20 per cent.

RailCorp, State Transit and TCA advise they have plans in place to ensure these liabilities are adequately funded in the future, while RTA manages employee provisions as part of its normal budgeting process. Sydney Ferries advises it will consider the issue as part of the franchising plan. All other transport entities' long service leave liabilities are assumed by the Crown.

The transport entities should continue to monitor their long service leave liabilities since entitlements will continue to increase over time with increases in remuneration levels. Funding pressures will also compound as other liabilities arise from the expected retirement of a large proportion of the ageing workforce.

## Workforce Ageing

### Recommendation

In 2010, I recommended each transport entity continue to develop and implement effective policies to manage their ageing workforce.

Twenty five per cent of staff employed by transport entities at 30 June 2011 were aged 55 years or older and 41 per cent were over 50. This represents a worse position than at 30 June 2010. A significant proportion of these employees are likely to retire in the next 5 to 15 years, potentially resulting in a significant loss of transport specific skills.

The age profile of staff for all New South Wales transport entities is shown below:

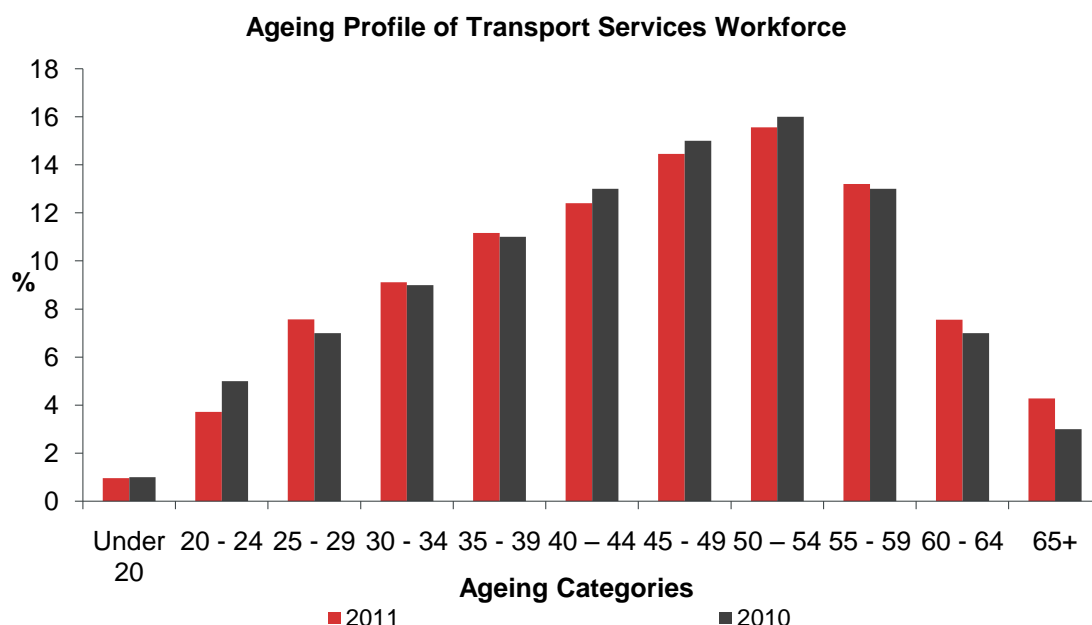
At 30 June Age Group	2011		2010	
	No. of Employees*	%	No. of Employees*	%
Up to 35	6,577	22	6,346	22
35 – 39	3,436	11	3,235	11
40 – 44	3,821	12	3,662	13
45 – 49	4,449	14	4,312	15
50 – 54	4,792	16	4,459	16
55 – 59	4,067	13	3,777	13
60 – 64	2,327	8	1,993	7
65+	1,318	4	742	3
<b>Total</b>	<b>30,787</b>	<b>100</b>	<b>28,526</b>	<b>100</b>

Source: Information provided by the respective transport entities (Unaudited).

\* All transport entities provided this information based on Full-Time-Equivalent staff at 30 June, except for RailCorp. The information for RailCorp is based on headcount data.

Some transport entities have implemented strategies to manage these risks. State Transit advises it has implemented succession planning through apprenticeship, cadetship and graduate programs. The RTA advises it has implemented strategies and initiatives, with particular attention on those areas where skill shortages are apparent, such as engineering, road design, traffic and transport. The initiatives include RTA's targeted employment programs aimed at graduates, trainees, etc. The RTA has also implemented a new 'My Journey Program' targeting all staff aged 55 years and over, to encourage knowledge sharing and discussions on working intentions and retirement preparedness. TCA actively seeks to attract junior employees through graduate and internship programs. ITSIR advises it has succession strategies in place, including the implementation of graduate trainee arrangements.

The chart below further demonstrates the age structure of the transport services workforce.



Source: Information provided by the respective transport entities (Unaudited).

The age profile of employees for each transport entity is shown below:

At 30 June 2011 Age Group	RailCorp %**	State Transit %	Sydney Ferries %	RTA %	DOT %	TCA %	CRIA %	OTSI %	ITSR* %
Up to 35	23	15	24	22	23	37	8	-	12
35 – 39	12	11	15	9	12	18	16	-	12
40 – 44	13	13	17	10	16	11	4	-	17
45 – 49	15	16	15	13	12	12	20	18	17
50 – 54	15	17	11	16	15	10	36	37	16
55 – 59	12	14	10	16	12	7	12	9	16
60 – 64	6	10	6	9	7	5	4	9	7
65+	4	4	2	5	3	-	-	27	3
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Information provided by the respective transport entities (Unaudited).

\* Sydney Metro and PTTC has no employee at 30 June 2011

\*\* All transport entities provided this information based on Full-Time-Equivalent staff at 30 June, except for RailCorp. The information for RailCorp is based on headcount data.

The table shows TCA, Sydney Ferries, RailCorp, and the Department have the youngest workforce, with over 35 per cent of employees under 40. The RTA and State Transit have 45 per cent of employees over 50 and OTSI and CRIA have more than 50 per cent over 50 years old.

To ensure an adequate supply of employees in the future, transport entities should continue to actively monitor workforce age profiles and have appropriate strategies in place to develop, attract and retain employees whose skills are aligned with the strategic direction of the entities.

Sydney Ferries workforce may be affected by the tender process to franchise this agency to a non-government operator.

Refer to the individual agency comments in this volume for more information on the ageing workforce.

## Fraud in Transport Agencies

### Procurement Fraud

Procurement continues to be a major risk area for corruption and fraud in the NSW public sector. The impacts include financial and reputational losses, negative impacts on safety, and poor quality goods, services and infrastructure. In response to various findings of fraud and corrupt conduct, the Independent Commission Against Corruption (ICAC) has continued to examine corruption risks with procurement and to help agencies manage these risks.

The ICAC is currently conducting Operation Jarek, an enquiry into various state and local council authorities. The corruption allegations concern acceptance of gifts and benefits in return for placing orders and continuing business, and alleged payment of fraudulent invoices.

A small number of employees within some of the transport agencies are part of this enquiry, which is not yet complete.

RailCorp is continuing to implement recommendations from previous ICAC enquires, refer to the RailCorp comment for further details.

### Cost of Vandalism

Last year, I recommended Sydney Ferries and the RTA investigate the costs and benefits of implementing systems to determine and monitor the cost of vandalism so that potential trends can be identified and addressed.

In response to my recommendation, the Department advises that TfNSW will establish a Customer Experience Division and a Transport Services Division to work with the operating entities, including Sydney Ferries and RTA, to address issues such as the impact of vandalism on the provision of transport services.

RailCorp, the RTA, STA and Sydney Ferries own and manage significant portfolios of assets vital to the efficient operation of transport services in New South Wales. Vandalism results in financial costs, to repair or replace damaged assets and reduced levels of customer satisfaction and safety.

RTA calculated that vandalism cost \$4 million in 2011-12 while Sydney Ferries advises the costs of vandalism are immaterial.

RailCorp spent approximately \$40.0 million in 2010-11 (\$55.0 million) to repair malicious damage, including graffiti, to assets such as trains and stations.

### Electronic Ticketing System for the Greater Sydney Region

The Public Transport Ticketing Corporation (PTTC) is responsible for overseeing the design, implementation and maintenance of the new integrated Electronic Ticketing System (ETS).

On 7 May 2010, it signed the ETS contract with the Pearl Consortium, comprising Cubic Transportation Sydney (Australia), Downer EDI Engineering Power and the Commonwealth Bank.

The value of the new electronic ticketing system over 15 years is estimated at about \$1.2 billion. It will operate across greater Sydney's public transport network and extend as far as Newcastle and the Hunter region, Wollongong, the Illawarra and the Blue Mountains.

The PTTC made significant progress in the design phase of the ETS during the year, and it still expects commuters will be using the new ETS Opal smart card 'ticket' on all modes of public transport by the second half of 2014.

I previously reported in Volume Five, 2008 that PTTC terminated the Tcard project with the private sector contractor on 23 January 2008 and commenced legal proceedings to recover the funds spent on the failed project. The contractor responded by lodging a cross claim. The PTTC advises that the case has been set down for hearing in February 2012 and is expected to last more than 3 months.



For further information on the electronic ticketing system and the Tcard litigation, refer to the comments on PTTC in this volume.

### Loss of Federal Training Grants due to Employment Arrangements

Last year, I recommend the Department reconsider the appropriateness of employment arrangements so State Transit would avoid further losses of Commonwealth Government grants.

Under current arrangements, staff are employed by government departments, known as Employment Divisions, rather than directly by State Transit. This results in State Transit losing an entitlement to Commonwealth Government training grants.

The Department advises that while the loss of training grants in the transport portfolio is an issue specific to State Transit, the broader employment issue needs to be considered from a whole of government perspective by the central agencies.

## Other Information

### Commuter Car Parking and Interchange Program (CCPIP)

Stage one of the CCPIP involves delivery of around 7,000 new commuter car spaces in 28 facilities at railway stations across the Sydney, the Central Coast, Illawarra and Blue Mountains. Stage two was announced as part of the Metropolitan Transport Plan and involves construction of 22 projects comprising 19 car parks and interchanges, to be delivered by TCA, and three station upgrades by RailCorp.

The total revised budget for the stage one and stage two projects being delivered by TCA is \$333 million (\$394 million).

TCA and RailCorp managed the construction of 25 commuter car parks under stage one of the CCPIP, of which, 22 are being delivered by TCA and three by RailCorp. TCA advises 20 of these have been fully open to the public since 31 October 2011 and the remaining two are due to open in late 2011. RailCorp has completed all three car parks at Holsworthy, Windsor and Morisset. Three other car parks at Campbelltown, Tuggerah and Wentworthville, managed by the NSW Department of Services, Technology and Administration and local councils, have also been completed and opened to the public.

TCA advises stage two projects are being developed within an approved budget of \$80.5 million. This budget includes design, development and construction of 8 of the 19 car parks and interchanges and minor costs associated with the remaining 11 projects. A review is currently underway to ensure that the remaining 11 car parks and interchanges address the needs of the local communities. At 31 October 2011, transport interchange facility upgrades have been completed at Narwee, Allawah and Panania. Construction work or planning and design activities have commenced on all other projects.

For further information on the CCPIP, refer to the comments on RailCorp and TCA in this volume.

### 2010-11 Transport Funding Announcements

The government's 2011-12 Budget will invest \$7.7 billion on operating and expanding the New South Wales public transport system and \$5.4 billion on maintaining and upgrading the New South Wales road network and for maritime services.

Forty  
four per cent of  
major transport  
agency projects  
are late or over  
budget

The Transport cluster's 2011-12 capital program is \$5.9 billion and includes:

- \$3.2 billion for reinforcing capacity of existing road networks and increasing capacity on major roads and highways within the Sydney region, Pacific Highway, Great Western Highway, Hume Highway and Princes Highway
- \$198 million for the Rail Clearways Program
- \$292 million for the South West Rail Link
- \$464 million for rolling stock acquisition (includes Waratah train enabling works)
- \$119 million for 261 new/replacement buses for both State Transit and private operators
- \$314 million for the North West Rail Link.

### Status of Key Transport Projects

Last year, I recommended the Department continues to monitor key transport projects being delivered by transport entities to help ensure they are delivered on time and within budget.

The Department advises responsibility for major capital projects will now be transferred to TfNSW.

The table below shows the original and latest revised budgets for the top ten capital projects of each major transport entity.

Transport entity*	Number of completed Projects in Year 2010-11	Number of Projects 2010-11	Forecasted Completion Year	Original Budget (\$000)	Latest Revised Budget (\$000)
RailCorp**	--	10	2012-20	4,476,500	5,168,800
State Transit	3	4	2011-12	384	404
Sydney Ferries	4	5	2012-19	34,306	35,237
RTA	2	10	2011-14	6,086,000	6,049,000
CRIA	9	10	2010-11	57,480	54,833
TCA*****	--	3	2011-16	3,762,000	4,489,000
PTTC***	--	1	2015	273,331	329,183
<b>Total</b>		<b>43</b>		<b>14,690,001</b>	<b>16,126,457</b>

Source: Information provided by the respective transport entities (unaudited).

\* Sydney Metro, ITSr and OTSI did not have any key transport projects at 30 June 2011.

\*\* RailCorp has a portfolio of projects (in excess of \$100 million); some still in the planning phase or subject to tender and the details are commercial in confidence.

\*\*\* This cost is the capital component for the delivery of the electronic ticketing system. The full cost of the project is \$1.2 billion, and the increase in capital costs relates to a reallocation of costs within the \$1.2 billion total.

\*\*\*\* Original budget and revised budget for RailCorp, TCA and PTTC are based on estimated total cost information.

\*\*\*\*\* While no projects were finalised in 2010-11, TCA did commission some projects in the Clearways Program and some commuter car parks and commuter interchanges. Management advises that the original budget for the Clearways Program of \$1.3 billion excluded escalation costs. Refer to the TCA comment for more information on TCA's performance.

The table shows the transport entities are committed to key transport projects totalling over \$16.1 billion with expected completion dates ranging between 2011 and 2020. Variations between original and latest revised budgets primarily relate to changes in project scopes since initial cost estimates or cost escalations over the life of the projects.

Key transport projects are subject to change as the Government's priorities are reviewed and updated. Examples include termination of the Sydney Metro project, the deferral of the Western Express railway line, and the commencement of the North West Rail Link.

The agencies above advise they expect to deliver 24 of the 43 projects on time and within budget. Forty four per cent of major transport agency projects are late or over budget.

Refer to the individual agency comments in this volume for further information on key transport projects.

## North West Rail Link (NWRL)

The government has committed to delivering a transport system, the NWRL, for the people of North West Sydney. At 23 km long, the NWRL will be the biggest expansion to Sydney's rail system since the 1930s.

In April 2011, the government announced the design, development and delivery of the NWRL. A specialised project team has been established within the Department to coordinate and expedite the project.

The pre-construction process has started, with geotechnical drilling taking place along the proposed route between Epping and Rouse Hill. The current short term project timeline is:

Milestone	Time frame
Procurement of major service providers	Q2 to Q3 2011
Finalise project definition report including delivery strategy and outline concept design	Q2 to Q3 2011
Commence geotechnical and survey investigations	Q3 2011
Finalise concept design	Q4 2011

The NWRL infrastructure work includes:

- six new underground suburban railway stations – Cherrybrook, Castle Hill, Hills Centre, Norwest, Kellyville and Rouse Hill
- provision for additional stations at Rouse Hill (Cudgegong Road) and Kellyville (Samantha Riley Drive)
- bus, pedestrian, car and cycling access facilities at all stations, with approximately 3000 park and ride spaces proposed at key stations
- approximately 15.5 km of twin bored tunnels from Epping to Kellyville
- approximately 7.5 km of cut and cover, viaduct and at grade twin track alignment from Kellyville to Tallawong Road
- a stabling yard at Tallawong Road
- ancillary infrastructure, rolling stock, systems and services.

The 2011-12 State Budget invests \$314 million for the NWRL, with a provisional allocation of \$2.5 billion over the next four years. The Department expects the release of cost estimates following determination of the project scope by the end on 2011.




# Section Two

Agencies with Individual Comments

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Minister for Roads and Ports

Minister for Transport



# Maritime Authority of NSW

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NSW Auditor-General's Report  
Volume Eight 2011  
MARITIME AUTHORITY OF  
NSW

On 1 November 2011, the Roads and Traffic Authority and Maritime NSW were replaced by Roads and Maritime Services

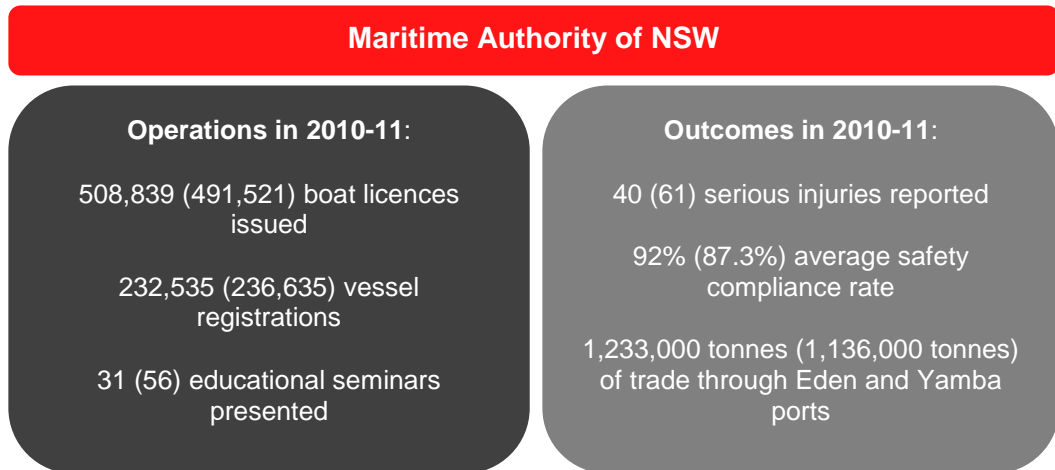
Moving to the Government Licensing System created problems for the Authority

## Audit Opinion

The audit of the Maritime Authority of NSW (the Authority) and its controlled entity's financial statements for the year ended 30 June 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports.

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

## Operational Snapshot



The Authority was the State government's safety regulator for commercial and recreational vessels. The Authority regulated the safety functions of NSW port corporations, managed two regional ports (Yamba and Eden), provided policy advice to the State government on port related activities and owned and managed the seabed of the major ports (Sydney, Newcastle and Port Kembla).

The Authority's services cost \$110 million (\$111 million in 2009-10), it generated revenue of \$122 million (\$125 million) and paid a dividend to government of \$4.0 million (\$4.0 million) for the year.

## Key Issues

### Recent Transport Restructure

On 1 November 2011, the new integrated transport authority, Transport for NSW, was formally established. Transport for NSW will be responsible for improving the customer experience, planning, program administration, policy, regulation, procurement of transport services, infrastructure and freight for the people of NSW. As a result, some of the functions of the Authority were transferred to Transport for NSW.

In addition, effective 1 November 2011, the Roads and Traffic Authority and the Authority ceased to exist in their current form with the new agency, Roads and Maritime Services, created in their place.

### Government Licensing System

In July 2010, the Authority replaced its licensing system with the Government Licensing System (GLS) which is provided by the Department of Financial Services.

Initially the implementation of the GLS created problems for the Authority's licensing process. There were significant deficiencies in system functionality and data reliability. Service delivery was adversely impacted as incorrect information was sent to the Authority's customers.

Since implementation, the Authority has taken steps to rectify the data errors and system issues. Additional customer service staff were recruited to deal with the transaction processing issues, and comprehensive financial reconciliations were developed between the GLS and the Authority's general ledger. At October 2011, many of the issues had been resolved. However, the Authority and the Department of Financial Services are continuing to work on system improvements.

## Performance Information

The Authority provided the following information regarding its performance:

Year ended 30 June	2011	2010	2009	2008	2007
Boating licences issued	508,839	491,521	483,649	451,696	445,736
Registered recreational vessels	223,328	226,515	222,322	217,074	213,387
Waste recovered from Sydney Harbour (cubic metres)	2,284	2,778	2,737	3,183	3,471
Fatalities per 100,000 total registered or licensed vessels	4.3	9.7	5.2	9.3	10.3
Safety compliance rate*:					
- recreational vessels (%)	92.8	89.0	88.3	87.1	87.4
- commercial vessels (%)	91.6	88.3	91.0	93.4	89.8

Source: Maritime Authority of New South Wales (unaudited).

\* The safety compliance rate reports the proportion of random vessel checks that did not result in infringement or formal warning notices being issued.

There were 10 (23) fatalities from boating incidents during the year. There was no clear trend or pattern to these incidents.

Boating incidents during the year from both commercial and recreational vessels totalled 294 (362). This is a decrease of 19 per cent from the prior year.

Management advises that following the introduction of the Government Licensing System, the Authority changed its methodology for calculating the number of registered vessels. In 2010-11, the Authority reported on current registrations. Prior to 2010-11, numbers of registrations reported included those that had expired and were less than 90 days overdue.

Waste recovered from Sydney Harbour decreased as there was a 14 per cent reduction in crew due to long term illness, long service leave taken and suspension of the Joint Foreshore Clean-up Project.

The Authority has been involved in a number of safety initiatives, including the implementation of the Marine Safety (General) Regulation 2009. Effective 1 November 2011, this regulation was amended by the Marine Safety (General) Amendment (Lifejackets) Regulation 2010 to extend lifejacket wear requirements and make further provision for minimum safety equipment on vessels.

## Property Management

Year ended 30 June	2011	2010	2009
Value of rental properties (\$m)	132.0	131.0	129.0
Property rental revenue (\$m)	12.2	10.5	10.6
Return on rental properties (%)	9.2	8.0	8.2

Source: Maritime Authority of New South Wales.

The Authority experienced an improved return on its rental properties in the Maritime Trade Tower with rental revenue increasing by \$1.7 million from 2009-10. This was mainly due to a combination of new tenants paying higher floor rents, a reduction in floor vacancies and the cessation of rental abatement plans.

## Financial Information

## Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Boating income	44,253	43,433	44,253	43,433
Rental income	46,235	44,513	46,235	44,513
Channel fees	11,354	8,342	11,354	8,342
Investment income	13,178	15,163	13,178	15,163
Other income	7,104	13,364	7,097	13,364
<b>Total Income</b>	<b>122,124</b>	<b>124,815</b>	<b>122,117</b>	<b>124,815</b>
Employee related expenses	40,739	39,221	39,998	44,478
Contract service expenses	23,600	22,056	23,600	22,056
Administration	8,589	8,300	8,194	7,920
Finance costs	8,137	9,896	8,137	9,896
Depreciation and amortisation	14,391	11,417	14,391	11,417
Other expenditure	14,977	20,609	14,977	20,609
<b>Total Expenses</b>	<b>110,433</b>	<b>111,499</b>	<b>109,297</b>	<b>116,376</b>
<b>Surplus</b>	<b>11,691</b>	<b>13,316</b>	<b>12,820</b>	<b>8,439</b>
<b>Other Comprehensive Income</b>				
Superannuation actuarial gains/(losses)	1,129	(4,877)	--	--
Gain on revaluation of property, plant and equipment	206,864	150,102	206,864	150,102
<b>Total Other Comprehensive Income</b>	<b>207,993</b>	<b>145,225</b>	<b>206,864</b>	<b>150,102</b>
<b>Total Comprehensive Income</b>	<b>219,684</b>	<b>158,541</b>	<b>219,684</b>	<b>158,541</b>

The decrease in other revenue was mainly due to the prior year figure including \$4.5 million in wharf assets received from local councils and the sale of the Superyacht Marina for \$1.5 million.

The increase in depreciation and amortisation expense was due to the increase in property, plant and equipment over the last two years.

The decrease in other expenditure was mainly due a reduction in losses on the disposal and write off of assets. Included in 2010-11 was the write-off of \$1.6 million in costs to develop a new property management system (Maritime Assets Property System) which was intended to replace the current property system (IGLS). Following announcement of the creation of the new Roads and Maritime Services a decision was taken to cease further development work so that an enterprise wide property management solution could be considered.

The change in the superannuation actuarial assessment results from a decrease in the present value of the defined benefit obligation and improved investment returns from stronger financial markets.



## Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current assets	108,233	106,062	107,532	104,994
Non-current assets	1,673,295	1,436,368	1,672,815	1,436,281
<b>Total Assets</b>	<b>1,781,528</b>	<b>1,542,430</b>	<b>1,780,347</b>	<b>1,541,275</b>
Current liabilities	97,662	88,868	116,207	109,503
Non-current liabilities	264,076	248,732	244,350	226,942
<b>Total Liabilities</b>	<b>361,738</b>	<b>337,600</b>	<b>360,557</b>	<b>336,445</b>
<b>Net Assets</b>	<b>1,419,790</b>	<b>1,204,830</b>	<b>1,419,790</b>	<b>1,204,830</b>

At 30 June 2011, non-current assets increased mainly due to:

- a gain on the revaluation of property, plant and equipment of \$206 million
- harbour deepening costs of \$42.4 million performed on behalf of the Authority by Sydney Ports Corporation and several private sector entities.

Total liabilities increased mainly as a result of the recognition of a \$42.4 million liability for channel fees received in advance, arising from the harbour deepening referred to above.

## Authority Activities

The Authority was responsible for marine safety and environmental protection of navigable New South Wales' waterways. It also ensured the appropriate development and use of wetlands and associated maritime assets.

The *Ports and Maritime Administration Act 1995* established the Authority in July 1995.

For further information on the Authority, refer to [www.maritime.nsw.gov.au](http://www.maritime.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	Website
Maritime Authority of NSW Division	*

\* This entity does not have a website.

# Roads and Traffic Authority of New South Wales

Survey of  
Sydney's seven  
major routes  
shows a broadly  
consistent trend  
in travel speeds  
for morning and  
afternoon peaks  
over five years

## Audit Opinion

The audits of the Authority and its controlled entity's financial statements for the year ended 30 June 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports.

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

## Operational Snapshot

The Authority primarily manages roads, vehicle and driver licensing. It is under the direction of the Department of Transport (the Department) and its services include:

Key area	Key outcomes
Road network	<ul style="list-style-type: none"><li>managing over 18,000 kilometres of State roads and 3,000 kilometres of regional and local roads</li><li>managing the construction of more than 100 road projects valued at over \$1.9 billion</li><li>operating 15,867 traffic signals and facilities</li><li>maintaining roads and bridges at cost of about \$140 million</li></ul>
Licensing and registration	<ul style="list-style-type: none"><li>administering licence registration of 5.6 million motor vehicles</li><li>controlling licensing services for 4.9 million drivers</li></ul>

Source: Roads and Traffic Authority of New South Wales (unaudited).

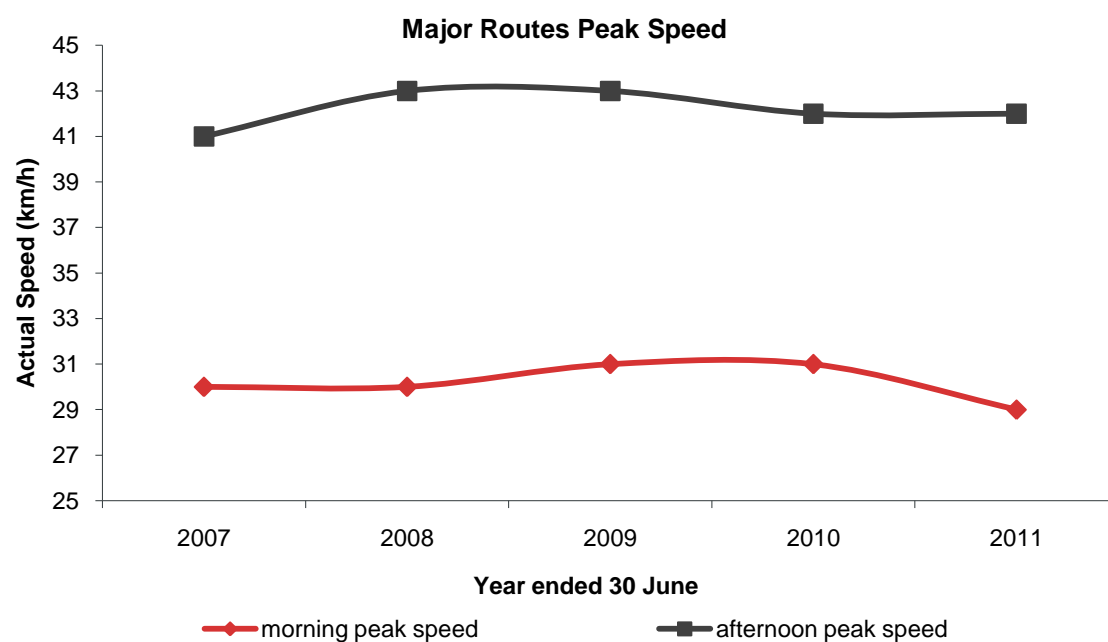
The Authority's services cost \$3.1 billion, it generated revenue of \$765 million, received government contributions of \$4.2 billion and held assets valued at \$64 billion at 30 June 2011.

## Key Issues

### Managing Congestion

One of the government's State Plan priorities is to improve efficiency of the road network.

The results of the Authority's survey of Sydney's seven major routes over five years demonstrates a broadly consistent trend in the travel speed for both morning and afternoon peak period travel.



Road fatalities  
decreased in  
2010–11

Traffic congestion on Sydney's major routes continues to influence speeds and travel times for the community.

Management advises its current strategy to manage road congestion includes:

- modelling future increases in traffic volumes with a focus on expanding motorways
- active management of traffic flow
- bus priority measures
- use of technology to improve road traffic operations.

I understand the Authority and the Department plan to develop a long-term strategy that integrates transport agencies to manage road congestion.

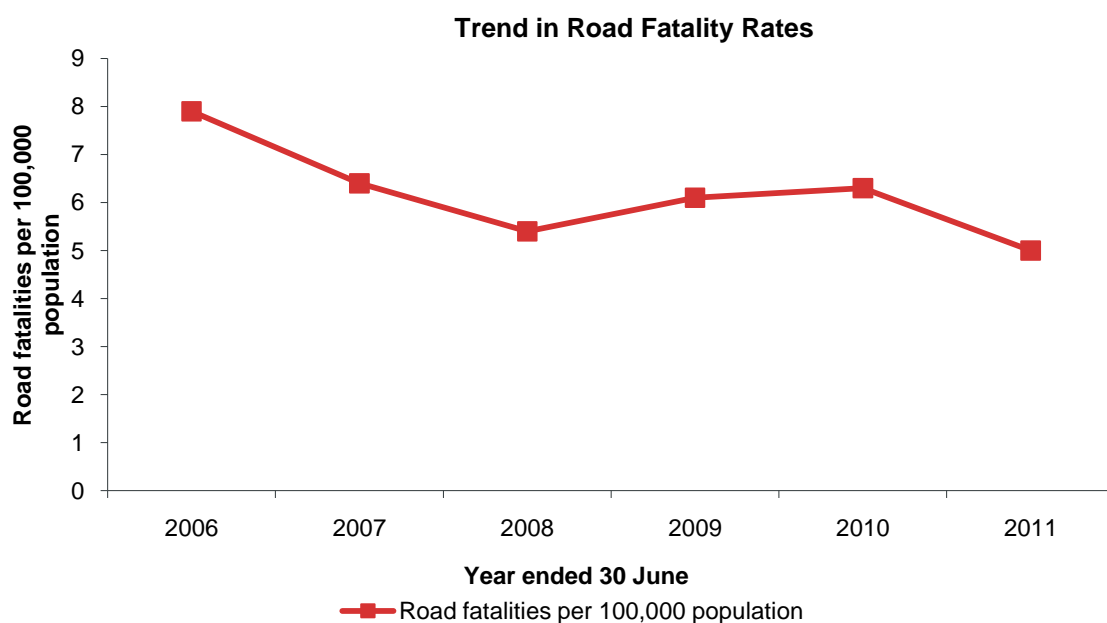
Further details on average speed times on major routes are included later in this comment.

## Performance Information

The Authority provided the following information regarding its performance:

### Road Safety Performance Outcomes

The New South Wales Government State Plan, issued in November 2006, included safer roads as a priority. The target set in the plan was to achieve 0.7 road fatalities per 100 million vehicle kilometres travelled by 2016. The revised State Plan, issued in October 2009, introduced a primary road safety target of 4.9 fatalities per 100,000 people by 2016.



The Authority delivered a total of 67 road safety engineering projects during the year under the Road Toll Response Package initiative, which the government announced in March 2010.

Key outcomes include:

- expenditure of \$35.8 million on additional road safety marketing campaigns, safety barriers, highway review works and safety works for council managed roads
- continuing road safety education and child restraint/helmet evaluation programs.

The Authority contributed to the development of the National Road Safety Strategy 2011-2020, released by the Commonwealth on 20 May 2011. The strategy's vision is to improve road safety. It identifies a series of actions to reduce annual road deaths and serious injuries by at least 30 per cent on Australian roads by 2020.

Statistics on fatalities and injuries from road traffic crashes were:

Year ended 30 June	Actual				
	2011	2010	2009	2008	2007
Road fatalities per 100,000 population*	5.0	6.2	6.1	5.4	6.4
Road fatalities per 100 million vehicle kilometres travelled*	0.53	0.66	0.65	0.59	0.71
<b>Total Fatalities</b>	<b>367</b>	<b>447</b>	<b>432</b>	<b>376</b>	<b>442</b>
<b>Total Injuries</b>	<b>24,855</b>	<b>23,754</b>	<b>24,103</b>	<b>24,775</b>	<b>26,065</b>

Source: Roads and Traffic Authority of New South Wales (unaudited).

\* Fatality and population figures for 2009–10 and 2010–11 are provisional. Fatality rates for 2008–09, 2009–10 and 2010–11 have been calculated using projected travel growth since 2008.

The Authority has significant challenges to maintain road service levels

## Pavement Rebuilding Targets

Pavement rebuilding represents the percentage of road surface area repaired for structural damages to total area of road surfaces. The Authority achieved its short term target of 1.2 per cent, but not its long term target of two per cent. The Authority advises this target is unlikely to be achieved under the existing funding arrangements.

Year ended 30 June	Target*	Actual				
	2011	2011	2010	2009	2008	2007
Road maintenance expense (\$m)	687	621	572	605	671	688
Pavement rebuilding rate (%)	1.2	1.3	1.4	1.2	1.1	1.1

Source: Roads and Traffic Authority of New South Wales (unaudited).

\* Targets are set by the Authority.

The Authority submitted a draft Strategic Asset Maintenance Plan to Treasury in 2007 for ten years with funding proposals to meet an annual long-term target of two per cent pavement rebuilding. The funding needs were updated for the Strategic Asset Maintenance Plan 2011-12. The Plan uses a risk-based approach to determine strategic maintenance priorities.

The Authority advises its ability to effectively maintain service levels and sustain road infrastructure has been severely hampered by:

- an expanding asset base with no provision for recurrent maintenance or replacements
- an ageing infrastructure (about 40 per cent of pavement network is over 30 years old)
- increased traffic and axle loadings
- increasing costs of maintenance
- increasing environmental constraints and amenity requirements.

The Strategic Asset Maintenance Plan recommended a 'minimum to mitigate high risk' funding option, which seeks to provide reasonable service levels and risk apportionment over the next ten years and addresses immediate shortfalls that would compromise State Plan targets. This option defers establishing a sustainable asset management regime until after 2020.

## Ride Quality and Pavement Durability

The 'Good Ride Quality' target per the State Plan is 93.0 per cent in 2016.

The Authority did not achieve its 'Good Ride Quality' target for 2011 due to an increase in the rate of road deterioration due to heavy and prolonged rains. Ride quality measures the 'roughness' of travel over road surfaces (including national highways) and is a primary indicator of road condition.

The Authority achieved its 2011 targets for pavement durability, which measure road surface cracking on sealed State roads.

Travel speeds  
mostly decreased  
on major road  
routes in 2010–11

These measures, as a percentage of total roads, over the last five years are shown below:

Year ended 30 June	Target*	Actual				
	2011 %	2011** %	2010 %	2009 %	2008 %	2007 %
<b>Ride Quality*</b>						
Good	92.2	91.2	91.5	91.6	90.7	90.4
Fair	--	5.8	5.7	5.8	6.2	6.7
Poor	--	3.0	2.8	2.6	3.1	2.9
<b>Pavement Durability</b>						
Good	78.0	78.1	77.4	76.3	78.0	76.5
Fair	--	14.2	14.9	15.0	13.5	14.0
Poor	--	7.7	7.7	8.7	8.5	9.5

Source: Roads and Traffic Authority of New South Wales (unaudited).

\* Targets are set by the Authority.

### Average Travel Speed on Seven Major Routes to and from Sydney

The State Plan charges the Authority with 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 are shown below:

Year ended 30 June	Actual speed (km/h)				
	2011	2010	2009	2008	2007
<b>Morning Peak Speeds</b>					
F3/Pacific Highway/F1	33	34	35	35	35
M2/Lane Cove Tunnel/Gore Hill Freeway**	36	39	36	31	38
M4/Parramatta Road/City West Link	25	28	29	28	25
M5/Eastern Distributor	34	35	41	34	40
Pittwater Road/Military Road/F1	25	25	26	26	27
Princes Highway	29	31	30	28	28
Victoria Road	24	26	21	23	22
Combined seven routes*	29	31	31	30	30
<b>Afternoon Peak Speeds</b>					
F3/Pacific Highway/F1	54	53	50	52	45
M2/Lane Cove Tunnel/Gore Hill Freeway**	60	65	66	61	47
M4/Parramatta Road/City West Link	39	35	39	40	38
M5/Eastern Distributor	51	54	56	48	50
Pittwater Road/Military Road/F1	35	34	38	39	38
Princes Highway	32	32	32	36	35
Victoria Road	31	34	33	32	31
Combined seven routes*	42	42	43	43	41

Source: Roads and Traffic Authority of New South Wales (unaudited).

\* 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).

Overall, travel speeds decreased marginally on most routes. This reflects increasing traffic volumes and congestion.

Management advises:

- the morning peak speed decreased on the M4 corridor due to increased traffic volumes following removal of the toll from March 2010
- the morning and afternoon peak travel speed decreased on the M2/Lane Cove Tunnel/Gore Hill Freeway corridor due to road works and reduced speed limits
- afternoon peak travel speed on the Victoria Road corridor decreased due to road works during the survey in November 2010.

## Other Information

### Human Resources

This year I reviewed the following matters raised last year relating to human resources:

- use of contractors
- overtime
- management of annual leave balances in excess of threshold policies
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising.

A summary of the results of the review follows.

#### Use of Contractors

The Authority uses skill hire contractors as a short-term employment option for a period of generally not more than one year for specialised positions.

Management advises that the Authority continues to regularly monitor its use of skill hire contractors, with all appointments or extensions requiring approval by the Head of the Directorate. This has contributed to a decrease in skill hire contractors from last year.

The Authority's percentage of skill hire contractors decreased to 4.8 per cent of the workforce from 7.7 per cent in 2009–10. However, 82.1 per cent (56.6 per cent) of its contractors had been engaged for more than 12 months. The longest serving contractor has been with the Authority for over ten years.

Management advise its use of contractors is a result of:

- skill shortages in engineering and information technology
- pay offered is below comparables available in the industry
- the government's recruitment freeze
- construction and information technology industry using contingent workforces
- growth in the overall road program due to higher Australian government funding.

The retention of contract staff for extended periods may result in additional costs to the Authority and critical business knowledge may be lost when contractors leave the organisation.

The number of skill hire contractors and contract durations are shown below:

Year end 30 June	Number of skill hire contractors		
	2011	2010	2009
<b>Cost of Skill Hire Contractors (\$m)</b>	81.1	93.7	92.0
<b>Duration Since Current Skill Hire Contract Start Date</b>			
Over 6 years	84	68	73
5–6 years	14	18	10
4–5 years	16	14	24
3–4 years	35	44	23
2–3 years	55	78	69
1–2 years	164	173	147
less than 1 year	80	303	380
<b>Total</b>	<b>448</b>	<b>698</b>	<b>726</b>

Source: Roads and Traffic Authority of New South Wales (unaudited).

### Overtime

The Authority's overtime represents 7.5 per cent (7.6 per cent) of employees' base salaries and wages. Overtime for 2010–11 totalled \$46.9 million (\$44.3 million). On average 57.3 per cent (61.4 per cent) of the Authority's employees received approximately \$5,000 (\$5,000) in overtime. The highest amount paid to a single employee was \$101,683 (\$118,000). A total of 313 employees were paid 50 per cent or more of their annual salary in overtime.

I plan to consider these findings in my current performance audit on the management of overtime across a number of government agencies.

The top ten overtime earners as a percentage of overtime to salary were:

Year end 30 June	2011			2010		
	Percentage of overtime to salary	Annual salary	Overtime	Percentage of overtime to salary	Annual salary	Overtime
Employee		\$	\$		\$	\$
1	127	80,118	101,683	133	77,037	102,111
2	109	76,961	83,848	126	92,958	117,589
3	107	80,118	85,344	126	59,885	75,552
4	106	48,845	51,610	124	48,177	59,603
5	104	75,496	78,688	122	48,177	58,956
6	102	56,374	57,465	117	74,001	86,614
7	97	50,102	48,714	117	48,177	56,284
8	97	50,102	48,376	109	51,792	56,486
9	96	50,102	48,193	109	52,998	57,525
10	94	60,131	56,437	108	48,177	52,250

Source: Roads and Traffic Authority of New South Wales (unaudited).

Management advises:

- the monitoring of overtime is performed through monthly reporting to directorates
- key reasons for the level of overtime include night work, major projects, emergency scenarios (including natural disasters) and special events usually performed outside business hours
- the Human Resources Branch works with the directorates to ensure overtime worked complies with the Authority's policy.



## Annual Leave Balances

The Authority implemented a process to actively manage excessive annual leave balances. The number of employees with annual leave in excess of 40 days declined from 704 in 2007-08 to 557 employees at 30 June 2011. However, 6.3 per cent (6.3 per cent) of total employees still have excessive annual leave balances.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of the staff may also suffer if they do not take regular leave.

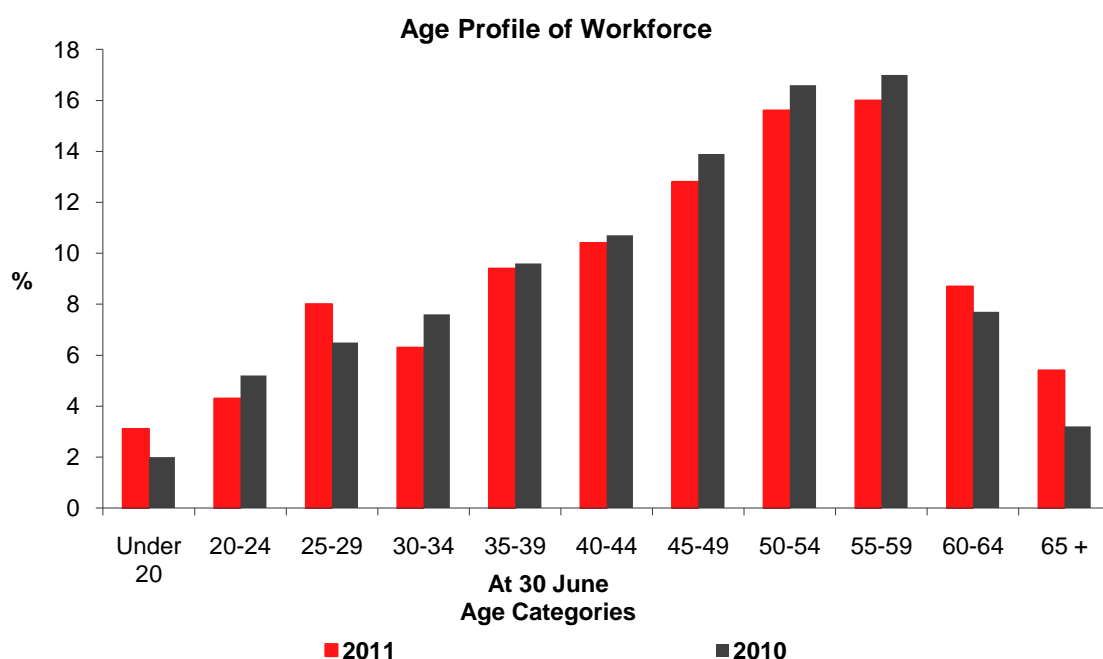
At 30 June	2011			2010		
	No. of personnel	Total days	Amount \$'000	No. of personnel	Total days	Amount \$'000
<b>Annual Leave Entitlement (days)</b>						
> 100	3	339	137	2	213	73
81–100	5	446	192	9	815	301
61–80	59	4,072	1,544	43	2,913	1,109
41–60	490	23,178	8,386	488	23,025	7,824
<b>Total</b>	<b>557</b>	<b>28,035</b>	<b>10,259</b>	<b>542</b>	<b>26,966</b>	<b>9,307</b>

## Workforce Ageing

The age profile of the Authority is skewed towards employees over 50 years old with 483 (229) employees over 65 years at 30 June 2011.

Just over 30 per cent (27.9 per cent) of total employees are over 55 years of age and 45.7 (44.5 per cent) are over 50. This represents a large number of employees who are likely to retire over the next ten years, increasing the risk of a significant loss of accumulated knowledge and skills in specialised areas.

The age profile of the Authority's employees is shown below:



As at 30 June Age Group	2011		2010	
	No. of employees (FTE)	%	No. of employees (FTE)	%
Up to 34	1,928	21.7	1,546	21.3
35–39	835	9.4	693	9.6
40–44	920	10.3	777	10.7
45–49	1,134	12.8	1,006	13.9
50–54	1,382	15.6	1,202	16.6
55–59	1,419	16.0	1,234	17.0
60–64	772	8.7	558	7.7
65+	483	5.5	229	3.2
<b>Total</b>	<b>8,873</b>	<b>100.0</b>	<b>7,245</b>	<b>100.0</b>

Source: Roads Traffic Authority (unaudited).

Management advises it actively monitors its workforce age profile. It has a workforce strategy as part of its Corporate Plan 2008–12. The strategy is to develop, recruit and retain employees whose skills are aligned with the strategic direction of the Authority.

The Authority held 21 succession planning seminars across New South Wales as part of the 'My Journey Program' implemented in 2010. This program targets staff aged over 55 to focus on knowledge sharing, working intentions and retirement preparedness.

### Road over Rail Bridges

The Authority received and recognised a contribution of 141 roads over rail bridge assets from rail and other transport agencies during 2010–11. The carrying value of the bridges at 30 June 2011 was \$194 million.

### Transport Restructure

Following a government announcement on 15 July 2011, the Authority was abolished effective 31 October 2011. The Authority's functions have been transferred to a new body, NSW Roads and Maritime Services.

The new entity will focus on service delivery, building and maintaining roads, conducting driving tests, issuing licences and registrations, compliance and overseeing harbours and waterways.

Further information on the transport restructure is included in the Transport Overview in this volume.

## Major Projects

The Authority's major projects did not incur significant budget overruns or major delays. The table below shows completion dates and costs for the highest valued projects listed in 2010-11 budget papers for the Authority.

Year ended 30 June 2011	Year of Budget Paper with Initial Estimates	Initial Estimated Completion Date per Budget Paper	Forecast/ Actual Completion Date	Initial Project Estimate* \$m	Cost to 30 June 2011 \$m	Forecast/ Actual Final Cost \$m	Forecast Variance \$m
Hunter Expressway- F3 to Branxton Freeway	2010-11	2013	2013	1,700	326	1,700	--
Pacific Highway, Tintenbar to Ewingsdale	na	2014	2014	862	59	**	--
Pacific Highway, Coffs Harbour (Sapphire) to Woolgoolga	2010-11	2014	2013	733	205	705	(28)
Pacific Highway, Ballina Bypass	2009-10	2012	2012	661	570	640	(21)
Pacific Highway, Kempsey Bypass	2010-11	2014	2013	618	176	618	--
Pacific Highway Banora Point, Upgrade	2010-11	2012	2012	359	189	359	--
Pacific Highway, Bulahdelah Upgrade	2007-08	2012	2012	300	137	315	15
Bus Priority on Strategic Corridors	2008-09	2012	2012	295	265	295	--
Hume Highway, Tarcutta Bypass	2010-11	2011	2011	293	205	290	(3)
Hume Highway, Woomargama Bypass	2010-11	2011	2011	265	180	265	--

Source: Roads and Traffic Authority of New South Wales (unaudited).

\* The initial project estimates represented the initial strategic or concept estimates prior to any detailed planning or project development.

\*\* Estimated cost will be confirmed following the award of the major contract.

na Not available – The initial estimated completion dates for these projects were not reported in the respective Budget Paper because the projects were at the early stage of planning.

## Administered Revenue

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

Year ended 30 June	Actual				
	2011 \$m	2010 \$m	2009 \$m	2008 \$m	2007 \$m
Vehicle registration fees	280	270	249	243	232
Drivers licences fees	118	146	116	91	96
Vehicle transfer fees	41	38	36	38	35
Stamp duty	588	586	538	605	555
Motor vehicle weight tax	1,474	1,312	1,231	1,186	1,113
Fines	4	4	5	5	5
Other	80	76	70	58	58
<b>Total</b>	<b>2,585</b>	<b>2,432</b>	<b>2,245</b>	<b>2,226</b>	<b>2,094</b>

Motor vehicle weight tax increased by 12.3 per cent (6.5 per cent) mainly due to the increase in motor vehicle tax rates implemented on 1 July 2010.

## Financial Information

### Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Sale of goods and services	430	398	430	398
Other revenues	335	512	335	512
Government Contributions	4,241	3,772	4,241	3,772
<b>Total Revenue</b>	<b>5,006</b>	<b>4,682</b>	<b>5,006</b>	<b>4,682</b>
Employee related	587	569	589	673
Maintenance	621	572	621	572
Depreciation and amortisation	849	921	849	921
Grants and subsidies	374	743	374	743
Finance costs	89	96	89	96
Other expenses	452	417	452	417
Loss on disposal of non current assets	112	54	112	54
<b>Total Expenses</b>	<b>3,084</b>	<b>3,372</b>	<b>3,086</b>	<b>3,476</b>
<b>Surplus</b>	<b>1,922</b>	<b>1,310</b>	<b>1,920</b>	<b>1,206</b>
<b>Other Comprehensive Income</b>				
Gain/(loss) on revaluation of property plant and equipment	(591)	4,534	(591)	4,534
Superannuation actuarial losses	(2)	(104)	--	--
<b>Total Other Comprehensive Income/(Expense)</b>	<b>(593)</b>	<b>4,430</b>	<b>(591)</b>	<b>4,534</b>
<b>Total Comprehensive Income</b>	<b>1,329</b>	<b>5,740</b>	<b>1,329</b>	<b>5,740</b>

A state-wide review of road classifications was performed in 2010. This resulted in the transfer in of \$ 313 million and transfer out of \$361 million of roads and bridges from/to various councils, which contributed to a larger other revenue income and grants and subsidies expense in the prior year.

Increase in government contributions is largely to fund major projects received from the Australian Government.

Superannuation actuarial losses reflect movements in the actuarially assessed employee superannuation liability and fund assets for employees who are members of the State Government's defined benefit superannuation plans.

## Abridged Statement of Financial Position

At 30 June	Consolidated		Parent	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Current assets	500	370	500	370
Non-current assets	63,519	62,119	63,519	62,119
<b>Total Assets</b>	<b>64,019</b>	<b>62,489</b>	<b>64,019</b>	<b>62,489</b>
Current liabilities	1,285	1,239	1,917	1,859
Non-current liabilities	2,054	2,092	1,422	1,472
<b>Total Liabilities</b>	<b>3,339</b>	<b>3,331</b>	<b>3,339</b>	<b>3,331</b>
<b>Net Assets</b>	<b>60,680</b>	<b>59,158</b>	<b>60,680</b>	<b>59,158</b>

The increase in non-current assets largely represents construction works in progress on the Pacific Highway, Hunter expressway and Great Western Highway funded by the government contributions.

## Authority's 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](http://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	Website
Roads and Traffic Authority Division	*

\* This entity does not have a website.

# Chief Investigator of the Office of Transport Safety Investigations

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NSW Auditor-General's Report  
Volume Eight 2011

CHIEF INVESTIGATOR OF  
THE OFFICE OF TRANSPORT  
SAFETY INVESTIGATIONS

The Chief Investigator of the Office of Transport Safety Investigations has made a loss for the last five financial years

## Audit Opinion

The audit of the Chief Investigator of the Office of Transport Safety Investigations' (OTSI) financial statements for the year ended 30 June 2011 resulted in an unmodified audit opinion within the Independent Auditor's Report.

## Key Issues

### Financial Position of OTSI

#### *Recommendation*

OTSI needs to closely monitor its financial position to ensure it is able to continue to meet its financial and statutory responsibilities.

OTSI had a loss of \$118,000 (\$178,000 in 2010) for the year ended 30 June 2011 and net liabilities of \$30,000 (\$88,000 net assets in 2010) at 30 June 2011. OTSI has recorded a deficit for the last five financial years. The cumulative losses since 2007 amount to \$807,000.

OTSI is budgeted to make another loss in 2011–12 of \$144,000 after receiving grants and contributions of \$2.2 million. It also is budgeted for a positive cash position of \$104,000 at 30 June 2012 indicating it will be able to pay its debts as they fall due. However, any significant variation from the budget could have an impact on its financial position.

## Entity Activities

OTSI investigates transport accidents and incidents. It covers rail, bus and ferry passenger transport and rail freight.

OTSI is an independent statutory office and operates under the *Transport Administration Act 1998*.

For more information on the Chief Investigator of the Office of Transport Safety Investigations, refer to [www.otsi.nsw.gov.au](http://www.otsi.nsw.gov.au).

# Country Rail Infrastructure Authority

## Audit Opinion

The audit of the Authority's financial statements for the year ended 30 June 2011 resulted in an unmodified audit opinion within the Independent Auditor's Report.

## Operational Snapshot

The Authority manages and operates the country regional network (CRN). The network is broken down into the following four classifications:

CRN Classification	2010-11	
	CRN kilometres	Gross tonnes per kilometre (million)
Core passenger	1,118	3,628
Core freight	521	679
Grain	1,093	329
Non operational	3,169	--
<b>Total</b>	<b>5,901</b>	<b>4,636</b>

Gross tonnes per kilometre is a standard measure of track usage being the gross weight of a train multiplied by kilometres travelled

Source: Country Rail Infrastructure Authority (unaudited).

Currently 3,169 kilometres of the country regional network is non-operational. These lines were made non-operational at various times over the last 40 years following a government decision at the time the line or lines were no longer viable. Management advises that budgeted expenditure on disused lines is currently \$1.25 million per year.

The Authority also oversees the management of the Leased Network by the Australian Rail Track Corporation (ARTC). The Leased Network is made up of the Hunter Valley and Interstate network. It is leased to ARTC for a period of 60 years from September 2004.

## Key Issues

For general transport industry information, refer to the 'Transport Overview' section earlier in this report.

### Transport Restructure

The *Transport Legislation Amendment Act 2011* was passed by the New South Wales Parliament in September 2011. The legislation provides for the establishment of Transport for NSW (TfNSW) as a New South Wales Government agency and sets out the objectives and functions of TfNSW.

The legislation also provides for the abolition of Country Rail Infrastructure Authority. The Authority's functions are expected to transfer to TfNSW during 2011-12.

For further information on the transport restructure refer to the 'Transport Overview' in this volume.

### Country Regional Network

At present the ARTC continues to manage and maintain the country regional network under a management agreement. This agreement commenced in September 2004 and will terminate at midnight on 14 January 2012.

In December 2010, the Authority signed a 10 year contract with John Holland Rail for the provision of Country Regional Network (CRN) operations and maintenance services, following a two year contestability project. The purpose of the contestability project was to increase market competition, improve value for money and the level of service provided to CRN customers.

Country Regional Network (CRN) management agreement with the Australian Rail Track Corporation terminated

Contract signed with John Holland Rail for CRN operations and maintenance services with \$33.5 million in start up costs expected

The 10-year contract term provides incentives for John Holland Rail and the industry to invest in people, training and equipment. The contract places particular emphasis on the delivery of the bulk of the operations and maintenance services from 'in-house' resources. This approach is designed to drive long-term improvements to quality, safety and accountability.

John Holland Rail will take over from ARTC on 15 January 2012 and the new arrangement will deliver over \$1.5 billion in maintenance and upgrade works on the CRN over the 10-year contract period.

The Authority is now liable for disengagement costs incurred by ARTC and mobilisation costs incurred by John Holland Rail. Disengagement costs incurred to 30 June 2011 are \$1.0 million. The Authority anticipates a further \$7.2 million to complete the transition. Mobilisation costs incurred to 30 June 2011 are \$9.8 million and the Authority anticipates a further \$23.7 million will be incurred to complete the mobilisation.

The Authority paid \$175 million to ARTC in 2010–11 to manage and maintain the country regional network (\$177 million in 2009–10).

### Gap to Narrabri improvements

During June 2010, the Authority completed the Gap to Narrabri capacity improvements project. The project has resulted in increased track capacity for freight services in the north west of the State. Under the Deed of Lease, ARTC are able to exercise their right to take over certain sections of the CRN.

On 1 July 2011, in accordance with the Deed of Lease, ARTC exercised their option to lease the section of track from the Gap to Boggabilla. The financial transactions associated with the option will be recorded in the 2011–12 financial statements. Property, plant and equipment assets of \$327 million, representing this section of track, will be disposed of and total borrowings of \$56.7 million repaid. The repayment of borrowings will be funded by revenue to be received from two mining companies as set out in the project deed.

## Other Information

### Major Capital Projects

The Authority spent \$78.0 million on capital works in 2010–11 (\$88.0 million). The original and current direct cost estimates and service delivery dates for major capital projects are listed in the table below.

Project	Original completion date	Forecast completion date	Months late	Original budget \$m	Forecast final cost	Total costs to 30 June 2011 \$m
Steel resleeper program	June 2011	June 2011	Nil	46.66	44.77	44.77
Bathurst Bridge replacement	September 2010	November 2010	2	13.55	10.99	10.99
Signalling and train control systems	June 2009	June 2012	37	32.0	32.0	31.30

Source: Country Rail Infrastructure Authority (unaudited).

During the year the Authority installed 260,545 sleepers under the annual steel resleeper program at a cost of \$44.8 million.

Whilst the signal box rationalisation component of the signalling and train control systems project has been completed, the train control systems component has been significantly delayed by at least 37 months. The Authority is carefully monitoring this project which is being delivered by ARTC, and is no longer confident the project can be delivered within the original budget of \$32.0 million. The Authority is currently considering its options for this project.



## Maintenance activities

The table below shows the Authority increased its maintenance spend to \$137 million in 2010–11 (\$129 million) excluding major capital projects. The Authority still has a significant amount of backlog maintenance, comprising of mainly asset renewals. At 30 June 2011, backlog maintenance totalled \$680 million (\$731 million). The seven per cent reduction in backlog maintenance is consistent with the Authority's Total Asset Management Plan.

Year ended 30 June	2011 \$m	2010 \$m
Actual maintenance expenditure*	137.0	129.1
Backlog maintenance:		
• Timber sleepers	462.0	504.4
• Timber under bridges	81.1	85.4
• Timber over bridges	137.0	141.0

Source: Country Rail Infrastructure Authority (unaudited).

\* Direct engineering costs (excludes major capital projects).

The increase in maintenance expenditure was mainly due to prior year works being carried forward and completed in the current financial year.

Despite the existence of backlog maintenance, the Authority advises the safety of the network is not compromised. It also advises that based on its asset management plan, works programs, and current funding allocations being appropriately indexed, timber assets will be replaced by modern, low maintenance equivalents over the next ten years as they become life expired. Only minor maintenance is undertaken on non-operational lines.

Since 2004, as a result of the Authority's maintenance activities and investment in capital works, the condition of the country regional network has steadily improved based on the Authority's track quality measure.

## Workforce Ageing

Last year, I reported that the Authority had a large number of employees that are likely to retire in the next five to 15 years, increasing the risk of a significant loss of knowledge and skills from the Authority. Ten per cent of the Authority's employees at 30 June 2010 were aged 55 years or older and 56 per cent were over 50.

I recommended the Authority continue to develop and implement effective policies and procedures to manage its aging workforce.

In response management advised that it does not currently have a strategy in place to deal with its ageing workforce. Longer term planning will be considered when the future of the Authority within the transport reforms is resolved.

Backlog maintenance has decreased by \$51 million to \$680 million, and is expected to be cleared over the next 10 years

## Financial Information

## Abridged Statement of Comprehensive Income

Year ended 30 June	2011 \$'000	2010 \$'000
Government contributions	173,608	174,987
Access fees	21,593	17,968
Other revenue	25,619	14,736
<b>Operating Revenue</b>	<b>220,820</b>	<b>207,691</b>
Employee costs	3,229	2,820
Depreciation	133,421	133,244
Maintenance and contractors	126,077	97,101
Tripartite agreement payment	11,820	11,487
Finance costs	3,884	3,190
Other expenses	5,746	3,046
<b>Operating Expenses</b>	<b>284,177</b>	<b>250,888</b>
<b>Deficit</b>	<b>(63,357)</b>	<b>(43,197)</b>
<b>Other Comprehensive Income</b>		
Asset revaluation reserve increase	3,178	112,189
<b>Total Other Comprehensive Income/(Expense)</b>	<b>3,178</b>	<b>112,189</b>
<b>Total Comprehensive Income/(Expense)</b>	<b>(60,179)</b>	<b>68,992</b>

The increase in other revenue was due to revenue from ARTC for overbridges associated with the Hunter Valley Coal network, and from revenues from mining companies paying for stages 1–4 of the Gap to Narrabri Rail Capacity Project.

The increase in maintenance and contractor expenditure is a result of costs associated with the transfer from ARTC to John Holland Rail as well as increased maintenance works completed on overbridges.

## Abridged Statement of Financial Position

At 30 June	2011 \$'000	2010 \$'000
Current assets	63,650	66,554
Non-current assets	2,144,431	2,200,489
<b>Total Assets</b>	<b>2,208,081</b>	<b>2,267,043</b>
Current liabilities	105,144	46,798
Non-current liabilities	16	57,145
<b>Total Liabilities</b>	<b>105,160</b>	<b>103,943</b>
<b>Net Assets</b>	<b>2,102,921</b>	<b>2,163,100</b>

Non-current assets include \$1.8 billion of trackwork and infrastructure assets which relate to the country regional network. The decrease in total assets is mainly due to depreciation for the year.

The increase in current liabilities was largely due to the Gap to Narrabri Rail Capacity Project borrowings. These borrowings have been reclassified from non-current to current as they are expected to be extinguished in the 2011–12 financial year.

## Authority Activities

For further information on the Authority, refer to [www.countryrail.nsw.gov.au](http://www.countryrail.nsw.gov.au).

## Audit Opinion

The audit of the Department of Transport and its controlled entities financial statements for the year ended 30 June 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports.

Sydney Ferries was a controlled entity of the Department for the year ended 30 June 2011. The Independent Auditor's Report for Sydney Ferries' financial statements included an emphasis of matter related to significant uncertainty whether Sydney Ferries would be able to realise its assets and discharge its liabilities in the normal course of business. This resulted from the franchising arrangement announced in May 2011. See the comment for Sydney Ferries for more information.

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

## Operational Snapshot

The Department of Transport was responsible for a range of transport related functions covering the planning, procurement, delivery and coordination of transport services and infrastructure in NSW in 2010-11. The main activities comprise Rail Services, Road Transport Services (mainly Bus Services), Road and Traffic Services, Ferry Services and Ticketing Services delivered either by the Department or its controlled entities.

Transport entity	Main activities	Total Comprehensive income (2010-11) \$m	Net assets/(liabilities) (2010-11) \$m
Department of Transport^	Lead Transport Agency	55	175
Rail Corporation*	Rail Services	4,610	22,782
Roads and Traffic Authority and its division*	Road and Traffic Services	1,329	60,680
Country Rail Infrastructure Authority*	Rail Services	(60)	2,103
Transport Construction Authority*	Rail Infrastructure	155	992
State Transit Authority and its divisions*	Road Transport Services (mainly Bus Services)	4	243
Sydney Ferries*	Ferry Services	3	84
Public Transport Ticketing Corporation*	Ticketing and Fare Payment Services	(18)	(114)
Sydney Metro*	Rail Services	(4)	204

Source: Transport entities financial statements (audited).

^ Parent entity

\* Controlled entity

For general transport industry information, refer to the 'Transport Overview' section earlier in the report. Detailed comment on the activities of the controlled entities is also contained elsewhere in this volume.

## Other Information

### Corporate Governance

#### ***Transport Administration Amendment Act 2010***

With effect from 1 July 2010, the Department of Transport and Infrastructure was renamed Transport NSW. This change was brought about by the *Transport Administration Amendment Act 2010*, which established a new framework for the administration and governance of the delivery of transport services and infrastructure by public transport agencies under the general direction of the Director General.

The Department was established as the lead transport agency with primary responsibility for transport policy, planning and coordination functions as well as oversight of infrastructure delivery and asset management.

The new transport structure was to deliver streamlined, integrated transport planning and service delivery, and consolidation of similar functions to reduce costs and provide additional funds for front line staff and services. For the year ended 30 June 2011, the Department controlled most public sector transport agencies for consolidation purposes.

#### **Public Sector Employment and Management (Departments) Order 2011**

On 4 April 2011, the Public Sector Employment and Management (Departments) Order 2011, changed the name of Transport NSW to the Department of Transport. Other than the change of name, there were no impacts on operations.

#### ***Transport Legislation Amendment Act 2011***

The *Transport Legislation Amendment Act 2011* established a statutory corporation called Transport for New South Wales (TfNSW) on 1 November 2011. Other changes relate to the administration of public transport in New South Wales.

TfNSW assumes most functions and responsibilities of the Department and a number of functions and responsibilities from other entities which provide transport services. TfNSW is now responsible for:

- policy and planning
- transport coordination
- transport infrastructure
- transport services.

The Department will continue to provide policy advice to the Minister for Transport and the Minister for Roads and Ports. The Director General manages the affairs of TfNSW, Sydney Metro and Public Transport Ticketing Corporation.

### Sydney Ferries Contract

On 11 May 2011, the Minister for Transport announced that the government will retain ownership of Sydney Ferries, but with a non-government operator leasing, maintaining and operating the fleet.

The operator will be required to enter into a contract with the Department, which will continue to retain control over fares, routes and safety obligations.

The Registrations of Interest were followed by a request for an Expressions of Interest (EOI), which closed on 29 July 2011. Five companies and consortia have expressed interest in a service contract for running Ferry Services. The formal tender process commenced in October 2011 with three firms invited to respond, and a new operator is expected to commence by the end of 2012.

The announcement and process have superseded the seven year contract finalised between the Department and Sydney Ferries in 2010. The associated vessel replacement strategy has also been deferred.

## Metropolitan Bus Service Contracts

In 2010, I released a performance audit report on how well the Department manages the performance of metropolitan bus contracts. The report recommended the Department further improves performance and drives costs down by:

- specifying a range of performance objectives for each contract region with a clear focus on the needs of bus users
- comprehensively benchmarking performance to hold bus operators accountable, with penalties for poor performance
- strengthening controls on operator self-reporting to ensure performance information is accurate
- publicly reporting operator performance by route and by region conducting more frequent bus customer satisfaction and usage surveys, including the use of Mystery Shoppers.

The performance objectives should include areas likely to be of concern to bus users, such as:

- public transport share of trips made to and from places other than the CBD (for community transport, educational transport, pensioners or other segments)
- passenger and driver safety (aside from licensing and accreditation)
- passenger comfort (such as seating, air-conditioning)
- over-crowding
- cancelled services
- level of accessibility - combining the nearness of a bus stop, service frequency and hours of operation
- bus travel times
- availability of parking at bus stops
- provision of information about bus services (on board announcements, real time information about next arrival)
- provision of bus shelters (generally left to local councils).

These recommendations should be implemented well ahead of the next round of bus contracts in 2012. The Department advises it is continuing to improve management of the existing contracts and developing revised performance standards for the next round of contracts.

All scheduled bus services in the Sydney metropolitan area, by both public and private operators, are provided under Metropolitan Bus Service Contracts managed by the Department.

The contracts, introduced in 2005, are worth \$5.6 billion over seven years. The State Transit Authority was awarded contracts to operate four metropolitan regions and private operators were awarded the contracts for the other eleven regions. The contracts include extensive requirements for operators to report information to the Department.

## State Transit Authority Contract

STA's current Metropolitan Bus System contracts, due to expire on 30 June 2012, were extended for a period of up to 12 months in October 2011, to facilitate the negotiation of new contracts. The contracts included an option for the Department to extend them.

## Transport Concessions for University Students

### Recommendation

Transport for NSW should urgently complete developing processes that ensure transport concession cards are retrieved from ineligible students

The Department commenced a review of processes and procedures for issuing transport concession cards in 2007 after it determined procedures for removing cards from ineligible students were inconsistent.

In 2010, the Department surveyed NSW tertiary institutions which issue student transport concessions cards, focusing on their processes for retrieving concession cards where students cease to be eligible for them.

The Department advises that a preliminary review of the survey results indicates that of the 49 institutions with processes for retrieving cards, 30 estimated they retrieved between 0-25 per cent of cards and 13 estimating they retrieved more than 75 per cent.

Following a fuller analysis of the survey results, Transport for NSW will examine whether the practices of institutions retrieving higher percentages of cards can inform revisions to the guidelines to promote greater retrieval rates across the sector.

## Private Vehicle Conveyance Scheme (Repeat Issue)

### Recommendation

Last year, I recommended the Department ensure the independent review of the Private Vehicle Conveyance Scheme be finalised as soon as possible and accepted recommendations be implemented in a timely manner.

The Private Vehicle Conveyance (PVC) Scheme is designed to help parents meet the cost of transporting their children between home and school if they live in an area with no public transport for all or part of the journey. The Department paid \$20.1 million in PVC subsidies in 2010-11.

Last year, the Department advised that distances detailed in the PVC application forms are only subject to random sample checks. It also advised it was developing a geospatial database, which would enable it to more efficiently check all applications to ensure distance details were correct and the applicant was entitled to a PVC subsidy.

The Department advises it has received the independent review report and is progressing improvements to the administration of the subsidy. It is currently focussing on processes to verify student eligibility and validate the correct level of subsidy benefits is paid.

## Human Resources

This year, I again reviewed the following areas relating to human resources within the parent entity:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- management of excessive flex leave balances
- extent of overtime
- extent of contract staff.

A summary of the results of my review follows.

## Employee Age Profile

Last year, I recommended the Department establish appropriate policies to mitigate and manage the risks associated with its ageing workforce.

In response, I was advised the newly established Transport for NSW will assume responsibility for managing staff, including succession planning and talent management.

The Department is facing challenges from the potential loss of a large number of retiring staff over the next 10 to 15 years. Its employee age statistics below show:

- 21.9 per cent are aged 55 years and over
- 36.5 per cent are aged 50 years and over.

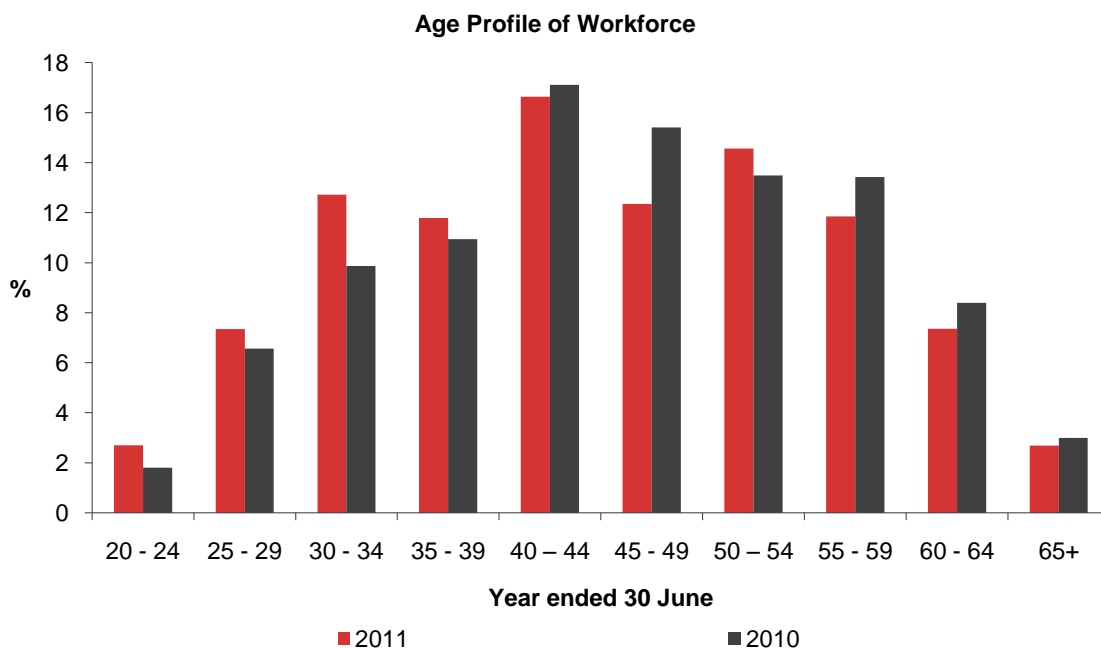
There has been an improvement of 2.9 per cent in the proportion of staff aged under 55 years during 2010-11.

As at 30 June Age Group	2011		2010	
	No. of Employees*	%	No. of Employees*	%
20 – 49	307	63.5	206	61.7
50 – 54	70	14.6	45	13.5
55 – 59	57	11.8	45	13.4
60 – 64	36	7.4	28	8.4
65+	13	2.7	10	3.0
<b>Total</b>	<b>484</b>	<b>100.0</b>	<b>334</b>	<b>100.0</b>

Source: Department of Transport (unaudited)

\* Number of employees refers to full time equivalent

The chart below demonstrates the age distribution of the Department of Transport's employees.



Source: Department of Transport (unaudited).



To ensure the Department continues to have sufficient, appropriately skilled employees, it will need to actively monitor its workforce age profile and ensure strategies are in place to develop, attract and retain staff whose skills are aligned with its strategic direction.

### Flex Leave

Last year, I recommended the Department consider implementing mechanisms to centrally monitor flex time records to help ensure excessive flex time is not being accrued and forfeited by staff.

The Department does not know the extent to which flex time is being accrued and forfeited by staff, as it does not keep centralised records of flex time. Records are decentralised and manually maintained by each branch. If flex time is not monitored centrally, employees may be accruing and/or forfeiting excessive flex time.

The Department advises that it is transitioning payroll and leave processing from ServiceFirst to its own Shared Services Division, which may lead to improved flex leave information.

### Employment of Contractors

Last year, I recommended the Department develop and maintain an appropriate central register of all contractors it engages.

The Department advises that a central register of all contractors has been established and is being actively monitored from a budgetary, financial and compliance perspective.

While contractors may have benefits for the Department, extensive reliance on this employment source and the engagement of long term contractors, particularly in senior roles, generally results in higher employment costs and less ownership and commitment to organisational goals and objectives.

The length of service for all contractors employed by the Department is shown in the table below:

Duration since contractors start date	No. of Contractors at 30 June 2011	Proportion of Total Contractors %
> 6 years	--	--
5-6 years	1	0.5
4-5 years	2	1.1
3-4 years	3	1.6
2-3 years	21	11.3
1-2 years	24	12.9
Less than 1 year	135	72.6
<b>Total Contractors in the Department</b>	<b>186</b>	<b>100.0</b>

Source: Department of Transport (unaudited).

Twenty eight per cent of total contractors have been engaged by the Department for more than twelve months. At 30 June 2011, no contractors had been engaged for more than six years.

Additional information relating to contract employees is shown below:

At 30 June No. of contractors	2011	2010
No. of contractors	186	160
Total cost of contractors for the year (\$'000)	9,056	15,678
Term of longest serving contractor (years)	6	5
Highest cost for a contractor over the term of their contract (\$'000)	1,491	na

na The register database was recently developed; this information was not readily available.

## Financial Information

### Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated**	Parent	
		2011 \$'000	2010 \$'000
Passenger revenue, fees and charges, and others*	1,596,243	80,172	10,365
Other revenue	499,243	88,942	63,586
<b>Total Revenue</b>	<b>2,095,486</b>	<b>169,114</b>	<b>73,951</b>
Employee related expenses	2,538,274	122,803	40,441
Other operating expenses	1,068,439	106,794	46,724
Maintenance	1,408,033	626	1,503
Depreciation, amortisation and impairment	1,886,614	41,338	29,388
Grants and subsidies	497,299	7,286,446	3,745,347
Bus operator expenses (metropolitan and regional service costs), major events, project costs and income tax expense	1,000,021	1,157,409	992,614
<b>Total Expenses</b>	<b>8,398,680</b>	<b>8,715,416</b>	<b>4,856,017</b>
Gain on disposal	5,917	--	--
Other Losses	(243,237)	(500)	(10)
<b>Net Cost of Services</b>	<b>6,540,514</b>	<b>8,546,802</b>	<b>4,782,076</b>
Government Contributions	8,602,556	8,601,812	4,794,389
<b>Surplus</b>	<b>2,062,042</b>	<b>55,010</b>	<b>12,313</b>
Net increase in asset revaluation reserve	4,029,307	--	--
Other Losses/Expenses	(24,191)	--	--
<b>Other Comprehensive Income</b>	<b>4,005,116</b>	<b>--</b>	<b>--</b>
<b>Total Comprehensive Income</b>	<b>6,067,158</b>	<b>55,010</b>	<b>12,313</b>

\* represents passenger service revenue, toll revenue including E-Tag, access fees, number plates, works and services including construction contract revenue, Third party insurance data access charges, advertising, publications, fees for services rendered including salary recoup and others.

\*\* 2011 is the first year the Department was consolidated with other transport agencies and therefore no consolidated comparatives exist.

Transport funding is received by the Department and distributed to its controlled entities via grants and subsidies. The grants and subsidies it paid included \$2.5 billion to RailCorp, \$4.2 billion to the Roads and Traffic Authority (RTA), and \$546 million for other controlled entities and projects, including \$173 million to Country Rail Infrastructure Authority (CRIA), and \$160 million to the Transport Construction Authority (TCA). In 2009-10 the RTA's funding was not provided through the Department, which accounts for the significant increase in total expenses in 2010-11.

Other expenses includes \$741 million paid to the STA and private bus operators for services provided under the Metropolitan and Outer Metropolitan bus contracts, and \$353 million for services provided under the rural and regional bus contracts.

Revenue for the Department includes \$74.0 million in fees for services rendered, including salary recoupments.

For an analysis of the income and expenditure of the entities in the group please refer to the individual agency comments within this volume.

### Abridged Statement of Financial Position

At 30 June	Consolidated*	Parent	
		2011 \$'000	2010 \$'000
Current assets	1,574,416	195,047	52,515
Non-current assets	92,755,090	1,029,604	669,246
<b>Total Assets</b>	<b>94,329,506</b>	<b>1,224,651</b>	<b>721,761</b>
Current liabilities	3,230,101	212,724	65,922
Non-current liabilities	3,951,469	836,914	591,795
<b>Total Liabilities</b>	<b>7,181,570</b>	<b>1,049,638</b>	<b>657,717</b>
<b>Net Assets</b>	<b>87,147,936</b>	<b>175,013</b>	<b>64,044</b>

\* 2011 is the first year the Department was consolidated with other transport agencies and therefore no consolidated comparatives exist.

Non-current assets and non-current liabilities for the Department include buses acquired under a financing arrangement.

In the consolidated entity non-current assets are mainly made up of \$64 billion from RTA, and \$25 billion for RailCorp. Current liabilities are mainly made up of \$1.4 billion from RailCorp and \$1.3 billion from RTA. Non-current liabilities are mainly made up of \$2.1 billion from RTA and \$848 million from RailCorp.

For further analysis of the assets and liabilities of the entities in the group please refer to the individual agency comments within this volume.

In the parent entity's financial results, the increase in non-current assets is mainly attributed to \$260 million of new buses purchased in 2010-11 under the Metropolitan and Outer Metropolitan Bus contracts. As the buses are acquired under a financing arrangement non-current liabilities have also increased.

## Abridged Service Group Information

The Department's controlled entities' net cost of services on a service group basis is detailed below:

Year ended 30 June*	Net Cost of Services	Net Assets
	2011 Actual \$'000	2011 Actual \$'000
Rail Services	2,743,509	26,152,353
Bus and related services	1,178,459	242,967
Road services	2,318,721	60,680,173
Ferry services	81,952	84,289
Other services	7,379,698	(9,892)
Inter-services eliminations	(7,161,825)	(1,954)
<b>Total all service groups</b>	<b>6,540,514</b>	<b>87,147,936</b>

\* 2011 is the first year the Department was consolidated with other transport agencies and therefore no consolidated comparatives exist.

## Department Activities

The Department of Transport and Infrastructure changed its name to Transport NSW on 1 July 2010, and again to the Department of Transport on 4 April 2011. From 1 July 2010 to 30 October 2011, it was the lead transport agency with primary responsibility for:

- transport coordination
- transport policy and planning
- transport services
- transport infrastructure.

On 1 November 2011, Transport for NSW was established, and some of the Department of Transport's functions and responsibilities have been transferred to it. The Department will continue to provide policy advice to the Minister for Transport and the Minister for Roads and Ports.

For further information on the Department and Transport for NSW, refer to [www.transport.nsw.gov.au](http://www.transport.nsw.gov.au).

# Public Transport Ticketing Corporation

## Audit Opinion

The audit of the Corporation's financial statements for the year ended 30 June 2011 resulted in an unmodified audit opinion within the Independent Auditor's Report.

## Operational Snapshot

The Corporation will spend about \$1.2 billion over the next 15 years to manage the design, implementation and maintenance of a new integrated electronic ticketing system for public transport users and operators in greater Sydney. The system will involve the use of the Opal smart card 'ticket' and will become operational in phases from late 2012.

## Performance Information

The Corporation made significant progress with the design phase of the Electronic Ticketing System (ETS) in 2010–11. The major achievements during the year were:

- Managing the installation and pilot testing of new bus driver consoles on approximately 70 private operator buses in early 2011, within the budgeted timeframe
- Commencement of preparatory works and business readiness strategies with all transport operators
- Incurring \$48.1 million in capital costs on the ETS project, including \$26.7 million in milestone payments to the Pearl Consortium and \$2.3 million to the Independent Certifier
- Ensuring the total project budget remained at \$1.2 billion over the next 15 years and the rollout schedule remained within the budgeted timeframe.

## Other Information

### Electronic Ticketing System for the Greater Sydney Region

The ETS contract was awarded to the Pearl Consortium in May 2010. The Pearl Consortium, including Cubic Transportation Sydney (Australia) as the lead contractor, Downer EDI Engineering Power and the Commonwealth Bank of Australia, will build and then operate and maintain the ETS for a period of fifteen years.

The ETS will operate on the greater Sydney public transport network and extend as far as Newcastle and the Hunter region, as well as Wollongong, the Illawarra and the Blue Mountains. The Corporation expects the ETS will result in:

- avoided capital and operating costs that individual operators would have incurred by introducing their own standalone systems
- more people shifting from private to public transport, resulting in greater farebox revenue, less road congestion, fewer road accidents and less environmental damage
- improved information management
- improved bus run time savings
- better customer experience resulting from reduced queues and quicker processing
- reduced fare evasion.

The total cost to build and maintain the ETS over fifteen years is about \$1.2 billion. This is made up of:

- \$388 million in fixed charges payable to Pearl Consortium
- \$244 million in variable charges payable to Pearl Consortium over approximately ten years
- \$568 million to be incurred by various government agencies and operators on managing the ETS. This cost includes commissions payable to the retail network, additional equipment for expansion of the transport network and growth in patronage.

Court hearing for  
the Tcard  
litigation is  
scheduled for  
February 2012

The Corporation advised the rollout of the ETS is on track to meet the delivery timetable and the key dates are:

- late 2012 – begin rollout of the Opal ticketing system on the ferry network
- mid 2013 – begin rollout of the Opal ticketing system on the train network
- Second half of 2013 – begin rollout of the Opal ticketing system on government and private bus networks
- Second half 2014 – rollout of the Opal ticketing system completed across all modes of transport.

### Tcard Litigation

The Corporation terminated the previous integrated ticketing system project, the Tcard project, on 23 January 2008 and commenced legal proceedings against the private sector contractor in the Supreme Court. The Corporation terminated the contract on the basis that the contractor failed to meet the relevant milestone dates in the contract. The Corporation also claims the contractor failed to submit a satisfactory remediation program. The Corporation is seeking damages in excess of \$70.0 million. The contractor responded by lodging a cross claim against the Corporation and is seeking damages plus interest of approximately \$200 million from the Corporation.

The Corporation is funding this litigation through borrowings. At 30 June 2011, the Corporation has incurred \$10.9 million in legal fees, \$3.0 million in borrowing costs and \$3.3 million in other costs associated with this litigation.

The Corporation advised that mediation between the parties may commence in late 2011. If unsuccessful, the case has been set down for hearing from February 2012 and is expected to last more than three months.

## Financial Information

### Abridged Statement of Comprehensive Income

Year ended 30 June	2011 \$'000	2010* \$'000
Government contributions	128	14,910
Other revenue	617	273
<b>Total Revenue</b>	<b>745</b>	<b>15,183</b>
Personnel services/employee related expenses	1,255	1,456
Finance costs	6,746	3,416
Other expenses	10,934	31,814
<b>Total Expenses</b>	<b>18,935</b>	<b>36,686</b>
<b>Deficit</b>	<b>18,190</b>	<b>21,503</b>
<b>Other Comprehensive Income</b>	<b>--</b>	<b>--</b>
<b>Total Comprehensive Expense</b>	<b>18,190</b>	<b>21,503</b>

\* In 2010, the Corporation had one controlled entity, the Public Transport Ticketing Corporation Division. For the purpose of this report, all 2010 comparative data is shown for the Consolidated Entity at that date. For details regarding the dissolution of the division refer to commentary on the controlled entity later in this report.

The decrease in government contributions received from the Department of Transport was due to the Corporation completing the MyZone implementation project in 2010 (\$7.5 million) and the cessation of financial support for the Corporation's operations (\$7.4 million). The decrease in other expenses was largely due to the Corporation capitalising costs associated with the ETS project from May 2010.

## Abridged Statement of Financial Position

At 30 June	2011 \$'000	2010* \$'000
Current assets	6,679	4,814
Non-current assets	65,634	17,559
<b>Total Assets</b>	<b>72,313</b>	<b>22,373</b>
Current liabilities	120,808	102,608
Non-current liabilities	65,304	15,374
<b>Total Liabilities</b>	<b>186,112</b>	<b>117,982</b>
<b>Net Liabilities</b>	<b>113,799</b>	<b>95,609</b>

\* Refer to commentary above concerning the 2010 comparative data.

The \$48.1 million increase in non-current assets was due to costs incurred on the ongoing development of the ETS project. The \$68.1 million increase in total liabilities was due to the Corporation borrowing funds for the development of the ETS project and in support of its operating and litigation costs.

While the Corporation has net liabilities at 30 June 2011 of \$114 million (\$95.6 million), the Corporation is considered financially viable because its borrowings are guaranteed by the government and it has loan facilities in place to meet its operating costs and ETS project obligations. The government has also guaranteed ongoing financial support to the Corporation.

The Corporation advised the initial operating and capital costs for the ETS project will be funded through borrowings. Total borrowings of the project are expected to be around \$415 million, with interest expenses of approximately \$135 million being incurred over the 15 year life of the contract. The Corporation will earn a fixed commission of 10.4 per cent of the ETS revenue over the operational period of the system to repay the loans and to fund additional operating and capital costs of the systems.

## Corporation Activities

The Corporation is responsible for managing the phased implementation of the ETS for public transport users and operators in the greater Sydney metropolitan area.

The affairs of the Corporation are managed and controlled by the Director General of the Department of Transport.

For further information on the Corporation, refer to [www.pttc.nsw.gov.au](http://www.pttc.nsw.gov.au).

## Controlled Entity

In the prior year, the Corporation had one controlled entity, the Public Transport Ticketing Corporation Division, which provided personnel services to the Corporation. During the year, all of the division's staff were transferred to the Department of Transport and the division was dissolved. Separate financial statements were not required for the division in 2011.

# Rail Corporation New South Wales

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NSW Auditor-General's Report

Volume Eight 2011

RAIL CORPORATION NEW  
SOUTH WALES

## Audit Opinion

The audit of Rail Corporation New South Wales (RailCorp) and its controlled entity's financial statements for the year ended 30 June 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports.

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

## Operational Snapshot

RailCorp provides metropolitan passenger rail services to 307 stations operating as CityRail and long distance services to over 365 destinations operating as CountryLink.

	2010-11
Total Expenditure (\$m)	3,502.5
Revenue – Passenger Services (\$m)	703.5
Passenger Journeys	
- CityRail (million)	294.5
- CountryLink (million)	1.9
Cost per Passenger Journey (\$)	11.82
Revenue Per Passenger Journey (\$)	2.37

## Key Issues

For general transport industry information, refer to the 'Transport Overview' section earlier in this Report.

### Recent Transport Restructures

The *Transport Administration Amendment Act 2010* established Transport NSW (TNSW) (subsequently renamed the Department of Transport) and abolished RailCorp's governance board.

Under this Act, the Chief Executive of RailCorp has the authority to manage and control the affairs of RailCorp subject to any directions from the Minister for Transport or the Director General of the Department of Transport. For the year ended 30 June 2011 RailCorp was a controlled entity of Department of Transport for consolidation purposes.

The *Transport Legislation Amendment Act 2011* established a statutory corporation called Transport for New South Wales (TfNSW). Other changes relate to the administration of public transport in New South Wales.

TfNSW assumes various functions and responsibilities from RailCorp and from other entities which provide transport services. TfNSW is now responsible for

- Policy and Planning
- Transport co-ordination
- Transport infrastructure, and
- Transport services.

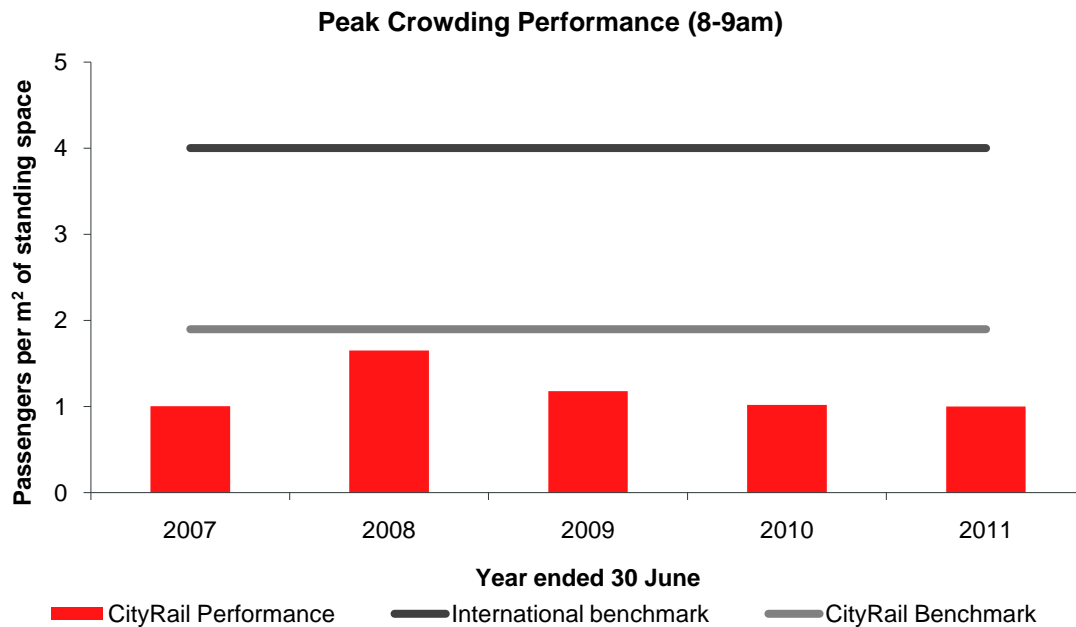
RailCorp will continue to operate under its current statutory functions and powers in respect to service delivery.



## Crowding on Trains

CityRail measures passenger loads on its peak services twice yearly. RailCorp benchmarks passenger crowding on its services against other global operators. The benchmark measures the number of passengers per square metre of standing space.

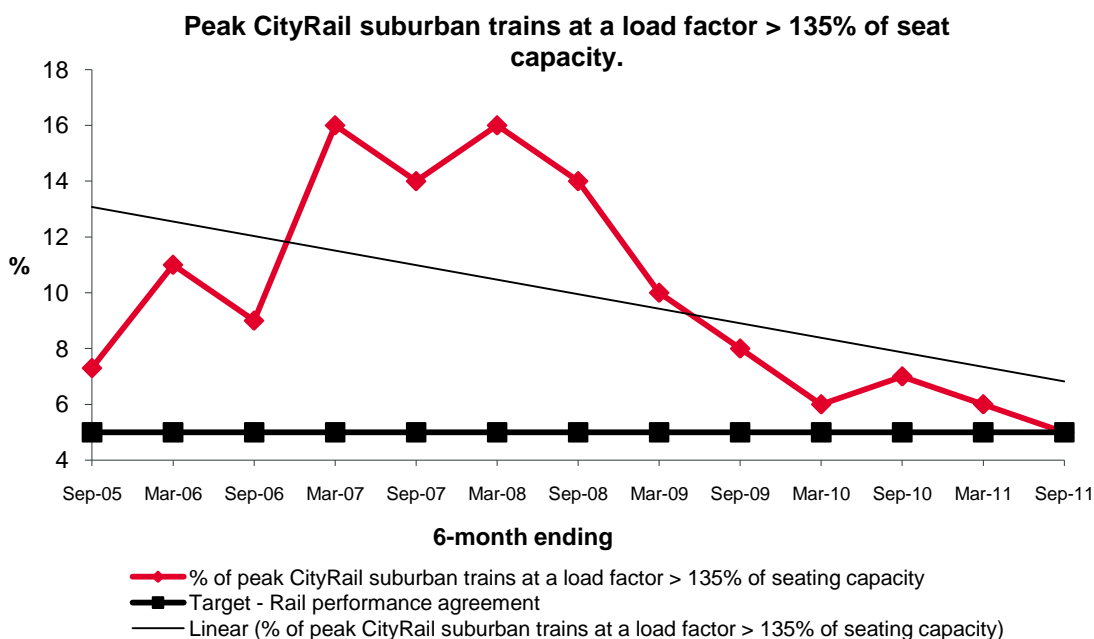
CityRail trains compare favourably against a global benchmark of passenger crowding



Source: RailCorp (unaudited). Surveys performed in March each year

CityRail's trains continue to compare well against a global benchmark of no more than 4 passengers per square metre, achieving an average of 1.0 passenger in both 2011 and 2010. This is well below RailCorp's own internal target of 1.9 passengers per square metre. However, crowding at peak times remains an area of high dissatisfaction among train users.

The percentage of peak hour trains carrying more passengers than 135 per cent of seat capacity has consistently exceeded the target of five per cent, set by the Minister in the Rail Service Contract. However, this rate is continuing to improve with the percentage meeting the target of five per cent (seven per cent) in the September 2011 load factor survey.



Source: RailCorp (unaudited).

Late payments to  
suppliers totalled  
\$896 million in  
2010-11

The September 2011 survey indicated 47 (45) morning (8am to 9am) trains and 14 (12) evening (5pm to 6pm) trains have passengers standing for more than 20 minutes. The Western lines had the highest number of trains exceeding seat capacity 20 minutes out from the CBD in the morning with the East Hills line the highest in the afternoon. The maximum load observed on any train at the CBD cordon was 170 per cent on the Western line and 160 per cent on the Illawarra line.

To deal with crowding, RailCorp has a range of new and continuing initiatives to boost capacity and expand the reach of the network including:

- timetable changes in October 2010, resulting in 300 additional services a week for stations between Cronulla and Kirrawee as well as City to Cronulla, Waterfall and Hurstville
- new Oscar and Waratah trains which free up more trains to service other parts of the network
- delivering additional Clearways projects including the Quakers Hill to Schofields duplication, Kingsgrove to Revesby quadruplication and the Liverpool turnback.
- doubling peak period services between Lidcombe and Olympic Park
- building six car trains up to eight car trains on more services
- progressively introducing the 626 new Waratah carriages into the network, which is equivalent to 50 per cent of the current suburban fleet
- introducing crowd management plans to manage congestion on station platforms at peak periods and during special events
- widening the concourse at Town Hall with additional ticket gates and more staff on platforms.

## Procurement System

### *Recommendation*

**I recommend RailCorp continue to resolve the underlying issues associated with their new procurement system to ensure it operates effectively.**

During 2009, RailCorp implemented a new \$35.1 million procurement system. This system was intended to standardise and enhance the processing of transactions with suppliers and to reduce the risk of fraud.

Last year, I reported that RailCorp experienced significant problems with the new system, with late payment of suppliers and duplicate payments. There were a number of system defects. RailCorp advised it has incurred significant expense through the need to employ additional resources to deal with the system issues.

On time payment to suppliers has improved to 70 per cent for the year to 30 June 2011 compared to 62 per cent in previous year. The result remains below the target of 90 per cent. Late payments to suppliers totalled \$896 million in 2010-11.

RailCorp formed a remediation project team, to rectify system defects and to ensure that the procurement system processes are appropriate for the business. Final rectification changes are scheduled for January 2012.

There were \$544,000 of duplicate payments recorded in 2010-11. This represents a major decrease from the \$4 million recorded for 2009-10.

At September 2011, there were 2,741, unpaid or mismatched invoices in the procurement system with a value of \$31.8 million. This represents a significant improvement since April 2011 when the number of mismatches totalled over 10,300. A certain number of mismatches is normal in any business.

## Independent Commission Against Corruption Investigation (ICAC) - Operation Monto

The ICAC made 40 recommendations in November 2008, which focused on improving deficiencies in procurement processes, management, policies and procedures, and executive and board oversight.

RailCorp arranged an independent review in November 2010 to confirm the progress reports sent to the ICAC accurately reflected the progress in closing out the recommendations. The review confirmed that 37 of the 40 recommendations were completed at that time. Two remaining recommendations have been completed this year, including

- Providing training to staff involved in monitoring contracts
- Implementation of an auditing system performed by senior managers on middle management contracts.

The last recommendation, a review of the procurement system effectiveness, is not due to be completed until 2012.

## Independent Commission against Corruption Investigation - Operation Chaucer

In September 2009, the ICAC completed Operation Chaucer and provided RailCorp with milestones to be completed by March 2012. RailCorp advised that they have achieved 15 milestones. The final milestone is due to be completed by March 2012.

For more information on the above reports, refer to [www.icac.nsw.gov.au](http://www.icac.nsw.gov.au).

## Shortage of Signal Engineers for Testing and Commissioning

RailCorp has continued to experience a shortage of signal engineers who can test and commission new infrastructure assets. At June 2011, RailCorp had ten signal commissioning staff dedicated to supporting the commissioning and introduction into service of new signalling works, down from 15 in 2010. A further two licensed signal engineers are currently in the development program who should transition into the group of signal commissioning staff within the next 12 months to provide additional capacity.

This shortage leads to increased project costs and delays in commissioning projects. The ten engineers are allocated on a priority basis and RailCorp advises it needs a further ten commissioning engineers to meet its projected workload.

Initiatives to date have not been successful in increasing the number of these staff. RailCorp continues to experience challenges in attracting suitable candidates. It is developing strategies to address these challenges.

A shortage of  
signal engineers  
continues to  
increase costs  
and delay projects

Risks have increased for the satisfactory delivery of 626 new train carriages

## Rolling Stock Acquisitions and Replacement

RailCorp has had a range of projects to improve and expand its rail fleet. The current acquisition program takes RailCorp as far as 2015. It meets the required capacity for the suburban network on the assumption that patronage demand continues to increase at its current rate.

	Original Target Date	Forecast Completion Date	Months late	Project Approval* \$m	Forecast Final Cost \$m	Number of cars delivered at 30 June 2011
74 new Outer Suburban Cars – Stage 3	30/06/2012	30/06/2012	--	370.0	370.0	32
25 new Outer Suburban Cars – Stage 3A	05/03/2013	05/03/2013	--	103.8	103.8	--
626 new carriages via Public Private Partnership	05/09/2013	21/01/2015 <sup>1</sup>	14-17 <sup>1</sup>	-- <sup>3</sup>	789.7 <sup>2</sup>	8

Source: RailCorp (unaudited).

1 The forecast completion date for delivery of all 78 trains is linked to the Practical Completion of the first train on 30 June 2011 and the contracted train delivery rate to RailCorp

2 Carriage, ancillary and enabling capital costs.

3 See comments below on PPP.

\*This reflects the most recent project approval costs. It does not represent the original budget costs.

### Acquisition of 626 new cars via Public Private Partnership

The Reliance Rail consortium has experienced financial difficulties but is currently continuing with the project. The Government, through the Treasury, is acting to maintain delivery of trains, but notes risks have increased. Treasury's Report on State Finances 2010-11 notes that at this time no contingent liability exists for the State as a whole.

RailCorp entered into the Rolling Stock Public Private Partnership contract with Reliance Rail on 7 December 2006 to:

- finance, design, manufacture and commission 626 new double deck carriages
- finance, design, construct, manufacture and commission a new maintenance facility for these trains in Auburn
- build new train simulators for training of RailCorp drivers and guards
- ensure 72 eight car trains are available for service every day over a period of about 30 years
- maintain the new trains, the maintenance facility and train simulators, to meet specified contractual performance standards, throughout their operational periods.

The first 8-car train achieved practical completion on 30 June 2011. The remaining 618 cars will be progressively introduced into service, with all cars expected to be in operation by January 2015, fourteen to seventeen months late. Initially these cars will operate on selected corridors, which have had their electrical infrastructure upgraded.

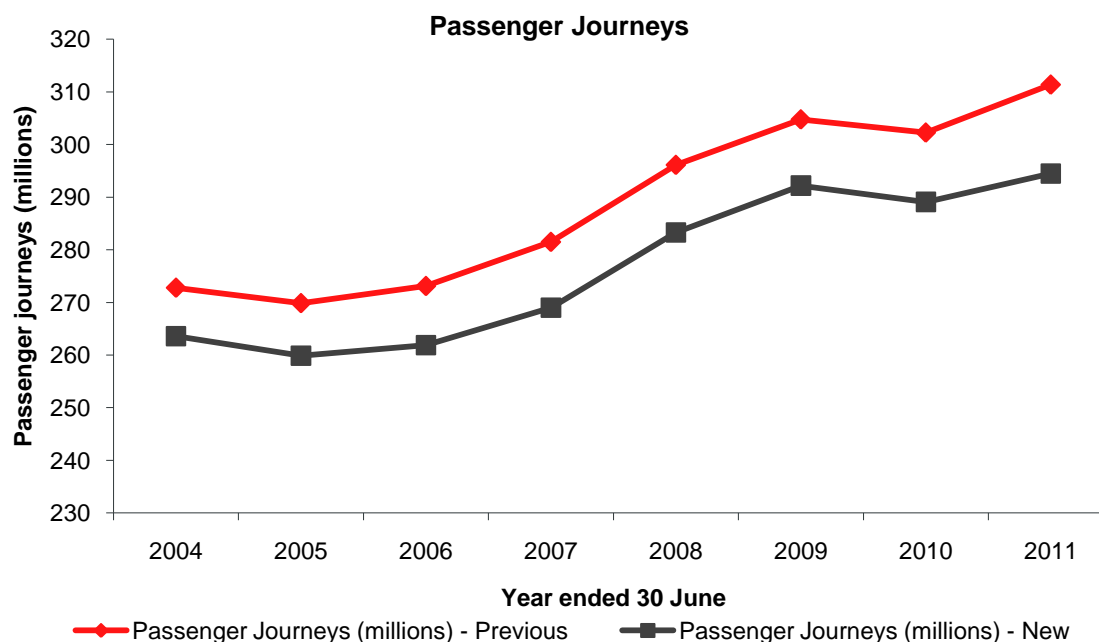
Three milestone payments totalling \$12 million were made to Reliance Rail during 2010-11 after it satisfied the requirements for the maintenance and operations manuals, practical completion of the maintenance facility and practical completion of the simulators. Milestone payments paid to date total \$43.0 million.

Total payments by RailCorp to Reliance Rail, including finance costs, over the period of the contract are estimated to be \$9.7 billion in nominal dollars. The latest cost estimate is within the original approved budget. Estimated total cost over the term of the project, including contract costs, risks not transferred to the private sector, and ancillary RailCorp costs required for the delivery of the project, was \$3.6 billion (net present cost) at 30 June 2006. RailCorp advises that aside from shifts in cash flows to later in the project, there is no net change to the overall project budgeted cost.

RailCorp provides quarterly reports to the Minister for Transport, Transport for NSW, the Treasury and Cabinet on the progress of this project, including Reliance Rail's deliverables and RailCorp's commitments against the planned program, budget and proposed material variations.

### Passenger Journeys (Enhanced methodology)

The Department of Transport and RailCorp undertook a major review of the methodology for measuring rail patronage following the introduction of the new MyZone ticket system in April 2010. The result is a new set of patronage figures which are more consistent with other rail data such as the CityRail station barrier counts. The graph below shows that the revision did not materially change historical growth patterns compared to the previous methodology.



For more information, please refer to the Bureau of Transport Statistic website [www.bts.nsw.gov.au](http://www.bts.nsw.gov.au).

CityRail passenger journeys increased by approximately 1.9 per cent, from 289 million in 2009-10 to 295 million in 2010-11, based on the new measurement for rail patronage. The increase in journeys is in line to the forecast annual growth rate of 1.8 per cent. RailCorp advised the increase is mainly due to the improvement in economic conditions and to the additional services and new trains incorporated from the new timetable released in 10 October 2010. RailCorp reports that since July 2007 cumulative growth has been approximately 9.6 per cent, slightly below the State Plan target of 10.3 per cent.

Across the entire CityRail network, patronage declined on the Blue Mountain line by 0.4 per cent and the Central Business District (CBD) line by 0.3 per cent in 2010-11. Patronage on all other suburban and inter-city lines increased between 0.6 per cent and 25.5 per cent. The highest increase in number of passenger journeys was on the Northern line which increased by approximately 0.7 million passenger journeys, followed by the ECRL, North shore and Western lines which each increased by approximately 0.4 million passenger journeys.

A total of 442 employees (413 employees) were paid 50 per cent or more of their annual salary in overtime

## Customer Service Improvement Program

RailCorp is continuing initiatives to improve customer service as recommended by the Boston Consulting Group (BCG) in 2007. These initiatives are part of the Everyday Service Essentials Program.

Since June 2010, RailCorp has made progress with implementation of initiatives that focus on the remaining 6 BCG recommendations. This includes the recent delivery of improved on time running management information with the implementation of the OTR Business Intelligence Program in November 2011.

Work is continuing on the implementation of initiatives which focus on five of the remaining BCG recommendations.

The service improvements which have been delivered as a result of initiatives implemented under the Everyday Service Essentials Program have contributed to improved customer satisfaction results across a range of key service metrics.

## CityRail's Customer Charter

The Minister for Transport launched CityRail's first Customer Charter in December 2008. The Charter outlines specific goals for improving customer service over the three years to December 2011. The eight areas of customers' basic needs are:

- on-time trains
- manage crowding
- fast, accurate, useful information
- secure and safe travel
- clean trains and stations
- fast ticket sales
- quick and fair complaint handling
- accessible service and facilities

RailCorp advised they successfully delivered all the commitments of the 2010 Customer Charter by December 2010, except for the delivery of the Waratah trains.

The 2011 Customer Charter is progressing as planned with 14 out of 25 commitments delivered by 30 June 2011.

For more information on this program, refer to [www.cityrail.info/about/customer\\_charter](http://www.cityrail.info/about/customer_charter).

## Overtime

Overtime payments by RailCorp in 2010-11 decreased as a percentage of base salary and wages expense to 11.1 per cent (11.3 per cent). Actual overtime payments continue to represent a significant employee related expense, amounting to \$134 million (\$128 million). The rise in payments is partly attributable to the Enterprise Bargaining Agreement award increases effective from April 2010 that were finalised in November 2010, resulting in a back-payment of entitlements for staff. On average, RailCorp employees who were paid overtime received \$10,643 in payments in 2010-11 (\$10,352). Just over 77.5 per cent (78 per cent) of RailCorp's employees received a payment for working overtime during the year.

A total of 442 employees (413 employees) were paid 50 per cent or more of their annual salary in overtime. The table below shows the number of employees who were paid overtime, split by overtime paid as a percentage of annual salary.

Year ended 30 June	2011		2010	
Overtime paid as a percentage of annual salary	Number of employees	Overtime paid \$'000	Number of employees	Overtime paid \$'000
90 - 100	4	226	--	--
80 - 89	8	395	11	454
70 - 79	42	1,775	23	909
60 - 69	101	4,157	95	3,555
50 - 59	287	10,160	284	8,972
40 - 49	643	18,463	713	18,349
30 - 39	1,194	26,120	1,268	25,418
20 - 29	2,023	31,193	2,325	32,504
10 - 19	3,114	27,985	3,136	26,480
>0 - 9	5,146	13,219	4,471	10,961
Nil overtime	3,649	--	3,431	--
<b>Total</b>	<b>16,211*</b>	<b>133,693**</b>	<b>15,757*</b>	<b>127,602**</b>

\* Number of employees includes all staff who received payments processed through the payroll system during the year. It does not represent the RailCorp headcount at 30 June.

\*\* Overtime paid represents the total overtime paid to employees during the year. It does not equal the overtime expense recorded in the financial statements due to the effects of accrual accounting. The overtime expense per the financial statements was \$131 million in 2011 (\$130 million).

The top ten overtime earners in 2011, based on overtime paid as a percentage of their annual salary, have been included in the table below. The 2010 comparatives for these same employees are also shown below.

Year ended 30 June	2011			2010		
Employee	Percentage of Overtime to salary	Annual Salary \$	Overtime \$	Percentage of Overtime to salary	Annual Salary* \$	Overtime \$
A	97.6	45,012	43,948	87.9	41,819	36,748
B	96.4	54,422	52,485	82.5	50,561	41,725
C	92.3	62,004	57,221	60.7	56,595	34,323
D	90.7	79,500	72,103	76.1	73,856	56,223
E	89.1	45,012	40,100	81.5	41,819	34,085
F	89.1	49,074	43,704	66.0	45,591	30,067
G	86.7	67,525	58,522	52.9	62,731	33,170
H	86.0	54,422	46,800	59.4	50,561	30,015
I	85.2	59,259	50,481	47.2	55,053	25,975
J	84.6	61,937	52,425	53.4	57,540	30,740

\* Note the 2010 Annual Salary does not include the 4 per cent increase because they were not finalised at 30 June 2010.

The highest overtime paid to an employee was \$72,103 in 2010-11 (\$59,492).



Electric fleet  
failures impacting  
peak period  
services  
significantly  
decreased this  
year

RailCorp is a business that operates 24 hours a day, 365 days of the year. It requires overtime to manage tasks such as major events and infrastructure upgrades that occur outside of normal operating hours. Management recognise the need to actively monitor overtime expenditure, and during the year have built on the strategies implemented in the previous year's which have help reduce overtime paid as a percentage of base salary and wages expense despite staff numbers and wage rates increasing over this time. However, overtime is still a significant area of controllable expenditure that needs more effective management by RailCorp.

## Performance Information

### Performance Reporting

Last year, I recommended RailCorp continue to liaise with benchmarking organisations, to derive industry averages that do not jeopardise the confidentiality of benchmarking participants, so it can publicly report its performance against industry averages.

RailCorp has been liaising with benchmarking organisations to prepare a set of comparisons of CityRail performance benchmarks against industry averages. These include customer, efficiency and financial comparisons covering CityRail's performance for:

- trains on time
- fleet utilisation in peak periods
- train driver productivity
- operating cost, including maintenance cost
- fare revenue
- energy consumption

CityRail's performance will be compared to the average of various international rail organisations. RailCorp has advised however that the extent to which benchmarking results will be able to be publicly disclosed remains limited by strict compliance to the benchmarking community's confidentiality framework.

RailCorp is planning to publicly release the set of comparisons via its CityRail internet site which will be updated annually.

Further, the Railway & Transport Study Centre formed the International Suburban Rail Benchmarking Group under which CityRail is a member. The group was formed to provide a framework for the identification and sharing of best practices within the suburban rail industry. In November 2010, Phase 1 of the benchmarking process started, with CityRail and 10 other participating operators.

### Fleet Failures

Electric fleet failures impacting peak period services significantly decreased this year from an average of 42.0 to 33.7 incidents per month (i.e. on average two per cent of all carriages will suffer a failure during peak period services per month).



The table below provides an analysis of fleet reported faults for each train type monitored on a 24 hours basis.

Train Type**	No. of Carriages at 30 June 2011	Average Age (Years)	Average Monthly Carriage Reported Faults				
			Trend	Actual 2011	Rate* 2011 %	Rate* 2010 %	Rate* 2009 %
'R, S, L' Sets	496	34.0	~	93	19	19	20
'K' Sets	160	28.0	↑	35	22	19	16
'V' Sets	224	26.4	↑	96	43	36	32
'C' Sets	56	24.4	↑	19	34	32	32
Tangara – 'T' Sets	444	19.3	↑	110	25	24	23
Tangara – 'G' Sets***	--	--	~	--	--	24	25
Millennium – 'M' Sets	141	7.6	↓	26	18	20	23
OSCAR – 'H' Sets	150	2.7	↑	30	20	21	18
<b>Total electric fleet</b>	1,671	23.1	↑	409	24	23	23

Source: RailCorp (unaudited).

Note: This 24 hour reported faults data includes incidents of graffiti and vandalism in gross numbers.

Key: ↑ Trend upwards, ↓ Trend downwards, ~ No trend.

\* Rates are measured as a percentage of total electric fleet.

\*\* See [www.cityrail.info](http://www.cityrail.info) for more information.

\*\*\* All Tangara G sets are being converted to T sets.

In 2010-11, 24 per cent of all carriages had a reported fault every month on average on a 24 hour basis, an increase over the previous year.

At 31 October 2011, 79 per cent (84 per cent) of RailCorp's electric fleet was more than ten years old, 65 per cent (63 per cent) more than 20 years old, and 31 per cent (31 per cent) more than 30 years old.

To reduce fleet failure rate in the short term RailCorp is continuing its fleet reliability program, which includes improving the door system and other initiatives, mentioned later in this comment. In the longer term, RailCorp is continuing its rolling stock replacement program.

## Fleet Maintenance

Maintenance expenditure on the electric and diesel fleets for 2010-11 was close to budget.

Year ended 30 June	2011			2010		
	Actual \$m	Budget \$m	Variance \$m	Actual \$m	Budget \$m	Variance \$m
Electric Fleet	328.2	322.6	5.6	305.2	282.0	23.2
Diesel Fleet	60.9	61.6	(0.7)	61.9	65.4	(3.5)

The electric fleet maintenance expenditure exceeded budget mainly due to a new customer service initiative known as Operation Sparkle and the glass replacement program. Operation Sparkle was a customer service initiative launched earlier this year which incorporates additional maintenance activity such as vestibule painting, seat changes and glass replacement to combat vandalism and graffiti and ensure clean, quality carriages are provided to the travelling public. The initiative allows employees to utilise their cross-skills and takes advantage of non-peak periods. RailCorp reports that through this program, trains are returning quicker to service in improved condition.

The safety and reliability performance of RailCorp's infrastructure has worsened over the past year

RailCorp advised about 20 per cent (23 per cent) of incidents causing delays in peak periods are attributable to train failures. RailCorp implemented the following initiatives to reduce failures:

- the Six Sigma program to improve the operation of Tangara passenger doors, Double Deck Suburban traction motors and Intercity (V Set) doors
- projects to improve the Auxiliary Power Supply and climate control for the Intercity V set
- projects to modify or change brake levers (completed)
- projects to replace Train Radio Handsets and PA reliability (completed).

### Maintenance Reform

RailCorp has been implementing a program of maintenance reform since 2009. The recommendation was a product of the independent report tabled by Mr. Keith Clark (Clark Report). Over the course of this program, RailCorp has undertaken the following initiatives to meet with the recommendations from the report:

- implementation and embedment of a new line manager and team leader Structure
- creation of new classifications by reducing 11 classifications to 2 core classifications in electric depots and undertaken a comprehensive staff translation process
- implementation of electronic rostering supported by electronic time attendance capture
- implementation of cross skilling training by offering adult apprenticeships and through accelerated learning programs
- commencement of maintenance reform within the diesel depots
- initiation of independent verification that program is on schedule

RailCorp reports that the focus is now on delivering the agreed savings of \$10.0 million per annum by 2013-14. In addition, RailCorp has reported the following benefits from this program:

- reduction in established positions
- structured workforce training aligned to national competencies
- improved maintenance standards stemming from improvements to Train Maintenance Plans
- reduction in ongoing business costs
- improved relations with Unions NSW as evidenced by no work stoppages during the Reform Program; and
- co-operative workforce supporting benefits realisation.

### Infrastructure Assets Maintenance

The safety and reliability performance of RailCorp's infrastructure has worsened over the past year. This is reflected by an upward trend in the average number of monthly peak incidents attributable to infrastructure from 18.2 in 2009-10 to 28.3 in 2010-11. The average number of delays per month during peak travel times has also increased from the previous year by 29 per cent.

Year ended 30 June	2011	2010	2009	2008	2007
Number of incidents (Monthly Peak Average)	28.3	18.2	19.2	22.8	24.6
Number of delays (Monthly Peak Average)	125.1	96.8	87.7	136.3	152.5
Number of 24 hour incidents	576	590	606	627	na

Source: RailCorp (unaudited).

na not applicable.

RailCorp advised the estimated maintenance backlog for infrastructure assets at 30 June 2011 was \$42.1 million (\$27 million), and that, subject to funding; it will progressively eliminate this gap. Furthermore, the maintenance backlog will also reduce through renewal activities planned as part of RailCorp's capital works program.

## Reliability Indicators

CityRail's on-time running performance during the year exceeded the target of 92 per cent, with 94.6 per cent of peak services arriving at their destination on-time. This was slightly down on the record 95.6 per cent achieved last year.

The most common causes of peak delays in 2010-11 were civil signal infrastructure failures, track obstructions and flooding caused by heavy rain. Other factors affecting on-time running performance include; severe weather conditions, mechanical and electrical failures (such as door, signal, track, overhead wiring and points, and power failures), vandalism and anti-social behaviour, overcrowding in the centre carriages, passenger illness, trespasser fatality and station dwell times.

For CountryLink 72.8 per cent of services ran on time, against a target of 78 per cent. RailCorp advised the major reason for this was Australian Rail Track Corporation (ARTC) imposed speed restrictions due to track conditions in ARTC territory, especially in Victoria. In addition there have also been incidents of rolling stock failures throughout the year.

CityRail's on-time running performance during the year exceeded the target of 92 per cent

For CountryLink 72.8 per cent of services ran on time, against a target of 78 per cent

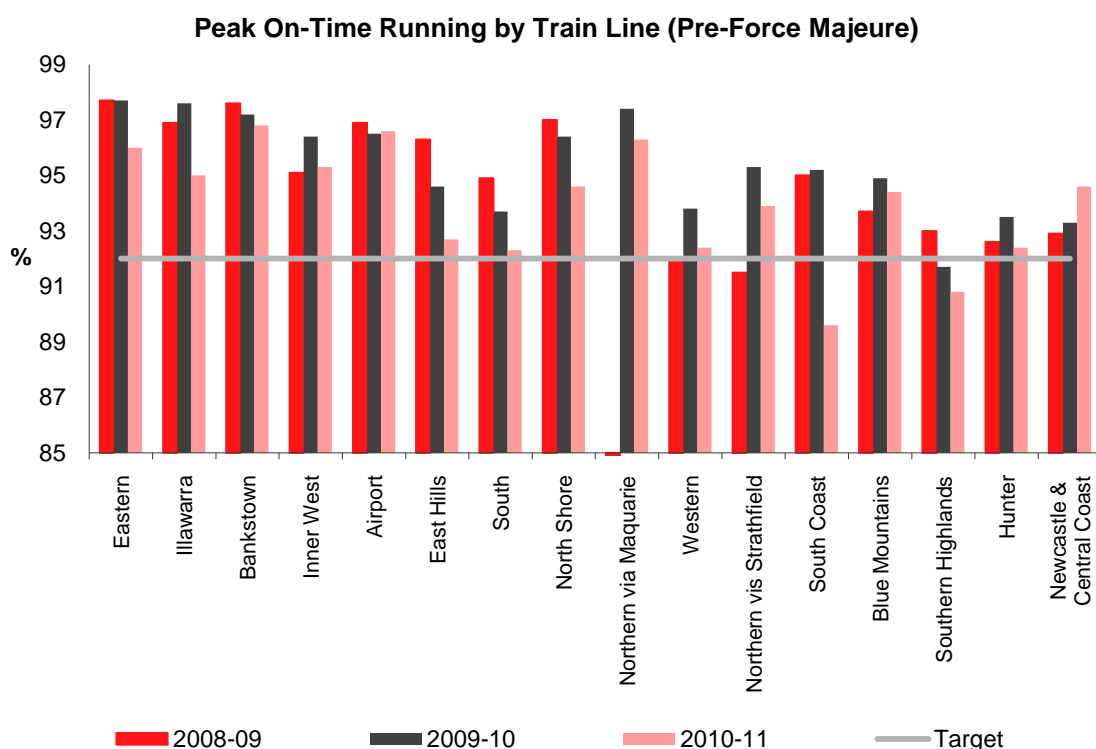
Year ended 30 June	Target	Actual*		
	2011	2011	2010	2009
Percentage On-time Running				
CityRail – suburban	92	94.8	96.1	95.6
CityRail – intercity	92	93.2	94.3	93.7
CityRail – total	92	94.6	95.9	95.4
CountryLink	78	72.8	74.7	76.6

Source: RailCorp (unaudited).

\* Before adjustment for force majeure.

Force majeure refers to incidents that are beyond the control of either CityRail or customers. They come into effect when a single external event impacts on ten or more peak services, including those service which do not reach their final destination, for example cancelled services.

Most lines on the CityRail network met or exceeded the target of 92 per cent, with the exception of the South Coast line (89.6 per cent) and Southern Highlands (90.8 per cent) due to severe flooding in March 2011. The majority of lines decreased their on-time running performance in comparison to last year's figures. The on-time running by line over the last three years is shown in the chart below.



Source: RailCorp (unaudited).

Peak on-time running for CityRail services is measured as a percentage of timetabled peak train services reaching their destinations within five minutes of scheduled arrival time for suburban services, and six minutes for intercity services. For CountryLink services, the measure for on-time running is within ten minutes of scheduled arrival time.

When disruptions occur, it is often necessary for trains to skip one or more stations in order to get the system back to normal as quickly as possible. CityRail's aim is for less than 0.5 per cent of all scheduled stops to be skipped during peak periods. Stations skipped due to cancellations and early terminations are included in this measure. Performance results show all months remained under the 0.5 per cent threshold, with the exception of August 2010 showing a rate of 0.7 per cent.

Performance indicators in 2010-11 for both cancellation of peak services and skipped stops were 0.4 per cent, which compare favourably to the target.

A number of improvement strategies are in place to continue to manage and reduce incidents causing delays and improve customer service and on-time running performance.

### Safety Performance

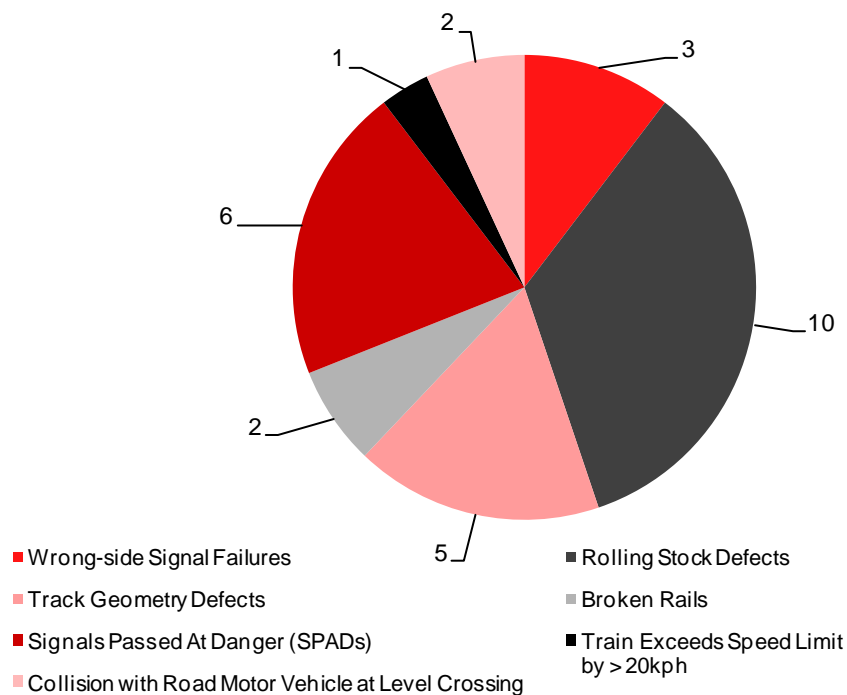
RailCorp has replaced the safety index used in 2009-10 with a more comprehensive measure called the Operational Safety Index. This Index includes the incident types used in the former measure, but with improvements around risk categorisation, together with a number of other incidents considered relevant to passenger risk. However, this index is to be further developed.

Retrospective analysis of data for 2009-10 was conducted to establish a performance baseline for the Operational Safety Index, and a 2010-11 target of 0.113 was established. The Operational Safety Index for 2011 has fallen in comparison to its 2010 baseline, and has achieved better performance than the target. Twenty nine defined safety incidents contributed to the Index for 2011.

Year ended 30 June	Target	Actual	
	2011	2011	2010
Operational Safety Index (total number of defined safety incidents per million passenger journeys) based on 12 month totals	0.113	0.098	0.118

Source: RailCorp Annual Safety Performance Report 2011 (unaudited).

The pie chart below identifies the number of incidents which have contributed to the Index in the 2010-11 reporting period.



Source: RailCorp Annual Safety Performance Report 2011 (unaudited).

## Capital Expenditure Program

Asset replacement and provision for growth through its capital expenditure program is a key focus for RailCorp in improving its safety and reliability performance. Total expenditure of \$1.1 billion was 7.3 per cent higher than 2009-10, reflecting improved program and project management. Capital expenditure was 4.2 per cent below budget largely due to delays in some key projects and the timing of required expenditure. In these cases the expenditure will now occur in the 2011-12 year. RailCorp's capital spend for the year is shown in the table over.

Year ended 30 June	2011		
	Actual \$m	Budget* \$m	Below/(Over) \$m
Rail Clearways project	324.6	303.9	(20.7)
Waratah rolling stock - enabling and ancillary works	100.0	125.7	25.7
Traction supply upgrade	94.9	98.6	3.7
Easy access	31.1	27.4	(3.7)
South Sydney Freight Line	20.0	25.3	5.3
Digital train radio	25.4	69.0	43.6
Business Support Systems	26.4	13.8	(12.6)
Assets & Facilities Safety & Security	25.5	17.7	(7.8)
Network Communications Systems	15.2	13.5	(1.7)
Heritage	11.8	10.1	(1.7)
Outer Suburban cars Stages 1 & 2	2.0	5.0	3.0
Outer Suburban cars Stage 3	155.0	145.0	(10.0)
Information Communications Technology Support Systems	6.9	5.5	(1.4)
Rollingstock Upgrades	8.8	12.2	3.4
All other capital projects	152.2	195.5	43.3
Other Minor Works	118.6	100.0	(18.6)
<b>Total Capital Expenditure</b>	<b>1,118.4</b>	<b>1,168.2</b>	<b>49.8</b>
Capitalised maintenance works	202.7	160.0	(42.7)
PPP- Leased Assets	29.3	191.0	161.7
<b>Total Capital Investment</b>	<b>1,350.4</b>	<b>1,519.2</b>	<b>168.8</b>

Source: RailCorp (unaudited).

\* Revised budget.

RailCorp advised additional works was the main reason for spending \$20.7 million more than budget on the Rail Clearways project. This is because additional work has been performed ahead of schedule on the Kingsgrove-Revesby amplification, Richmond Line duplication, Macarthur Turnback and Liverpool Turnback. The Transport Construction Authority is responsible for delivering this project. Further information on the Rail Clearways Program can be found later in this comment.

The underspend for Digital Train Radio is due to the contractor's schedule not being aligned with the original forecast cashflow. Therefore, work has not progressed at the expected rate.

The Waratah rolling stock – enabling and ancillary works were \$25.7 million below budget. The underspend in 2010-11 is attributable to milestone a slower ramp up in project management cost, information technology costs and enabling works expenditure.

The \$43.3 million underspend on 'All other capital projects' relates to a large range of projects. Major underspends include \$12.6 million on the Western Express CityRail service (due to the project being deferred indefinitely by the new Government); \$8.8 million on Passenger Initiated Egress (due to the project still being in the designing stages after the need for modifications were identified); and \$6.8 million on the Hurstville Station Upgrade (due to the work experiencing a number of delays).

Total Capital Investment was \$168 million below budget driven by delays in the Waratah train project which is being delivered by a public private partnership.

## Customer Feedback

The total number of complaints made in 2011 increased by 1.3 per cent to 26,647. The table below shows that complaints about staff, information, security, timetable and internal matters fell in 2010-11. All other complaints by key performance indicator (KPI) increased in 2010-11. Compliments decreased by 6.4 per cent on the prior year.

Year ended 30 June Complaints by KPI	2011	2010*	Favourable/ (Unfavourable)	Favourable/ (Unfavourable) %
Service	4,922	4,285	(637)	(14.9)
Ticketing	3,591	3,070	(521)	(17.0)
On-time running	3,333	2,961	(372)	(12.6)
Staff	3,215	3,435	220	6.4
Information	2,296	2,382	86	3.6
Facilities	1,813	1,764	(49)	(2.8)
Environment	1,778	1,673	(105)	(6.3)
Safety	1,817	1,190	(627)	(52.7)
Cleanliness	1,515	1,434	(81)	(5.7)
Security	1,312	1,401	89	6.4
Timetable	672	2,153	1,481	68.8
Internal Matters	222	421	199	47.3
Claim	161	134	(27)	(20.1)
<b>Total Complaints</b>	<b>26,647</b>	<b>26,303</b>	<b>(344)</b>	<b>(1.3)</b>
<b>Total Compliments</b>	<b>2,293</b>	<b>2,449</b>	<b>(156)</b>	<b>(6.4)</b>

Source: RailCorp (unaudited).

\* Data has been reclassified due to improvements in the categorisation of complaints by KPI.

Service remains the major area of complaints, representing 18.5 per cent of all complaints during 2010-11. Service complaints relate to comfort and convenience of trains and stations, which include levels of crowding and lack of air conditioning. As in the previous year, a significant portion of the feedback primarily relates to temperature levels on train services. In February 2011, 375 complaints were logged in regards to onboard temperatures. RailCorp advised the progressive replacement of non-air conditioned rolling stock will reduce this complaint, however passengers are still demanding immediate solutions to the problem of onboard comfort.

Complaints about safety reflected the highest percentage increment in 2010-11. RailCorp reports that the increase is primarily due to an increase in safety complaints on rail infrastructure, outside the stations, boarding and alighting and safety inside the carriage.

As part of the Customer Charter – ‘quick and fair complaints handling’, RailCorp has set itself a target of resolving phone and email customer complaints within five working days. RailCorp has also created a self-imposed benchmark of 10 working days for direct correspondence. For 2010-11, 83.1 per cent (91.8 per cent) of all feedback lodged via web channels was resolved and closed within the target of five working days, while 87.9 per cent (96.6 per cent) of feedback lodged by phone was resolved and closed within the specified period. RailCorp reports that this is still a good effort as phone complaints were resolved within an average of 2.5 working days while web-lodged complaints were closed within an average of 3.7 working days. Complaints received via direct correspondence were resolved within an average of 6.4 working days.

## Independent Surveys of CityRail Customers

The Independent Transport Safety Regulator had released its seventh annual survey of CityRail in December 2010. The survey found that CityRail's customer satisfaction with various aspects of service had increased from the previous survey.

Service remains the major area of complaints with 4,922 complaints received in 2010-11 compared to 4,285 in 2009-10

Customer surveys showed significant improvements for some aspects of service

Crowding in peak hours still remains the aspect of service with the highest level of dissatisfaction, with 51 per cent of peak time train users

The table below lists the nine aspects of service that scored the highest percentage of satisfied customers. The survey also found that there were decreases in customer satisfaction for the knowledge and helpfulness of staff and the quality of information provided about delays and cancellations.

Year ended 30 June Aspect of service	Percentage of train users satisfied	
	2010 (%)	2009 (%)
Removal of litter from stations	88	85
Punctuality of trains	85	79
Journey time	84	83
Knowledge and helpfulness of staff	82	89
Personal safety in train carriages, evenings*	78	62
Frequency of trains	77	72
Delays and cancellations	77	71
Personal safety on stations, evenings*	81	67
Quality of information about delays and cancellations	75	78

\* Note due to the removal of some survey questions related to personal safety, results in 2010 may not be directly comparable with those in 2009.

Crowding in peak hours still remains the aspect of service with the highest level of dissatisfaction, with 51 per cent of peak time train users. The survey also identified that there was an increase in dissatisfied customers about the quality and the timeliness of information about delays and cancellations.

Year ended 30 June Aspect of service	Percentage of train users dissatisfied	
	2010 %	2009 %
Crowding in trains at peak commuter times	51	51
Availability of secure car parking	39	42
Clarity of announcements on the train	34	35
Quality of information about delays & cancellations	23	20
Timeliness of delay/cancellation announcements	22	20

For more information refer to [www.transportregulator.nsw.gov.au](http://www.transportregulator.nsw.gov.au).

In November 2011, the Bureau of Transport Statistics (BTS) released its 2011 Transport Customer Survey. The survey, undertaken consistently across public transport modes, was conducted by means of on-board self completion survey forms in May 2011. The method achieved a response rate of 60 per cent (12,323 CityRail customers).



The table below lists the ten service aspects that scored the highest percentage of satisfied customers

Survey Results in May Aspect of service	Percentage of train users satisfied 2011 %
Ability to catch the train you intended to	87
Ease of boarding the train	86
Ease of understanding signage	83
Overall satisfaction with trip	81
Ease of purchasing your ticket	81
Ease of getting information on tickets and fares	76
Availability of timetable information at station	75
Train being on time (keeping to timetable)	74
Journey comfort (smoothness of ride)	71
Travel time considering distance travelled	71

The availability of parking and the cleanliness of the trains remains the major issue with 32 per cent of customers surveyed dissatisfied. The table below lists the ten aspects of service that scored the highest percentage of dissatisfied customers.

Survey Results in May Aspect of service	Percentage of train users dissatisfied 2011 %
Availability of parking near the station	32
Cleanliness of train	32
Ease of understanding announcements on train	22
Comfort at the station	22
Frequency of the service	21
Temperature level on the train	20
Seat availability on the train	19
Cleanliness of station	19
Ease of passenger drop-off near the station	18
Being informed of service changes	17

Previous surveys were undertaken by a range of organisations (such as ITSR). These surveys did not have consistent methodologies across modes from prior years. This means that this survey cannot be compared with previous customer satisfaction surveys, but represents a new measure which will be repeated annually.

For more information refer to [www.bts.nsw.gov.au](http://www.bts.nsw.gov.au).

## Drugs and Alcohol

There were 8,742 (6,247) drug and 25,052 (22,836) alcohol tests performed in 2010-11. The results showed that 96 (61) staff and contractors tested positive for drugs and 23 (20) tested positive for alcohol.

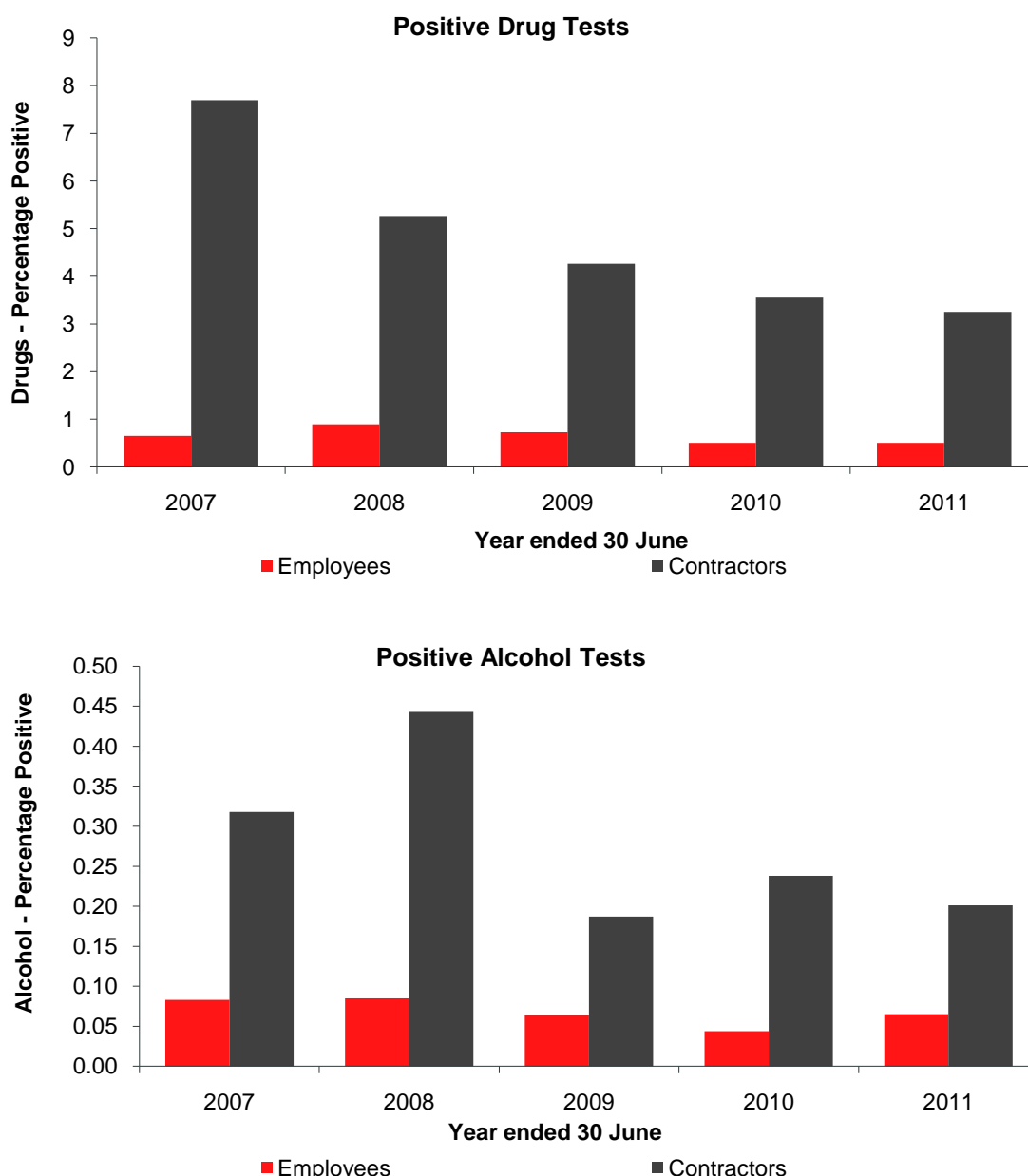
Contractors consistently return much higher rates of positive results compared to employees.

96 staff and contractors tested positive for drugs and 23 tested positive for alcohol

Contractors consistently return much higher rates of positive drug and alcohol results than employees

The Rail Safety Act 2008 requires rail operators to conduct random alcohol and drug tests on 25 per cent of rail safety workers each year. RailCorp also has its own annual targets, which in 2010-11, were testing 18,000 people for alcohol and 8,000 for drugs. RailCorp has a comprehensive drug and alcohol program in place that includes random testing, education and assistance.

Most tests use breath-based equipment for an instantaneous result. Those tests requiring urinalysis are conducted with an average turn-around time for results of 48 hours. Employees who fail drug or alcohol tests are removed immediately from safety-critical duties. The continuing employment of any employee who fails an alcohol or drug test is dependent on the successful completion of a rehabilitation, return to work and monitoring program. Serious or ongoing breaches may result in dismissal.



To overcome the rate of contractor positive results, RailCorp reports that an active communication program has been put in place to provide information and advice to contractors. RailCorp has also increased testing rates for contractors.

RailCorp reports that testing is conducted randomly at all levels of RailCorp and at all locations. Whilst most tests are random, there is a plan to increase focus on areas of the business which have historically indicated a higher propensity for positive returns.

## Other Information

### Rail Infrastructure Project Costing in NSW

On 5 August 2011, the Legislative Council set up an inquiry into the validity of current costing methods used for rail projects. The key focus of the inquiry is to determine if New South Wales is over paying for rail projects.

The Inquiry will report on rail infrastructure project costing in New South Wales with particular attention to: methodologies used to cost rail projects, 'concept estimates' for rail project costs, the differences between rail and road project costs methodologies, cost estimate methodologies, tendering processes, and any other related matter.

Submissions to the inquiry closed on 28 September 2011 with the inquiry's final report due 29 February 2012.

### Ticket Pricing and Independent Pricing and Regulatory Tribunal (IPART) Review of CityRail's fares

On 1 July 2011, RailCorp introduced discounted long term MyTrain tickets. The new fares impact monthly, quarterly and yearly tickets. The savings, of nine per cent, are to reward regular customers and encourage others to adopt train travel.

IPART has not been required to make any determination on the discounting of long term tickets as they set pricing caps on rail ticket prices not the minimum amount to be charged.

The most recent determination issued by IPART was December 2008 for the period 4 January 2009 to 31 December 2012. In April 2010, the New South Wales Government implemented a new fare structure for public transport in the greater Sydney area called MyZone. MyZone fares were the same or lower than fares previously in place for over 97 per cent of CityRail tickets.

The IPART fare increase set down for January 2011 was deferred by the New South Wales Government. This was because the MyZone fare structure had been only introduced 8 months previously.

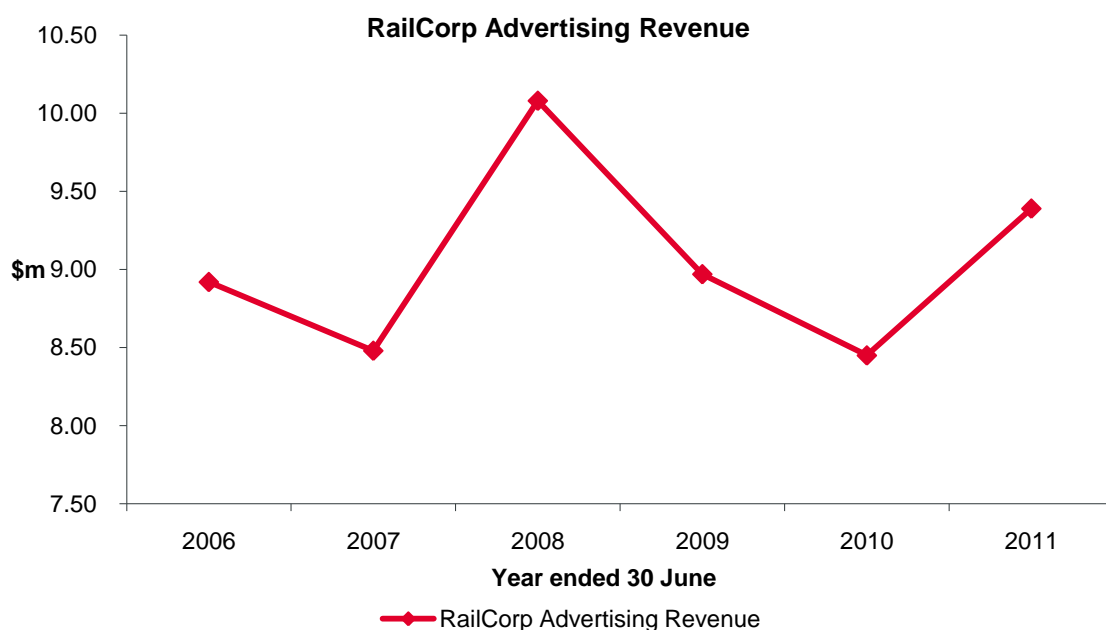
The precise nature of the fare increases sought for 2012 will be developed by Transport for New South Wales (TfNSW). The relationship between these proposed fares and the IPART determined fares is a matter of Government policy and is being coordinated by TfNSW.

Further information on the price determination can be found at [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).

### Advertising Revenue

RailCorp's advertising revenue consists of the revenue earned from outdoor advertising in the Sydney Metropolitan areas and licence for exclusivity in the distribution of the MX newspaper. RailCorp assets used for outdoor advertising include rail billboards, advertising shells and painted sign portfolio.

RailCorp spends  
on average  
\$45 million a year  
on malicious  
damage



Outdoor advertising revenue increased by 11 per cent to \$9.4 million compared to the prior year (\$8.5 million). The increase is due to a concerted effort to improve revenue performance over the past 12 months.

### Cost of Vandalism

Over the last four years RailCorp has spent on average \$45 million a year on the removal and repair of malicious damage, including graffiti, on RailCorp premises, such as trains, stations and rail corridors.

Year ended 30 June	2011	2010	2009	2008
Cost of vandalism (\$m)	40	55	48	35

Source: RailCorp (unaudited).

In 2010-11, RailCorp spent \$40.0 million as part of a program under the Customer Charter to repair and removal of vandalism and graffiti. The reduction in total costs for graffiti and vandalism in 2010-11 was largely due to the use of sacrificial film on the glass windows.

## Contractors (Repeat Issue)

### Recommendation

I again recommend RailCorp improve its contractor register to enable management to more effectively monitoring the extent of use and reliance on contractors

In response to recommendations I made in the prior year, RailCorp advises they have implemented a number of strategies to manage its use of contractors, including:

- improving monthly establishment summary reporting to assist managers monitor contractor numbers and duration of appointment
- strengthening the policies and procedures around the appointment of, and extension of contractors
- regular market benchmarking of contractor rates to help ensure RailCorp is receiving competitive prices
- the RailCorp Enterprise Agreement 2010 including a provision requiring the organisation to convert contractors to either permanent or fixed term employment contracts wherever possible
- development of the Employee Engagement Strategy and Flexible Work Practices procedure to assist with encouraging and retaining experienced staff
- development of a Workforce Planning Framework to more closely align planning decisions with expected maintenance and capital works programs.

While the above initiatives are a significant achievement, RailCorp should again review the adequacy of its contractor register. The centralised contractor's register was implemented a number of years ago, but it is still difficult for management to produce reliable information on contractor numbers and costs.

Overall contractor expenditure at RailCorp decreased by 15.5 per cent to \$93 million in 2010-11 (\$110 million in 2009-10). It was also noted that:

- RailCorp's contract staff numbers have increased from around 590 contractors at 30 June 2010 to around 645 at 30 June 2011
- RailCorp has had a program to convert contractors to temporary employees where possible
- 35 per cent of the total contractors at 30 June 2011 have been engaged by RailCorp for more than twelve months (45 per cent at 30 June 2010)
- 4 staff have been contracted by RailCorp for more than six years (four staff at 30 June 2010)
- 224 (170) contractors cost RailCorp at least \$1,000 each per day.

Contractors are employed by RailCorp in a range of business units, namely Engineering and Projects, Information Communication and Technology and Business Improvement/Transformation work. RailCorp advises that contractors are required due to the extent of project work, specific technical skills needed by the business and the ongoing critical skills shortages.

While the use of contractors has benefits, particularly on projects, extensive reliance on this employment arrangement can result in higher employment costs and less ownership and commitment to organisational goals and objectives.

The cost of  
engaging  
contractors  
decreased to  
\$93 million in  
2010-11 from  
\$110 million in  
2009-10

## Station Staff Reform

RailCorp has completed the Station Staff Reform review and rosters were implemented at all stations by 6 December 2009. The reform program resulted in a reduction of 161 positions, whilst there are still 29 excess employees being managed under the RailCorp redundancy program.

RailCorp advised the program resulted in a saving of \$20.0 million in 2010-11 with overtime savings of \$11.0 million and base pay plus shift penalties savings of \$9.0 million.

The station staff reform program was part of the 2008 RailCorp Union Collective Agreement. The program looked at identifying appropriate station staffing levels that would result in a balance between the requirements of safety, customer service and efficiency.

## Electrical Infrastructure

The Traction Supply Upgrade Waratah Program was initiated to deliver critical electrical infrastructure to support the 626 new, air conditioned, Waratah trains. The Waratah trains, which will replace 496 in service non-air conditioned 'R, S, L' sets, will have significantly better acceleration characteristics, but will require more power to operate effectively. Other reasons for the upgrade include the increasing number of trains with eight car sets, new infrastructure associated with the Clearways program and proposed new timetables to increase capacity.

RailCorp estimates it will need to spend \$870 million over eight years to upgrade its electrical infrastructure assets so it can operate the Waratah services in 2016 without compromising reliability. Total expenditure to date is \$183 million (\$92.9 million).

While RailCorp has identified this upgrade program as having risk because of the timeframes and resource constraints, it is confident the works required for the deployment of the Waratahs will meet the schedule. I have been advised all projects required to deploy the Waratahs are currently ahead of the necessary schedule.

## Information technology projects

RailCorp's capital works program at 30 June 2011 includes several information technology projects. The details of the top ten projects are listed in the table below.

Project Name	Original Completion Date	Forecasted Completion Date	Months Late (Early)	Original Budget \$m	Forecast Final Cost \$m	Variation \$m
Expansion & Support for the Automatic Ticketing Machine	Jun-13	Dec-12	(6)	21.0	27.4	6.4
Common Telemetry Infrastructure Program	Sep-13	Sep-13	--	22.7	19.0	(3.7)
Station Passenger Information Rollout	Jun-10	Jun-12	24	8.7	18.4	9.7
Virtual Plan Room- Stage 2 & 3	Apr-10	Dec-12	32	7.8	8.6	0.8
Central Station Emergency Warning & Intercommunication System and Public Address System	Jun-11	Jun-13	24	8.4	8.4	--
Security Monitoring Facility & Remediation	Mar-12	Jun-12	3	6.6	6.6	--
Rolling Stock Division Works Management	Jun-12	Jun-12	--	4.3	4.7	0.4
Business Intelligence - On Time Train Running	Jun-10	Nov-11	18	4.0	4.5	0.5
Train Crewing Division- OpCrew System	Nov-10	Dec-11	13	3.6	4.2	0.6
Security Business Systems	Mar-10	Jun-12	27	3.1	3.2	0.1
<b>Total top ten ICT projects</b>				<b>90.2</b>	<b>105.0</b>	<b>14.8</b>

The forecast cost of the Station Passenger Information Rollout project is \$9.7 million above its original budget due to increases in scope resulting in a 24 month delay in completing the project. This forecast cost is unchanged from 2010.

The termination of the TCard Program resulted in an additional \$6.4 million of costs for the Expansion and Support for the Automatic Ticketing Machine project due to the replacement of 466 electric gate motors.

The Common Telemetry Infrastructure Program has reduced its overall budget by approximately \$3.7 million due to revised cost estimates.

37 per cent of  
RailCorp staff  
were aged  
50 years or older  
at 30 June 2011

## Rail Clearways Program

The Rail Clearways program will separate the existing 14 metropolitan rail routes into five mainly independent clearways to reduce the sharing of critical infrastructure and train paths. This in turn will simplify the network, reduce congestion and improve capacity and reliability on the CityRail network. The program involves 13 key projects to build additional platforms, turnbacks and train crossing loops. At 30 June 2011, nine Rail Clearways projects had been completed.

The revised Rail Clearways program is expected to be completed by 2015, some five years after the original completion date.

The government has approved expenditure for the delivery of the Rail Clearways Program of \$2 billion.

For further information on the Rail Clearways Program, refer to the comments on Transport Construction Authority in this volume.

## Customer Service Improvement Program

RailCorp is continuing initiatives to improve customer service as recommended by the Boston Consulting Group (BCG) in 2007. These initiatives are part of the Everyday Service Essentials Program.

Since June 2010, RailCorp has made progress with implementation of initiatives that focus on the remaining 6 BCG recommendations. This includes the recent delivery of improved on time running management information with the implementation of the OTR Business Intelligence Program in November 2011.

Work is continuing on the implementation of initiatives which focus on five of the remaining BCG recommendations.

The service improvements which have been delivered as a result of initiatives implemented under the Everyday Service Essentials Program have contributed to improved customer satisfaction results across a range of key service metrics.

## Workforce Ageing

Last year, I recommended RailCorp continue to develop and implement effective policies to manage its ageing workforce. RailCorp launched a number of human resource strategies in 2010-11 to help develop, attract and retain staff whose skills are aligned to the strategic direction of the entity. These strategies have focused on the following issues:

- Facilitating the replacement of retiring employees
  - RailCorp have continued to implement the Apprentice; Intern; and Graduate Programs. In addition, Engineering Scholarships and the Women in Engineering Program are expected to address future gaps arising from the retirement of engineering staff
- Minimising the loss of knowledge from retiring employees
  - RailCorp advises that succession planning initiatives have commenced in key operational areas and a number of Knowledge Continuity Programs and Knowledge Networks have been created to mitigate the loss of important corporate information
- Phasing retirements
  - Flexible working arrangements for employees over 55, allowing them to work reduced hours while mentoring replacement staff.

At 30 June 2011, 22 per cent of RailCorp's employees were aged 55 years or older (20 per cent) and 37 per cent were 50 years or older (35 per cent). This is a significant proportion of total staff potentially resulting in a significant loss of rail specific knowledge and skills, such as drivers and guards.

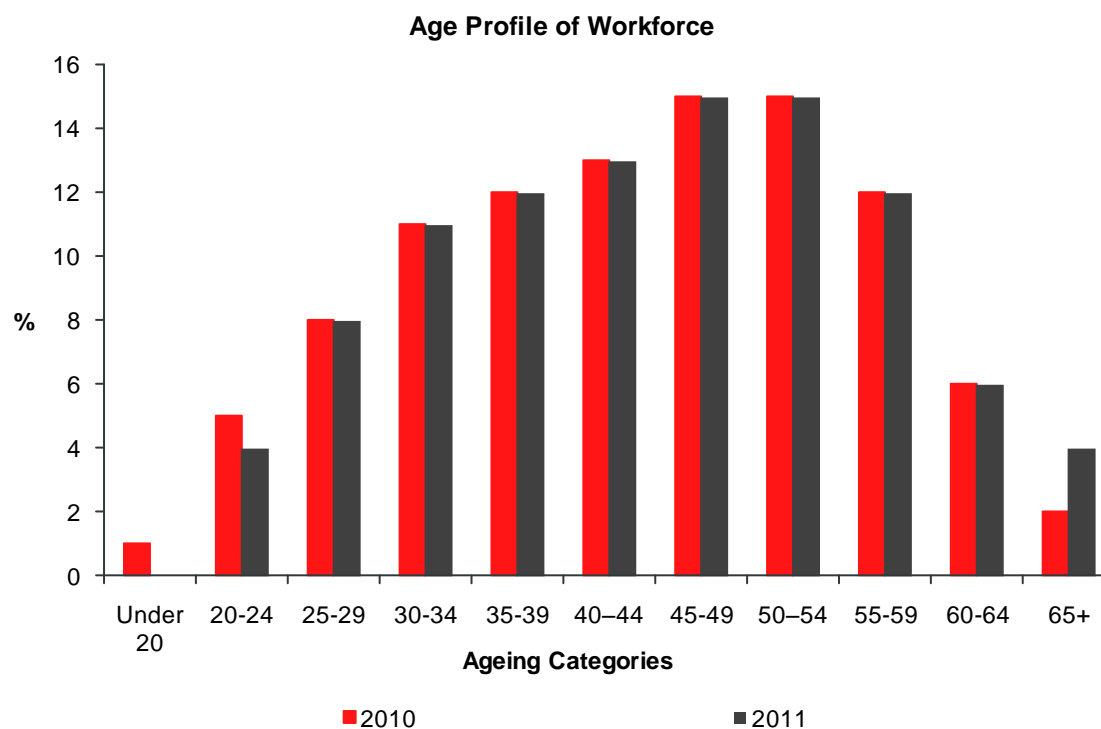


The age profile of RailCorp employees is shown below:

At 30 June Age Group	2011		2010	
	No. of Employees	%	No. of Employees	%
Up to 35	3,525	23	3,760	25
35 – 39	1,844	12	1,831	12
40 – 44	1,982	13	2,000	13
45 – 49	2,313	15	2,305	15
50 – 54	2,334	15	2,253	15
55 – 59	1,760	12	1,670	12
60 – 64	942	6	864	6
65+	571	4	305	2
<b>Total</b>	<b>15,271</b>	<b>100</b>	<b>14,988</b>	<b>100</b>

Source: RailCorp (Unaudited).

The chart below further demonstrates the age structure of RailCorp employees.



Source: Information provided by RailCorp (Unaudited).

## Annual Leave Balances (Repeat Issue)

### Recommendation

RailCorp should continue to monitor the effectiveness of its policies and procedures for managing excessive annual leave balances.

Last year, I recommended RailCorp should focus on the effectiveness of their plans to reduce excessive annual leave balances. During the year, RailCorp advised it introduced a number of major initiatives to assist in the management of excess annual leave. These include:

- the provisions of the RailCorp Enterprise Agreement 2010 effective from November 2010 now include:
  - a requirement that employees take annual leave within one year of it having been accrued
  - an established maximum of 40 days (or 50 days in special circumstances) annual leave that can be accrued
  - the identification of three ways employees can clear excessive annual leave; through a formal plan over a 12 month period; having it paid out; or a combination of both
  - a requirement for an annual leave roster to be developed no later than 1 September each year
- making managers more accountable for monitoring their staff's annual leave balances as part of their performance development process
- re-issuing the Leave Procedure and establishing 31 July each year as the date by which employees must have a plan to reduce any excess annual leave balance

Annual leave details were:

At 30 June	2011	2010	2009
Average annual leave hours	203.8	208.4	205.5
Number of employees with excess leave days	1,222	1,056	936
>100 days Annual Leave	25	16	13

The average number of annual leave hours per employee has reduced to 203.8 hours at 30 June 2011 from 208.4 at 30 June 2010. Despite this, RailCorp continues to experience difficulties reducing the number of staff with excessive annual leave balances. The number of employees with accrued annual leave balances in excess of 40 days (non shift workers) or 50 days (shift workers) has increased from 1,056 at 30 June 2010 to 1,222 at 30 June 2011. This represents 8 per cent (7 per cent) of all employees. At 30 June 2011, the number of employees with accrued annual leave balances in excess of 100 days has also increased to 25 employees (16 employees).

The above results indicate the initiatives implemented during the year may require more diligent monitoring to ensure they become effective in reducing excessive annual leave.

Excess leave entitlements can adversely affect an organisation. Liabilities for annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

## Financial Information

### Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Government reimbursement for services and concessions	1,637,221	1,605,406	1,637,221	1,605,406
Capital and other Government contributions	873,610	711,170	873,610	711,170
Passenger revenue	703,528	693,278	703,528	693,278
Other revenue	310,664	267,238	310,549	267,238
<b>Total Revenue</b>	<b>3,525,023</b>	<b>3,277,092</b>	<b>3,524,908</b>	<b>3,277,092</b>
Employee related	1,425,771	1,377,073	1,425,612	1,377,073
Depreciation	814,825	761,386	814,824	761,386
Other expenses	1,261,940	1,087,436	1,262,015	1,087,436
<b>Total Expenses</b>	<b>3,502,536</b>	<b>3,225,895</b>	<b>3,502,451</b>	<b>3,225,895</b>
<b>Surplus</b>	<b>22,487</b>	<b>51,197</b>	<b>22,457</b>	<b>51,197</b>
<b>Other Comprehensive Income:</b>				
Net (loss) in forward foreign exchange	(2,573)	(1,719)	(2,573)	(1,719)
Net gain in commodity swaps	4,524	3,265	4,524	3,265
Revaluation increase/(decrease) of Property Plant and Equipment	4,606,315	(86)	4,606,315	(86)
Superannuation actuarial losses on defined benefit schemes	(20,931)	(89,252)	(20,931)	(89,252)
<b>Total Other Comprehensive Income/Expense</b>	<b>4,587,335</b>	<b>(87,792)</b>	<b>4,587,335</b>	<b>(87,792)</b>
<b>Total Comprehensive Income/(Expense)</b>	<b>4,609,822</b>	<b>(36,595)</b>	<b>4,609,792</b>	<b>(36,595)</b>

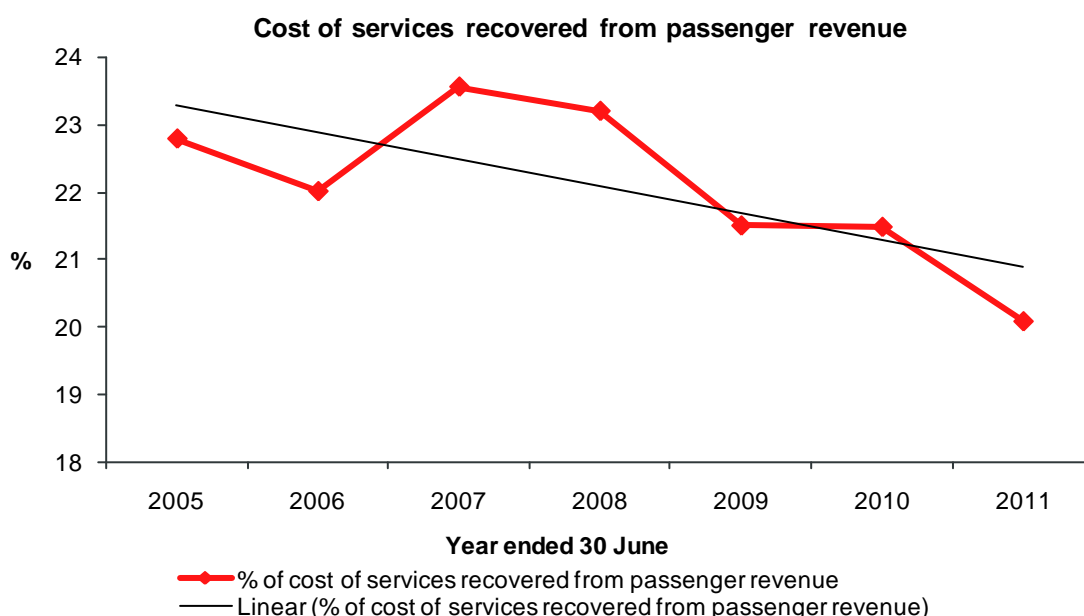
The increase in other revenue was due to increased construction work performed for other agencies, including the Light Rail Extension program and Glenfield Junction works.

The increase in employee related expenses was mainly due to increases in rates of pay and staff numbers. The increase in other expenses was primarily due to the write off of infrastructure assets, de-recognition of road over rail bridges and the long term lease of land infrastructure to Australian Rail Track Corporation.

A revaluation was performed during the year on infrastructure assets, land and buildings. The revaluation resulted in an increase in property, plant and equipment of \$4.6 billion. This includes of an increase in the carrying value of infrastructure assets of \$3.3 billion, a 44 per cent increase on the carrying value at 30 June 2010. Similarly the revaluation of buildings resulted in a net increase of \$1.2 billion or 32 per cent. A significant driver in these increases was the indirect costs associated with these assets.

Passenger revenue covered approximately 20.1 per cent of the cost of services provided in 2010-11

Passenger revenue covered approximately 20.1 per cent of the cost of services provided in 2010-11. The cost of services recovered from passenger revenue has declined over the last four years, as shown in the graph below. The MyZone fare regime was introduced from April 2010 to attract more people onto public transport. These products offered the flexibility for commuters to travel on CityRail, public buses & ferries and also private buses using an integrated ticket. It rewarded passengers who travelled more and longer distances with more discounts. As a result, travel on rail only products decreased below previous year levels as customers transferred to the new discounted MyMulti products particularly in the outer metropolitan areas. From April 2010, sharing of revenue was no longer required by STA, Sydney Ferries and RailCorp for multimodal products (now called MyMulti) sold by them. Prior to April 2010, revenue was shared by these authorities for multimodal products (previously called Travelpass) sold by them.



### Abridged Statement of Financial Position

At 30 June	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current assets	247,907	188,345	247,795	188,345
Non-current assets	24,766,501	19,621,657	24,766,484	19,621,657
<b>Total Assets</b>	<b>25,014,408</b>	<b>19,810,002</b>	<b>25,014,279</b>	<b>19,810,002</b>
Current liabilities	1,384,592	1,098,574	1,384,493	1,098,574
Non-current liabilities	847,630	654,515	847,630	654,515
<b>Total Liabilities</b>	<b>2,232,222</b>	<b>1,753,089</b>	<b>2,232,123</b>	<b>1,753,089</b>
<b>Net Assets</b>	<b>22,782,186</b>	<b>18,056,913</b>	<b>22,782,156</b>	<b>18,056,913</b>

The increase in current assets was largely due to the increase in receivables from various NSW Government entities, including the Department of Transport for recovery of the cost of assigned staff and the Transport Construction Authority for various construction projects. The increase in non-current assets was due to the \$4.6 billion revaluation of infrastructure and building assets.

The increase in total liabilities was mainly due to an increase in borrowings of \$424 million for capital projects and the recognition of a finance lease for the new Waratah train sets.

## Corporation Activities

RailCorp became a statutory authority on 1 January 2009 by amendments made to the *Transport Administration Act 1988*. Prior to this, RailCorp was constituted as a State owned corporation under the *State Owned Corporations Act 1989* and the *Transport Administration Act 1988*.

RailCorp provides passenger rail transport to greater Sydney through CityRail and rural passenger services in New South Wales through CountryLink. It is responsible for the safe operation, crewing and maintenance of passenger trains and stations. It owns and maintains the metropolitan rail network and provides access to freight and passenger operators.

For further information on RailCorp, refer to [www.railcorp.info](http://www.railcorp.info).

## Controlled Entity

On 15 December 2010, RailCorp registered Trainworks Limited (Trainworks) as a company limited by guarantee. Trainworks is a special purpose controlled entity of RailCorp, which began trading from its Thirlmere site on 4 April 2011 operating a rail museum.

Trainworks is expected to generate revenue, with the aim of becoming sustainable over the next five years.

As a not-for-profit business operating a cultural facility Trainworks is required to apply all income and property to its rail heritage preservation, display and promotion objectives.

In 2011, RailCorp incurred costs of approximately \$700,000 to set up and provide initial funding to Trainworks. Trainworks is currently dependent on RailCorp contributions for a significant portion of its revenue, with a five year funding deed in place. Trainworks needs to continue to develop its ability to attract visitors to its museum and generate the revenue necessary to operate on a sustainable basis.

For further information on Trainworks refer to [www.trainworks.com.au](http://www.trainworks.com.au).

# State Transit Authority of New South Wales

116

NSW Auditor-General's Report  
Volume Eight 2011

STATE TRANSIT AUTHORITY  
OF NEW SOUTH WALES

Survey identifies overcrowding of buses at peak times as the cause of most commuter dissatisfaction

## Audit Opinion

The audits of State Transit and its controlled entities' financial statements for the year ended 30 June 2011 resulted in unmodified opinions within the Independent Auditor's Reports.

## Operational Snapshot

State Transit:

- operated 316 routes covering about 97 million kilometres, used 2,252 buses, employed 4,049 bus drivers, consumed 36.9 million litres of diesel, 23.2 million cubic metres of compressed natural gas (CNG) and 12,200 megawatts of electricity
- had a one per cent increase in Sydney Buses' patronage over the prior year
- checked 622,955 passengers for fare evasion and issued 16,526 penalty notices and 5,721 caution notices
- acquired 235 new buses comprising 61 CNG, 132 articulated, 40 diesel and two growth buses
- made a profit of \$6.9 million after allowing for total operating expenses for the year of \$646 million.

## Key Issues

For transport industry analysis refer to the 'Transport Overview' section earlier in this Report.

### Overcrowding on Buses in Sydney

#### *Recommendation*

State Transit should continue to evaluate its bus services to align them with commuter demands especially during peak times.

In December 2010, the Independent Transport Safety and Reliability Regulator (ITSRR) released its survey on reliability of bus services. ITSRR surveyed 2,344 customers from the 15 bus contract regions across metropolitan Sydney. Analysis of the survey was limited to five key bus operators; Busways, Hillsbus, Sydney Buses, Veolia and Westbus. As State Transit operates the largest and busiest contract regions in Sydney, the proportion of Sydney Buses customers surveyed represented 60 per cent of the total population surveyed.

The ITSRR reported:

- crowding at peak commuter times was the aspect of service delivery with highest level of dissatisfaction in the 2010 ITSRR survey and lowest level of customer satisfaction in both the 2010 and 2009 surveys
- 22 per cent of survey respondents, who travelled between home and work, were left standing at bus stops because buses were too full, did not stop or did not turn up
- 17 per cent of passengers experienced difficulties getting on/off buses, of which nine per cent was due to overcrowding.

State Transit advises it has strict limits on the maximum capacity of passengers a bus can carry to ensure bus drivers can operate vehicles safely. It has introduced an additional 150 high capacity articulated buses into its fleet to increase passenger capacity. State Transit has also introduced the Metrobus services, increasing service availability. There are high frequency services provided at peaks where customers may not be able to get on the first bus. As a result, customers' wait times are minimised.

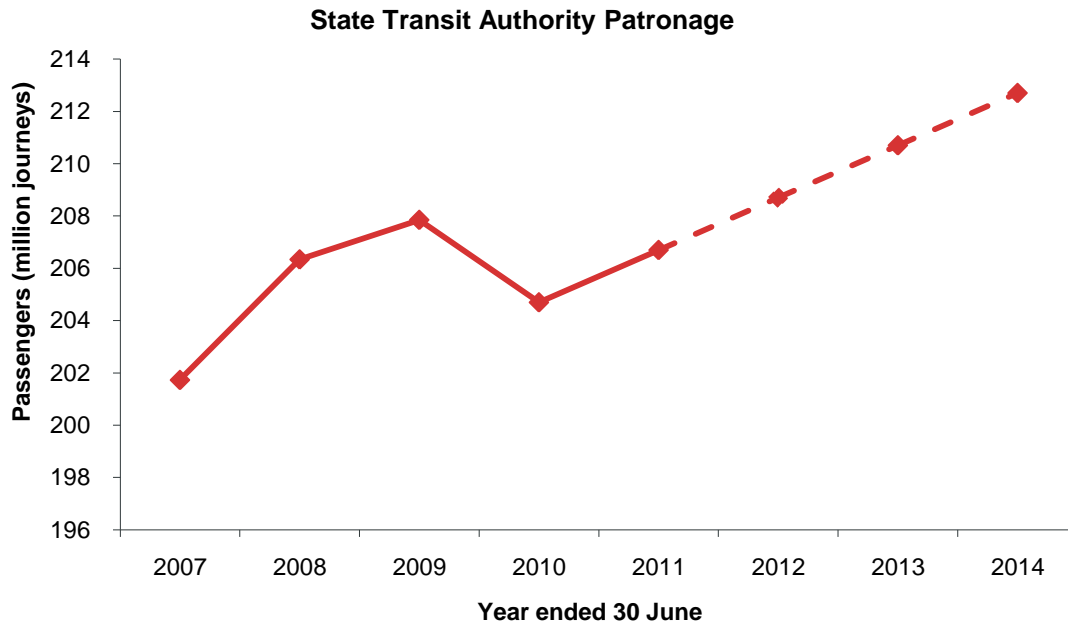
### Metropolitan Bus System Contracts

The Metropolitan Bus System Contracts (MBSC) operated by State Transit are due to expire on 30 June 2012. The contracts include an option for the Department of Transport to extend State Transit's contracts to 30 June 2013. In October 2011, the Department effectively extended the contracts to 30 June 2013.

## Performance Information

State Transit provided the following information regarding its performance.

### Growth in Patronage and Bus Services



Patronage increased by 2 million passenger journeys in 2010-11

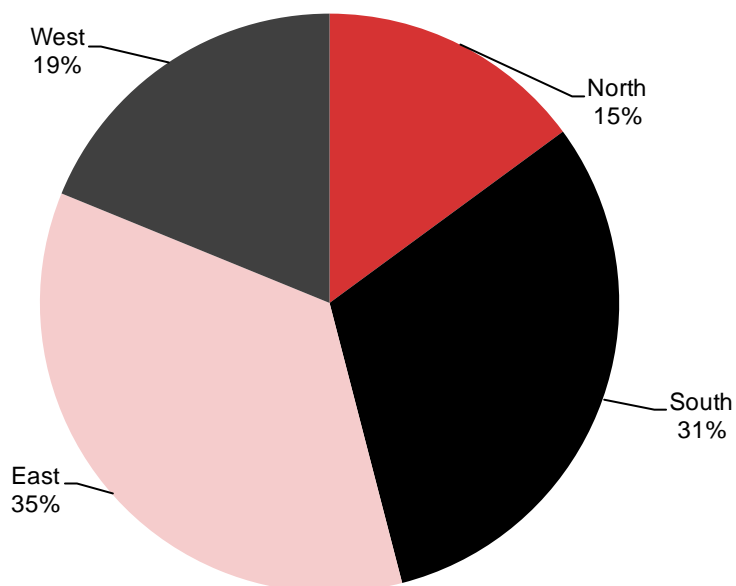
Source: Actual passengers from 2010-11 State Transit Authority's Annual Report (unaudited). Projections provided by State Transit (unaudited).

State Transit's patronage increased by one per cent in 2010–11 (1.5 per cent decrease in 2009–10) to 207 million passenger journeys (205 million). This was largely due to the introduction of five Metrobus routes in areas with high customer demand, an increase in articulated buses and improvements in reliability and comfort across the fleet. The extra Metrobus routes provide 3,460 additional trips each week with capacity for 256,000 extra passengers.

Sydney Buses carried 192 million passengers (190 million). Newcastle Buses and Ferry Service patronage remained relatively stable at 12.1 million passengers (12.2 million) and patronage on the Liverpool to Parramatta Transitway was 2.8 million (2.6 million).

Mechanical fleet failures are falling as the average age of the fleet decreases

**Sydney Buses Total Passenger Journeys in 2010-11 by Region**



Source: Passenger journey information provided by State Transit (unaudited).

Sydney Buses operates 289 routes in four regions across the Sydney Metropolitan area.

In 2010–11, State Transit operated an additional 189,644 services, an additional 3,647 services per week.

Patronage for Sydney Buses is expected to increase by an average of one per cent over the next three years. State Transit plans to accommodate this growth by adding additional services and expanding its bus fleet as required.

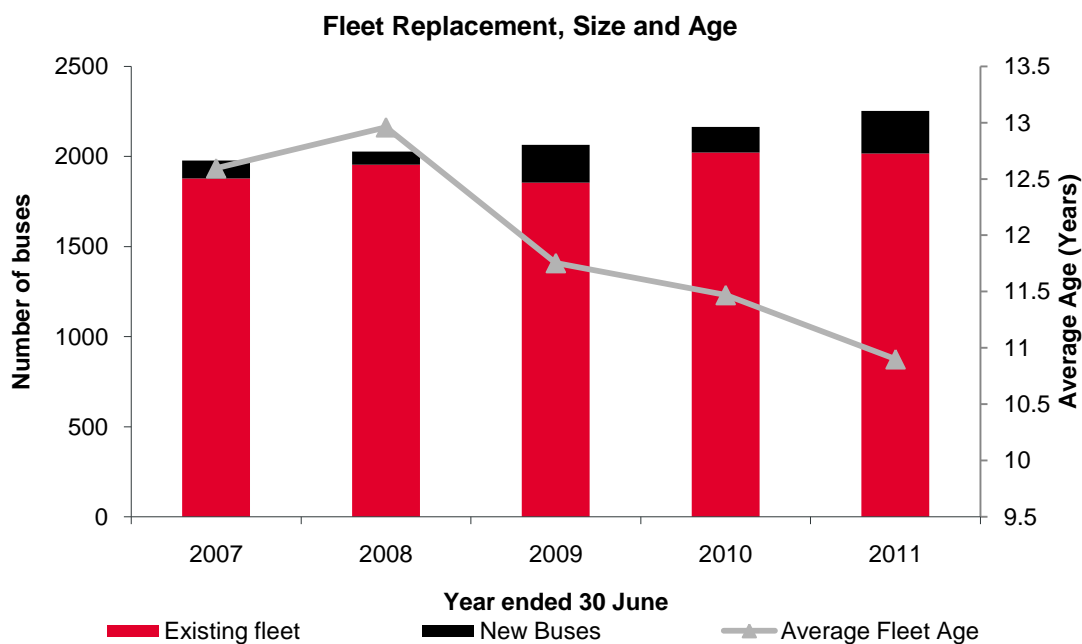
Kilometres travelled is a measure of the extent of services delivered. During 2010–11, State Transit's buses travelled 97 million kilometres (92 million). Sydney Buses accounted for the majority of this travel with all four Sydney metropolitan regions totalling 87 million kilometres (82 million kilometres).

To resource the increased service levels, 238 new bus drivers were employed.

### Bus Fleet

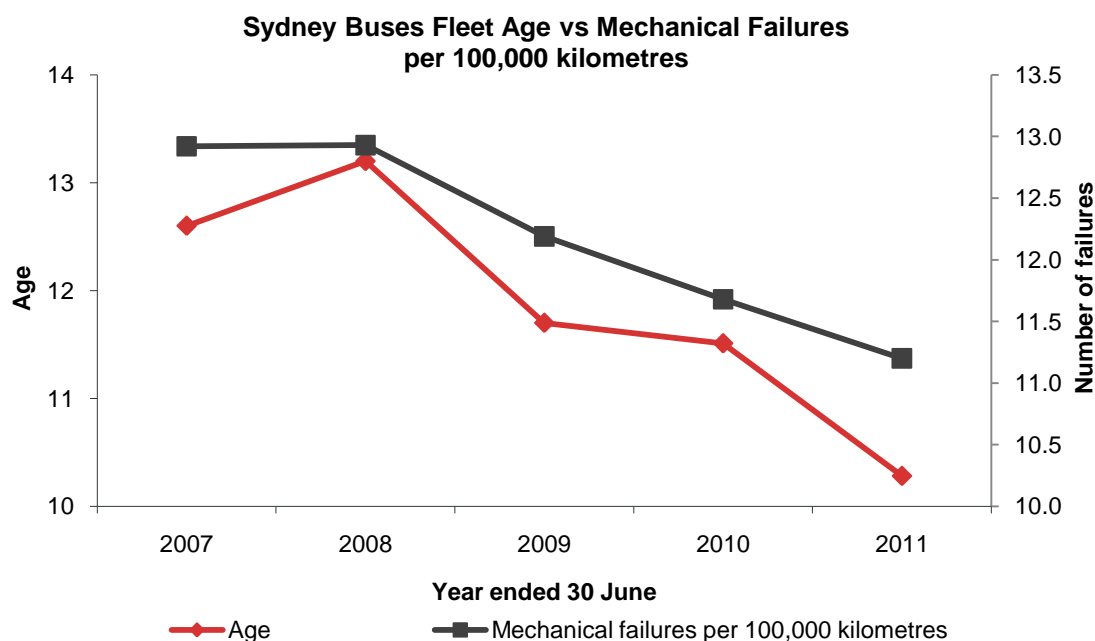
At 30 June 2011, State Transit's bus fleet totalled 2,252 buses (2,163). State Transit acquired 235 new buses (142) during the year and 104 new buses are planned for 2011–12. Under the MBSCs, the average age of the fleet is to remain below 12 years. The acquisition of new buses and retirement of older buses during the year resulted in a decline in the average age of the fleet from 11.5 last year to 10.9 years.





Source: Fleet replacement, size and age data from 2010–11 State Transit Annual Report (unaudited).

As older buses are retired and replaced, the incidence of mechanical fleet failures decreases.



Source: Fleet age and mechanical failure data from 2010–11 State Transit Authority Annual Report (unaudited).

## MyZone Fares

State Transit implemented the new MyZone ticketing system in April 2010. To support the launch of the new system, State Transit expanded its ticket reseller network to 1,520 resellers, including private bus operator service areas.

## Overtime

Overtime payments in 2010–11 were \$47.9 million (\$40.4 million), 14.9 per cent (13.6 per cent) of base salaries and wages. For those employees paid overtime, on average, they received \$8,266 (\$8,089) in overtime payments. Almost 88 per cent (90 per cent) of employees received a payment for working overtime during the year.

The table below shows the number of employees who were paid overtime, split by overtime paid as a percentage of annual salary.

Year ended 30 June	2011		2010	
Overtime paid as a percentage of annual salary and wages	Number of employees	Overtime paid \$'000	Number of employees	Overtime paid \$'000
90 and over	--	--	--	--
80– 89	2	92	--	--
70–79	8	291	3	105
60–69	20	615	10	301
50–59	51	1,275	53	1,266
40–49	259	5,405	218	4,213
30–39	761	12,209	615	9,125
20–29	1,450	16,658	1,329	14,195
10–19	1,277	8,802	1,372	8,965
>0–9	1,292	2,583	1,388	2,175
Nil overtime	678	--	568	--
<b>Total</b>	<b>5,798</b>	<b>47,930</b>	<b>5,556</b>	<b>40,345</b>

The highest amount of overtime paid to a single employee in 2010–11 was \$50,013 (\$41,400). For 81 (66) employees, overtime paid was more than 50 per cent of their annual salary.

State Transit advises that under its award conditions all work on Sunday is paid as overtime and bus operators work a six day roster. Most of the overtime expenditure reported above relates to payments made over a number of months when Metrobus Services were introduced before staff were recruited. State Transit monitors bus driver hours worked to ensure all bus operators are working within the occupational health and safety guidelines.

### Status of Key Transport Projects

At 30 June 2011, the following represents State Transit's key transport capital projects:

Project Name	Original Target Date	Forecasted Completion Date	Months Delayed	Original Budget \$'000	Revised Budget \$'000
505 rigid buses	30 Jun 2011	30 Jun 2011	--	253,501	264,098
150 articulated buses	30 Jun 2011	30 Jun 2011	--	110,614	112,251
Ryde depot redevelopment	30 Jun 2010	31 May 2011	12	10,248	10,248
Recommissioning of Tempe	30 Jun 2010	30 Jun 2012	--	10,210	17,400

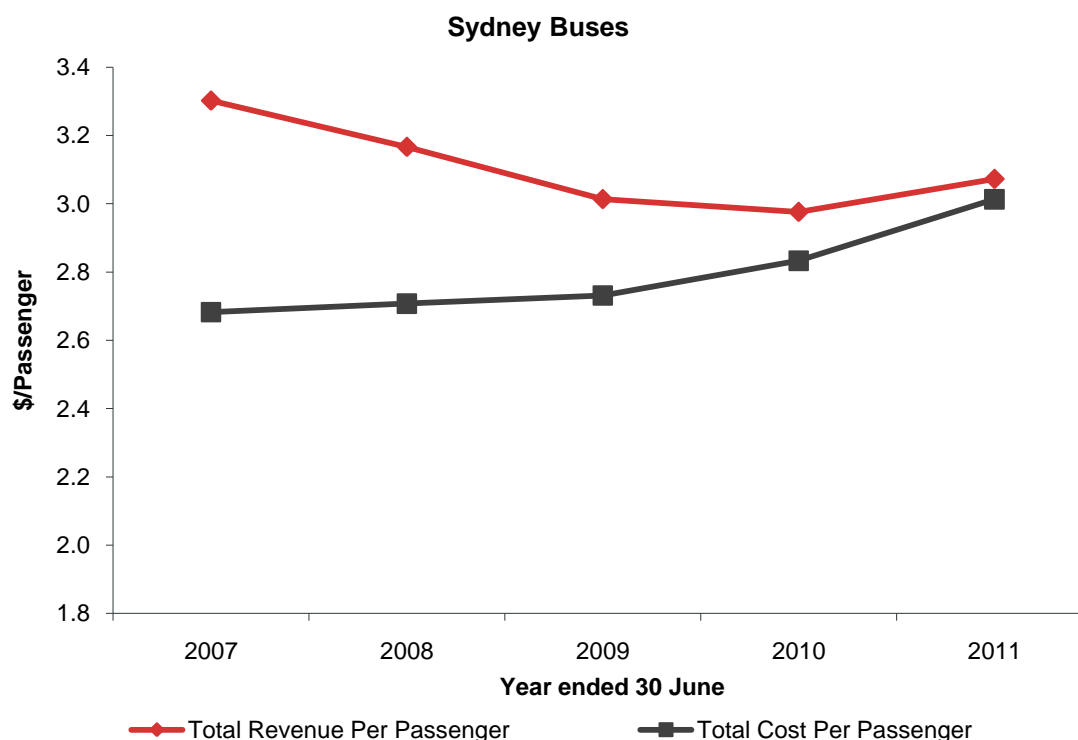
Ryde depot was completed in 2010–11 with significant improvements on concrete slab works for bus parking underway. The delay was caused by a ramp, which allows vehicle movements to be contained wholly within the depot. Works on Tempe depot are proceeding to schedule.

The budget for 505 rigid buses was increased by \$10.6 million. This was mainly due to requirement to install additional internal and external bus safety features to meet occupational health and safety requirements.

Installation of additional internal bus safety features required to meet occupational health and safety requirements resulted in an increase of \$1.6 million in the budget of 150 articulated buses.

An improved understanding of the constructional requirements and operational demands resulted in the increase of the budget for recommissioning of Tempe Depot by \$7.2 million.

## Revenue versus Cost (per passenger)



Source: Revenue and patronage data from 2010–11 unaudited State Transit Authority Annual Report. Total costs sourced from management accounts (unaudited).

Note: Revenue includes payments received under the provisions of the Metropolitan and Outer Metropolitan Bus System Contracts.

Due to volatility, the actuarial gains/(losses) relating to defined benefit superannuation schemes, have been excluded from the total cost per passenger.

Total revenue per passenger has marginally increased to \$3.07 (\$2.98). This is primarily due to recovery of the costs of providing new services and interest income on additional lease for the 233 buses delivered in 2010–11. Under the Metropolitan Bus Contracts, State Transit receives revenue to operate the services. Part of the revenue represents a recovery of fixed costs, which remains constant in real terms over the term of the contract.

Total cost per passenger has increased to \$3.01 (\$2.83). This is primarily due to increase in employee benefits and finance costs. Finance costs increased largely due to interest on new borrowings to fund acquisition of new buses.

## On-time running

### Recommendation

State Transit should consider using GPS technology to measure on-time running performance on each route.

On-time running performance is measured as the percentage of monitored buses departing from the terminus within five minutes of the scheduled timetable. A minimum of one per cent of total bus trips are monitored. On-time running performance for Sydney Buses has remained relatively stable at 95 per cent over the last five years. State Transit advises that traffic congestion within the CBD has, on occasions, affected the service delivery.

State Transit has fitted all buses with the Public Transport Information and Priority System (PTIPS). PTIPS uses GPS Technology for real time tracking of buses and priority through traffic lights to help keep bus services to timetable. This tracking allows State Transit to measure on-time running performance, produce accurate running times and more suitable timetables.

State Transit advises it has various strategies to maintain and improve on-time running and to provide better information to customers on waiting times through the PTIPS SMS Next Bus System.

## Other Information

### Human Resources

Last year, I reported the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of contract staff.

A summary of the results of my review this year are as follows.

### Workforce Ageing

Last year, I recommended State Transit continues to develop and implement effective policies to manage its ageing workforce.

Twenty nine per cent (29 per cent) of State Transit's employees are over 55 years of age and 46 per cent (46 per cent) are over 50. This increases the risk of a large number of employees retiring in the next five to ten years with the potential loss of knowledge and skills.

The age profile of State Transit's employees is shown below:

At 30 June	2011		2010	
	No. of employees	%	No. of employees	%
Age group				
Up to 35	763	15	745	15
35-39	554	11	520	10
40-44	697	13	680	14
45-49	806	15	808	16
50-54	888	17	821	17
55-59	736	14	736	15
60-64	522	10	486	10
65+	231	5	177	4
<b>Total</b>	<b>5,197</b>	<b>100</b>	<b>4,973</b>	<b>100</b>

Source: State Transit (unaudited).

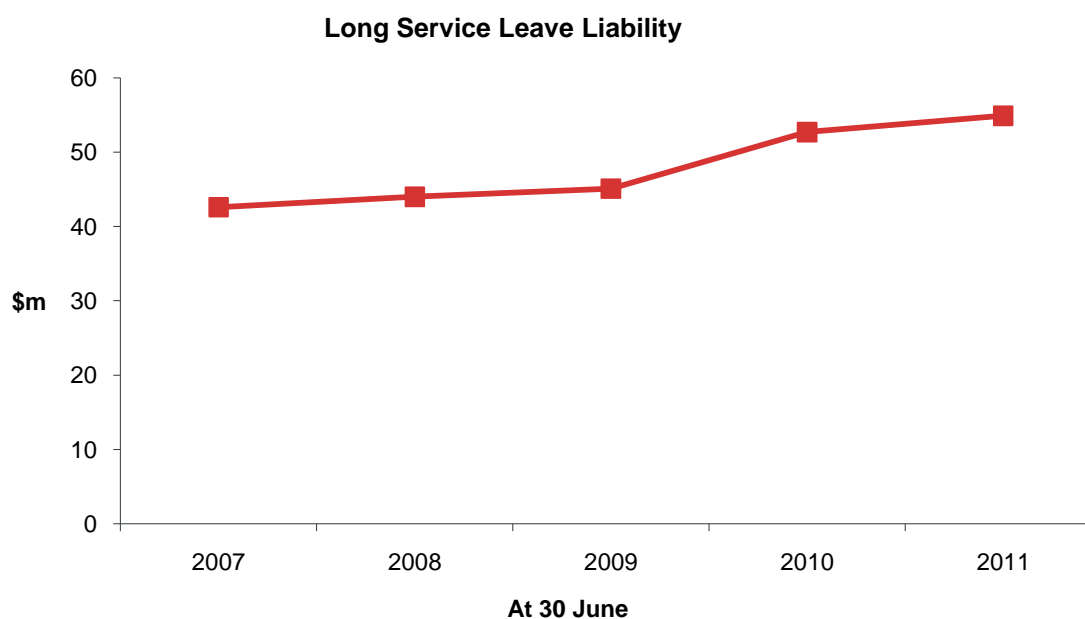
The graph below further demonstrates the age structure of State Transit employees.



In response to this risk, State Transit advises it is succession planning through apprenticeships, cadetships and graduate programs. State Transit has developed mentoring programs to train selected staff for progression to higher positions.

### Long Service Leave Liability

State Transit's liability for long service leave entitlements at 30 June 2011 amounted to \$54.9 million (\$52.7 million). This liability has increased by 29 per cent over the last five years.



The increase in liability from 2010 to 2011 is attributed to growth in employee entitlements.

State Transit advises that operational cash flows generated from the Metropolitan Bus System Contracts are sufficient to fund State Transit's rising long service leave liability obligations.

Although State Transit has strong cash flows, it will need to ensure it has adequately planned to fund these liabilities, which generally increase over time with increases in employee remuneration levels. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

### **Annual Leave Balances**

State Transit has actively managed employees with excessive annual leave balances in recent years. The number of employees with annual leave balances exceeding 40 days was 363 at 20 June 2011 (361). Employees in this category represented 6.9 per cent (7.2 per cent) of total employees.

Excess leave entitlements can adversely affect an organisation. Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

State Transit advises initiatives are in place to effectively manage excessive annual leave. Quarterly reminder letters are issued to employees with balances in excess of 40 days. State Transit is continuing to monitor accumulating leave balances.

### **Use of Contract Staff**

Last year, I recommended State Transit continue to periodically review the roles and responsibilities of all its contractors to ensure:

- its reliance on contractors is not excessive
- using contractors instead of permanent employees is appropriate
- contractors do not become de facto employees by virtue of being with State Transit for an extended period of time
- using a contractor continues to represent good value for money.

In 2010–11, State Transit paid \$1.6 million to a total of 51 contractors. At 30 June 2011, 13.7 per cent of contractors had been engaged for a period of more than 12 months. Two contractors had been engaged for more than ten years. The retention of contractors for extended periods may result in additional costs to State Transit.

State Transit advises that contractors have predominantly been hired in the Finance and Information Technology division. Divisional General Managers are asked to verify the need to keep a contractor longer than 12 months and to confirm whether the function can be undertaken by permanent employees. The use of contractors is monitored on a monthly basis. Long-term contract staff are retained due to their knowledge of STA's legacy IT systems, which cannot easily be procured.

While the use of contractors has benefits, particularly on projects, extensive reliance on this employment arrangement generally results in higher employment costs to an organisation and less ownership and commitment to organisational goals and objectives.

## PrePay Services

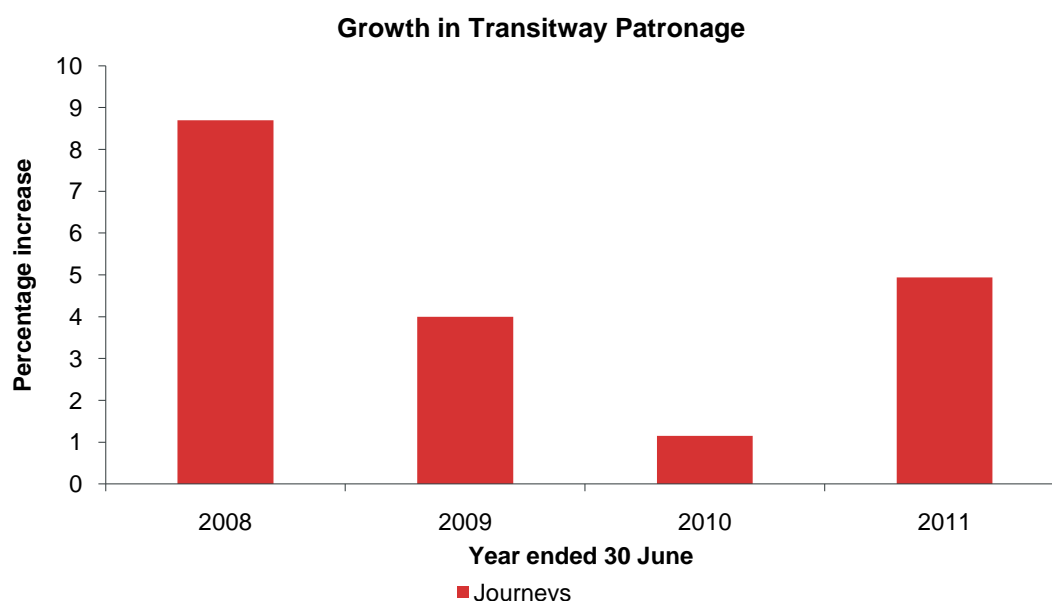
In 2010–11, State Transit continued to expand its Prepay network, targeting the main corridors to the city. Parramatta and Rockdale interchanges became cashless between 7 am and 7 pm on weekdays. This strategy is aimed at reducing boarding times and improving the reliability of bus services in the main corridors to the city. Approximately 15 per cent (46 routes) of Sydney Bus services have been converted to PrePay only.

At 30 June 2011, there were 1,520 authorised ticket resellers. This increased by 12.5 per cent on the previous year. Total revenue from ticket sales to resellers in 2010–11 exceeded \$225 million, an increase of 13 per cent on the previous year (\$199 million). State Transit will continue to expand its reseller network in 2011–12 to meet the increase in demand from the planned expansion of PrePay bus services.

State Transit advises the increase in PrePay services has resulted in an annual reduction of 20 million on-board cash transactions, faster boarding times, less delays and discount travel for bus passengers. The initiative has, in turn, improved the on-time reliability of bus services.

## Western Sydney Buses

The Liverpool to Parramatta Transitway is public infrastructure, built and owned by the New South Wales Government. State Transit has operated on the Transitway since February 2003 and 18.1 million passengers have used this service since it opened. Transitway patronage increased by five per cent over the previous year to 2.76 million journeys.



Source: State Transit (Unaudited)

Since opening, the Transitway has recorded losses each financial year, with another loss of \$913,000 in 2010–11 (\$1.2 million loss). State Transit's contract to operate this route extends to August 2012. The Transitway contract lies outside the Metropolitan Bus System Contracts.

## Metrobus Network

The Metrobus is a high-frequency, cashless service aimed at increasing capacity along busy corridors. In 2010–11, State Transit established five new Metrobus routes, providing around half a million additional passenger spaces each week. State Transit advises the services are proving very popular and over 16.0 million passengers have used them to date.

Prepay services has resulted in a significant reduction in on-board ticketing and improved service delivery

The Liverpool to Parramatta Transitway continues to incur losses

The government is expanding the successful Metrobus network

Following the success of the Metrobus network, in July 2010, the government announced an expansion of the network to 13 routes across Sydney. State Transit will operate eight of the routes and the remainder will be operated by private bus companies.

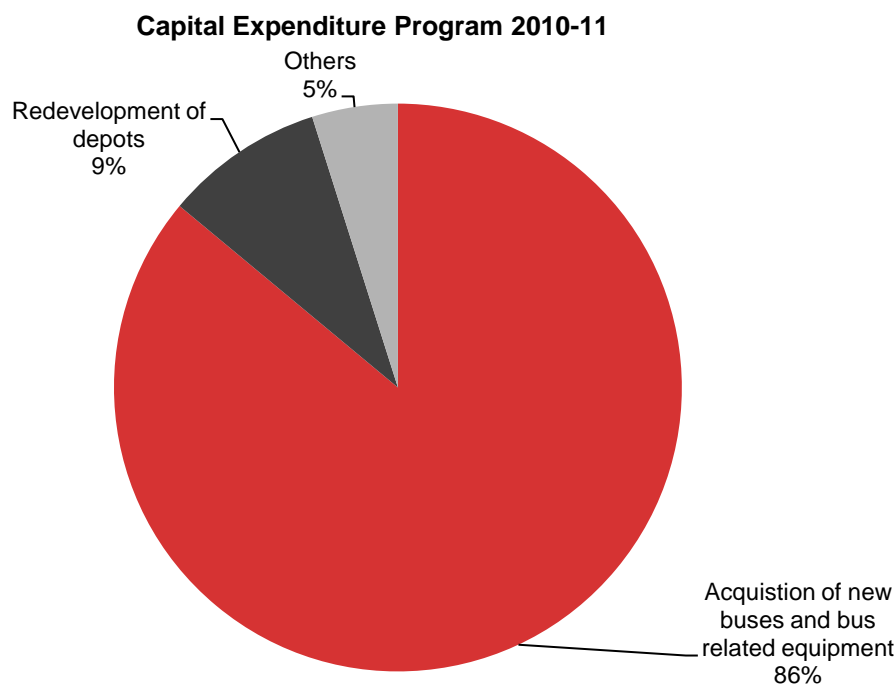
### Free CBD Shuttle Bus

Since its launch in December 2008, more than five million passengers have travelled on the service. The shuttle service carries between 40,000 and 50,000 passengers each week and operates across 32 bus stops located around the Sydney CBD.

The Department of Transport launched ten additional free shuttle services in 2011. This includes Newcastle City Loop Shuttle and Kogarah Shuttle, operated by State Transit under a contract with Department of Transport.

### Capital Expenditure Program

State Transit's capital expenditure program increased by 27.2 per cent from \$114.3 million to \$145.4 million in 2010–11. Most expenditure was on acquiring new buses to support fleet growth, the fleet replacement program and the redevelopment of depots to accommodate expansion of the fleet in the future.



Source: Capital expenditure data from 2010–11 State Transit Authority Annual Report (unaudited).

### Integrated Network Reviews and Improved Networks

During 2009 and 2010, State Transit implemented new and improved bus networks in each of its four Sydney regions. It is unlikely there will be further major changes to State Transit's networks during the life of the current Metropolitan Bus System Contracts.

The Transport NSW and Infrastructure program of bus reform and the Metropolitan and Outer Metropolitan Bus System Contracts require State Transit to conduct reviews of networks to ensure they reflect the current needs of the public. The reviews involve extensive community consultation and aim to put into operation new and improved networks through better co-ordination and linking of services with major hubs, additional services and simplification of stopping patterns.



## Financial Information

### Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		State Transit	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Operational revenue*	610,116	557,864	610,116	557,864
Other income	45,279	36,842	45,279	36,842
<b>Operating Revenue</b>	<b>655,395</b>	<b>594,706</b>	<b>655,395</b>	<b>594,706</b>
Employee benefits	388,956	365,631	--	--
Personnel services	--	--	423,169	409,636
Fleet running expenses	96,459	88,310	96,459	88,310
Depreciation and amortisation	29,224	31,379	29,224	31,379
Finance costs	20,896	14,178	20,896	14,178
General operating expenses	110,532	102,829	81,512	72,997
<b>Operating Expenses</b>	<b>646,067</b>	<b>602,327</b>	<b>651,260</b>	<b>616,500</b>
<b>Net Profit/(Loss) Before Tax</b>	<b>9,328</b>	<b>(7,621)</b>	<b>4,135</b>	<b>(21,794)</b>
<b>Income Tax (Expense)/Benefit</b>	<b>(2,478)</b>	<b>2,183</b>	<b>(921)</b>	<b>6,435</b>
<b>Net Profit/(Loss) After Tax</b>	<b>6,850</b>	<b>(5,438)</b>	<b>3,214</b>	<b>(15,359)</b>
<b>Other Comprehensive Income</b>				
Revaluation of property, plant and equipment	1,696	--	1,696	--
Superannuation actuarial losses	(5,193)	(14,173)	--	--
Income tax on items of other comprehensive income	1,049	4,252	(508)	--
<b>Total Other Comprehensive Income/(Expense)</b>	<b>(2,448)</b>	<b>(9,921)</b>	<b>1,188</b>	<b>--</b>
<b>Total Comprehensive Income/(Expense)</b>	<b>4,402</b>	<b>(15,359)</b>	<b>4,402</b>	<b>(15,359)</b>

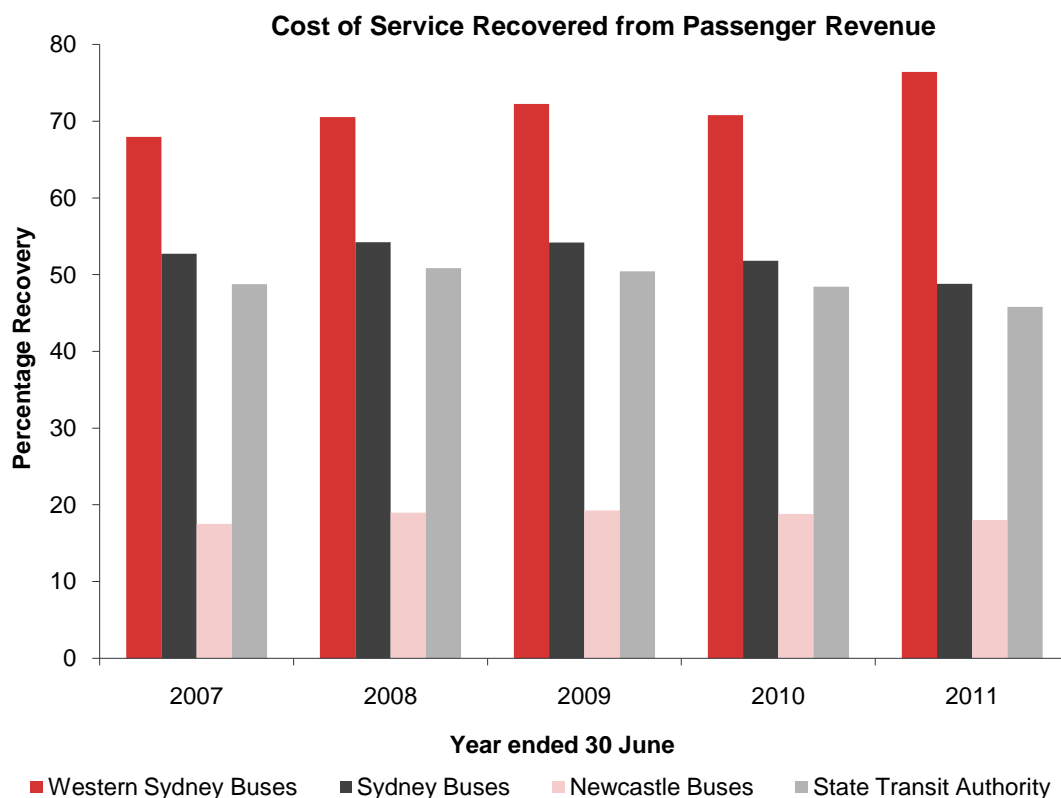
\* Operational revenue includes farebox receipts and contract revenue from the Metropolitan and Outer Metropolitan Bus System Contracts.

Operational revenue increased primarily due to the increase in income from bus and ferries services provided under the MBSC, which relate mainly to the expansion of the Metro Bus Network. Finance lease income received for new buses during the year, resulted in an increase in other income.

Employee benefits increased largely due to higher labour costs arising from an increase in pay rates for bus operators and the hiring of more bus operators to provide additional services. Finance costs increased largely due to additional interest on new borrowings to fund acquisition of new buses. Increases in Compulsory Third Party and general insurance premiums and bus revaluation expenses were the main reasons for the increase in general operating expenses.

## Cost Recovery

In 2010–11, State Transit's passenger farebox revenue covered approximately 45.8 per cent (48.4 per cent) of the cost of services provided, a decrease of 2.6 per cent from the previous year primarily due to increased fleet running costs. The increase in fleet running costs was due to higher diesel prices and higher fuel consumption of the new heavier air conditioned buses and articulated buses operating the Metrobus services.



Source: Information derived from State Transit's management accounts as at 30 June 2011 (unaudited).

Note: Cost of operations includes interest and excludes superannuation losses.

The overall cost recovery fell in 2010-11 due to:

- the introduction of MyZone
- the cost of increasing the network capacity to cater for growth
- the impact of the PrePay campaign, which resulted in an increase in passengers switching from single ride cash fares to discounted multiride fares.

The lower recovery rate of 18 per cent in 2010–11 for Newcastle buses was due to lower patronage levels compared to Sydney services. Western Sydney Buses have the highest recovery rate of 76.4 per cent partly due to growth in patronage and lower operating costs of providing a bus service that runs on a dedicated transitway.

## Abridged Statement of Financial Position

At 30 June	Consolidated		State Transit	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current assets	60,687	43,325	60,687	43,325
Non-current assets	889,485	795,723	889,485	795,723
<b>Total Assets</b>	<b>950,172</b>	<b>839,048</b>	<b>950,172</b>	<b>839,048</b>
Current liabilities	183,875	193,896	183,875	193,896
Non-current liabilities	523,337	407,080	523,337	407,080
<b>Total Liabilities</b>	<b>707,212</b>	<b>600,976</b>	<b>707,212</b>	<b>600,976</b>
<b>Net Assets</b>	<b>242,960</b>	<b>238,072</b>	<b>242,960</b>	<b>238,072</b>

The increase in non-current assets was primarily attributable to the increase in capital works expenditure, including the acquisition of buses and bus related equipment, and the redevelopment of Ryde and Tempe depots.

The increase in non-current liabilities was primarily due to additional borrowings required to fund the acquisition of new buses and depot redevelopment work.

## State Transit Activities

State Transit, a statutory body incorporated under the *Transport Administration Act 1988*, operates bus services in Sydney and bus and ferry services in Newcastle. For further information on State Transit, refer to [www.statetransit.info](http://www.statetransit.info).

## Controlled Entities

The following controlled entities have not been reported on separately as they are not considered material by their size or the nature of their operations to the consolidated entity.

Entity Name	Website
State Transit Authority Division	*
Western Sydney Buses Division	*

\* This entity does not have a website.

## Audit Opinion

The audit of Sydney Ferries' financial statements for the year ended 30 June 2011 resulted in an unmodified audit opinion within the Independent Auditor's Report.

The Independent Auditor's Report drew attention to significant uncertainty resulting from a proposed franchising arrangement announced by the Minister for Transport on 11 May 2011, and whether Sydney Ferries would be able to realise its assets and discharge its liabilities in the normal course of business.

## Operational Snapshot

Sydney Ferries operates ferry passenger services across Sydney Harbour and along the Parramatta River. It has 28 vessels across six classes supplemented by two charter vessels. The average age of a fleet vessel is 22 years. At 30 June 2011, Sydney Ferries' operations resulted in a surplus of \$2.7 million.

Operational area	Operational outcome
Routes in service	8
Scheduled services ('000)	169
Patronage ('000)	14,503
Service reliability (%)	99.9
On time running	98.5
Customer satisfaction (%)	96.0

Source: Sydney Ferries (unaudited).

## Key Issues

For general transport industry information, refer to the 'Transport Overview' section earlier in this report.

### Franchising of Sydney Ferries

On 11 May 2011, the Minister for Transport announced that the government will retain ownership of Sydney Ferries, but with a non-government operator leasing, maintaining and operating the fleet.

The Director General of Transport has since advised:

- the operator will be required to enter into a contract with Transport for NSW
- Transport for NSW will continue to control fares, routes and safety obligations.

Registrations of interest for franchising were followed by a request for expressions of interest (EOI), which closed on 29 July 2011. Five companies and consortia have expressed interest in a service contract for running ferry services.

Management advises the formal tender process commenced in October 2011 with three firms invited to respond, and a new operator is expected to commence by the end of 2012.

98.5 per cent of  
Sydney Ferries'  
services ran on  
time in 2010-11

## Ferry Operations and Customer Information System

Sydney Ferries advised its Ferry Operations and Customer Information System (FOCIS) project has been delayed because of design issues, which have now been resolved. The project's budget and completion date are shown in the table below.

Year ended 30 June 2011	Budget			Completion date	
	Original \$m	Revised \$m	Variance \$m	Original	Revised
FOCIS	13.4	13.7	0.3	Sept 2010	Oct 2012

Source: Sydney Ferries (unaudited).

I understand the increased budget was largely due to additional project management costs resulting from delays in completing the project.

## Performance Information

Sydney Ferries provided the following information (unaudited) regarding its performance.

Year ended 30 June	Target	Actual			
	2011	2011	2010	2009	2008
<b>Operational performance</b>					
Services that run on time (%) (a)	99.5	98.5	98.1	98.1	98.3
Number of customer complaints	na	677.0	639.0	889.0	1,220.0
Number of significant incidents (b)	--	1.0	--	1.0	--
Number of passenger injuries (c)	16.0	17.0	15.0	12.0	15.0
Number of sick days taken per employee	7.0	10.2	10.9	10.4	9.2
Fleet availability (%) (d)	80.0	85.9	86.0	81.0	79.0
Vessel reliability (%) (e)	95.0	96.5	96.4	95.0	94.4

Source: Sydney Ferries (unaudited).

- a Proportion of operated services with vessel departing from the first wharf within five minutes of its scheduled departure time. Delays due to force majeure events are not included.
- b Incidents resulting in loss of life, life-threatening injury or injury to multiple persons, and/or damage over \$100,000.
- c Passenger injury that occurs as a result of ferry operations requiring medical attention.
- d Percentage of fleet available for scheduled services (days available as a percentage of total working days).
- e Percentage of vessels that remain in service without withdrawal as a consequence of mechanical failure.

Sydney Ferries' services were on time 98.5 per cent (98.1 per cent) of, just one per cent below its target of 99.5 per cent. Manly Ferry Services achieved the highest on-time running performance of 99.6 per cent whilst Eastern Suburbs reported the lowest performance of 97.3 per cent. Management advises the results have improved due to the new timetable implemented in October 2010.

Customer complaints increased from the previous year. Management advises there was an initial spike in timetable related complaints in October and November 2010, but there were 20 per cent fewer complaints in January to June than the corresponding period in 2010.

Total fleet failures continue to fall and vessel reliability increase, to 96.5 per cent in 2010-11

## Patronage

Sydney Ferries passenger journeys remained relatively stable. Patronage growth was 1.1 per cent (0.2 per cent) in 2010-11. Passenger journeys prior to January 2009 included journeys on the discontinued Manly JetCat service. Management advises that on a same route comparison, patronage has increased from 13.2 million in 2007-08 to 14.5 million in 2010-11.

Year ended 30 June	Passenger journeys and growth				
	Target	2011	2010	2009	2008
Number of passenger journeys (million)	14.5	14.5	14.3	14.3	14.0
Patronage growth (%)	1.0	1.1	0.2	2.5	(1.2)

Source: Sydney Ferries (unaudited).

Year ended 30 June	Passenger journeys by area			
	2011	2010	2009	2008
Inner Harbour (million)	6.8	6.8	6.4	6.0
Parramatta River (million)	1.6	1.5	1.5	1.4
Manly Ferry (million)	6.1	6.0	6.0	5.7

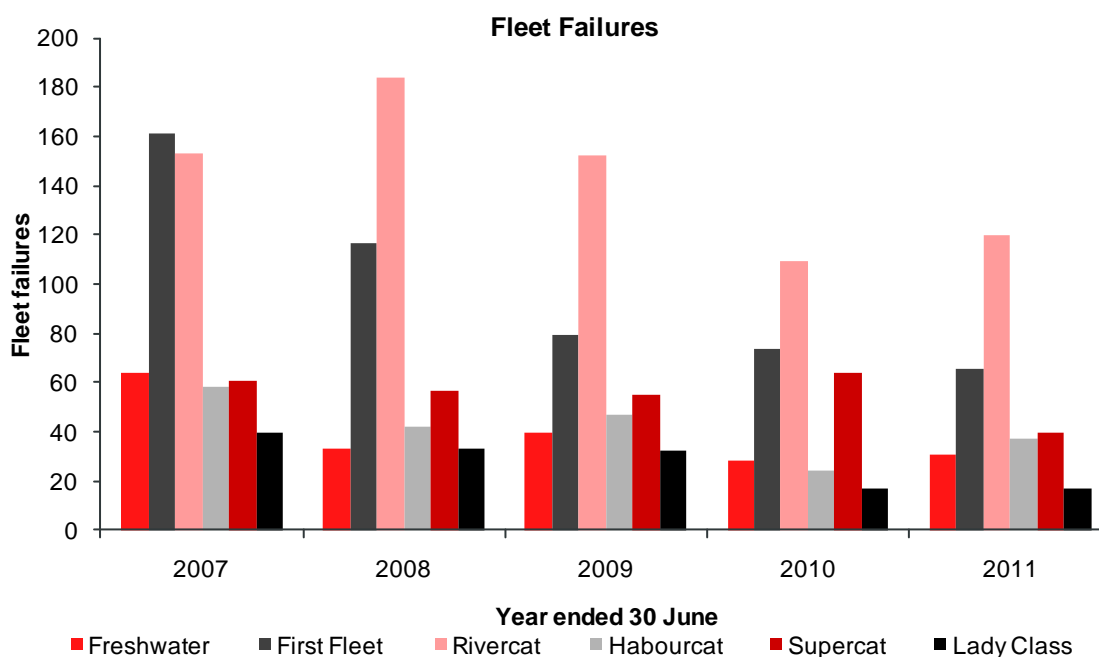
Source: Sydney Ferries (unaudited).

## Fleet Failures

Total fleet failures decreased from 316 failures in 2009-10 to 311 failures in 2010-11. The table below provides details of each vessel type. A fleet failure is defined as withdrawal of a vessel from service as a consequence of mechanical failure. Management advised this does not mean the service was delayed or cancelled.

Year ended 30 June	Ferry failures per annum				
	2011	2010	2009	2008	2007
Freshwater	31	28	40	33	64
First Fleet	66	74	79	117	161
Rivercat	120	109	152	184	153
Habourcat	37	24	47	42	58
Supercat	40	64	55	57	61
Lady Class	17	17	32	33	40
<b>Total</b>	<b>311</b>	<b>316</b>	<b>405</b>	<b>466</b>	<b>537</b>
<b>Total Trips During the Year</b>	<b>168,532</b>	<b>172,627</b>	<b>177,861</b>	<b>184,240</b>	<b>179,869</b>

Source: Sydney Ferries (unaudited).



Sydney Ferries won many awards for its improved safety records

## Other Information

### Fleet Replacement Strategy

Sydney Ferries currently owns 28 vessels. This includes two Lady Class vessels, which have reached the end of their economic lives. With the current franchising process underway the ferry replacement strategy has been deferred by Transport for NSW.

### Capital Projects

Over the past three years, Sydney Ferries wrote off \$3.1 million spent on capital projects because the projects were either assessed as not providing future economic benefits, costs could not be attributed to specific assets, or no evidence was available to verify the nature of the expenditure. Management took action in 2010–11, reviewed all work in progress accounts and strengthened controls over recording and monitoring of expenditure. The total value of work in progress at 30 June 2011 was \$13.4 million.

### Safety

Over the past few years Sydney Ferries implemented safety initiatives for its staff and passengers. New training programs were introduced and improvements made to infrastructure at Circular Quay wharf. Vessel collisions and groundings fell from 18 in 2006–07 to three in 2010–11, and staff days lost due to injury fell from 3,973 days in 2008–09 to 398 days in 2010–11.

Sydney Ferries won awards in recognition of its improved safety records, including the Industry Excellence Award for Safety Prize from the Chartered Institute of Logistics and Transport Australia in 2010, the NSW Training Initiative Award in 2010 for their new Ferry Master training program and the NSW Large Employer of the Year at the NSW Training Awards 2011.

### Human Resources

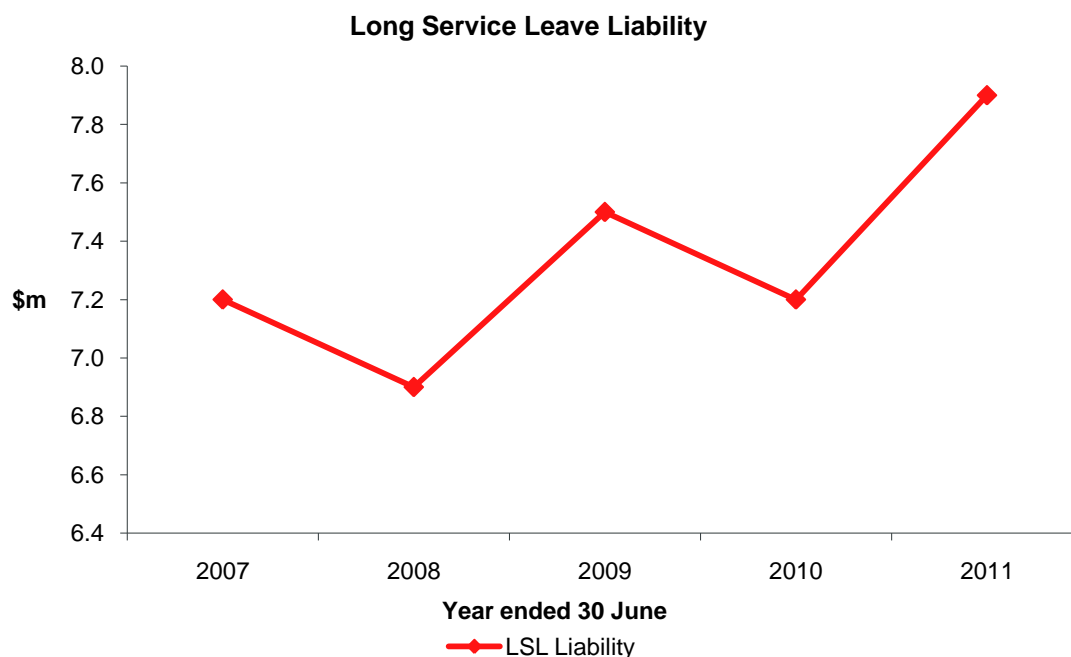
This year, I again reviewed the following areas relating to human resources:

- trends in long service leave liabilities
- availability of funds to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of use of contract staff
- extent of overtime worked.

## Leave Entitlements

It is uncertain whether Sydney Ferries will extinguish its liability for leave entitlements in the normal course of business given the franchising arrangement announced in May 2011.

Sydney Ferries' liability for long service leave entitlements at 30 June 2011 amounted to \$7.9 million (\$7.2 million).



The number of employees with annual leave balances in excess of 40 days has declined from 108 employees at 30 June 2007 to 63 employees at 30 June 2011. Sydney Ferries advises it has actively managed employees with excessive annual leave balances in recent years. Although Sydney Ferries' strategies reduced the number of employees with excess annual leave balances, employees in this category represent 10.5 per cent (13.1 per cent) of total employees at 30 June 2011.

At 30 June Entitlement (days)	2011			2010		
	No. of Personnel	Total Days	Average Days	No. of Personnel	Total Days	Average Days
<b>Annual Leave</b>						
>100	--	--	--	3	349	116
81–100	3	257	86	2	179	90
41–80	60	3,147	52	73	3,784	52
Total	63	3,404	54	78	4,312	55
<b>Public Holidays</b>						
>60	6	544	91	7	618	88
41–60	4	193	48	3	158	53
21–40	10	277	28	12	351	29
10–20	12	178	15	14	231	16
Total	32	1,192	37	36	1,358	38
Total Employees	598			597		



### Use of Contract Staff

In 2010–11, Sydney Ferries paid \$2.6 million (\$4.8 million) to 23 contractors (31 contractors). At 30 June 2011, four contractors had been engaged by Sydney Ferries for more than two years and the highest contractor payment during the year was \$227,000.

Sydney Ferries advises it monitors the use of contractors through a time and attendance system and a contractor spreadsheet. Extending a contractor's term requires a business case and approval by the Chief Executive Officer.

### Overtime

Overtime payments in 2010–11 amounted to \$2.7 million (\$2.3 million), 4 per cent (4.5 per cent) of Sydney Ferries' base salary expense for the year. On average, Sydney Ferries' employees, who were paid overtime, received \$6,029 (\$5,082) in overtime payments. The highest amount paid to an employee in 2010–11 was \$36,800 (\$36,770).

Sydney Ferries attributes the increase in overtime to the introduction of the new timetable with no additional resources for its implementation. The table below provides details of overtime paid to operational staff over the past three years.

Year end 30 June	Staff numbers		
	2011	2010	2009
<b>Overtime</b>			
\$30,001 to \$50,000	8	7	6
\$20,001 to \$30,000	20	11	33
\$10,001 to \$20,000	65	53	86
\$5,001 to \$10,000	86	77	99
\$1 to \$5,000	268	303	258
<b>Total</b>	<b>447</b>	<b>451</b>	<b>482</b>
<b>Total \$'000</b>	<b>2,749</b>	<b>2,292</b>	<b>3,469</b>

## Financial Information

## Abridged Statement of Comprehensive Income

Year ended 30 June	2011 \$'000	2010 \$'000
Farebox revenue	--	45,752
Operational revenue	125,187	82,775
Other	981	2,314
<b>Operating Revenue</b>	<b>126,168</b>	<b>130,841</b>
Employee related expenses	64,417	67,108
Operations and maintenance expenses	39,758	38,605
Depreciation, amortisation and impairment	18,480	20,585
Borrowing costs	190	6,320
Decrease in revaluation of fleet vessels	--	3,386
Other losses	655	1,901
<b>Operating Expenses</b>	<b>123,500</b>	<b>137,905</b>
<b>Surplus/(Deficit)</b>	<b>2,668</b>	<b>(7,064)</b>
<b>Other Comprehensive Income/(Expense)</b>		
Superannuation actuarial gains/( losses)	127	(10,972)
<b>Total Other Comprehensive Income/(Expense)</b>	<b>127</b>	<b>(10,972)</b>
<b>Total Comprehensive Income/(Expense)</b>	<b>2,795</b>	<b>(18,036)</b>

Due to the new transport agreement, farebox revenue is collected by Sydney Ferries on behalf of Transport for NSW. The government contribution is determined by factors within the contract.

Average employee numbers fell during the year, with some redundancies, which reduced employee related expenses.

The significant decrease in borrowing costs is because the previous debt of \$94.9 million was transferred to the Crown Finance Entity for no consideration on 31 March 2010.

## Abridged Statement of Financial Position

At 30 June	2011 \$'000	2010 \$'000
Current assets	13,987	16,253
Non-current assets	106,580	103,394
<b>Total Assets</b>	<b>120,567</b>	<b>119,647</b>
Current liabilities	30,730	36,913
Non-current liabilities	5,550	1,242
<b>Total Liabilities</b>	<b>36,280</b>	<b>38,155</b>
<b>Net Assets</b>	<b>84,287</b>	<b>81,492</b>

The reduction in the monies held in the Hour Glass cash facility accounts for the reduction in current assets.

The increase of non-current liabilities is due to a new \$4.0 million loan agreement, while the fall in current liabilities is due to the previous loan being transferred to the Crown.

## Sydney Ferries' Activities

Sydney Ferries became a statutory authority on 1 January 2009 by amendments made to the *Transport Administration Act 1988*. Previously, Sydney Ferries was constituted as a State owned corporation under the *State Owned Corporations Act 1989* and the *Transport Administration Act 1988*.

Sydney Ferries operates ferry passenger services on Sydney Harbour and the Parramatta River. Its principal objective is the delivery of safe and reliable ferry services in an efficient, effective and financially responsible manner.

For further information on Sydney Ferries, refer to [www.sydneyferries.nsw.gov.au](http://www.sydneyferries.nsw.gov.au).

\$428 million has  
been spent on  
Sydney Metro  
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30 June 2011  
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2011–12

## Audit Opinion

The audit of the Authority's financial statements for the year ended 30 June 2011 resulted in an unmodified audit opinion within the Independent Auditor's Report.

## Operational Snapshot

Following the New South Wales Government's decision to terminate all metro projects in February 2010, the Authority continues to wind down its activities. The Authority incurred a further \$10.8 million in cost reimbursements for claims from affected property and leasehold owners during 2010–11.

To 30 June 2011, the cost of Sydney Metro projects was \$428 million (\$412 million) with more costs expected in 2011–12.

## Other Information

For general transport industry information, refer to the 'Transport Overview' section earlier in this report.

### Transport Services Restructuring

On 1 July 2010, the *Transport Administration Amendment Act 2010* established the Department of Transport (the Department) and resulted in the removal of the Authority's governance board. From this date the Authority is deemed to be a controlled entity of the Department.

All the Authority's property, plant and equipment was transferred to the Department in December 2010.

### Cost Reimbursement for Property Acquisition Related Claims

The Authority continued to apply an established assessment process to assess cost reimbursement claims from affected property and leasehold owners. This process was to apply assessment principles consistent with the *Land Acquisition (Just Terms Compensation) Act 1991*.

At 30 June 2011, 80 claims totalling \$11.4 million had been finalised. The Authority raised a provision of \$600,000 to cover one further claim that has certainty about the settlement amount. In addition to these items, the Authority has received a further three claims which are expected to be resolved during 2012.

Whilst a significant number of affected parties have already lodged claims, under the relevant legislation, remaining directly affected property and leasehold owners have up until early 2013 to lodge a claim.

## Financial Information

### Abridged Statements of Comprehensive Income

Year ended 30 June	2011 \$'000	2010* \$'000
Government grants	--	384,214
Interest income	10,669	10,518
Other revenue	8,873	4,811
<b>Total Revenue</b>	<b>19,542</b>	<b>399,543</b>
Operating costs (including personnel services)	12,220	35,907
Decrement in value of properties	--	47,669
Write-off of capitalised work in progress	--	176,128
Cost reimbursement claims	10,810	94,872
Other expenses	286	324
<b>Total Expenses</b>	<b>23,316</b>	<b>354,900</b>
<b>(Deficit)/Surplus</b>	<b>(3,774)</b>	<b>44,643</b>
<b>Other Comprehensive Expense</b>	<b>--</b>	<b>(785)</b>
<b>Total Comprehensive Income/(Expense)</b>	<b>(3,774)</b>	<b>43,858</b>

\* In the 2010 year, the Authority had one controlled entity, the Sydney Metro Division (the Division). For the purpose of this report, all 2010 comparative data is shown for the Consolidated Entity at that date. For details regarding the dissolution of the Division refer to commentary on the controlled entity at the end of this report.

As a result of the termination of metro projects in February 2010, no government grants were received by the Authority in 2010-11.

Other revenue increased largely due to greater recoupment of personnel services costs for seconded employees relating to the Barangaroo Pedestrian Link and other Department of Transport projects.

The significant decrease in total expenses was mainly due to the write off of capitalised work in progress and the revaluation decrement of the Authority's properties in the prior year. Also contributing to the decrease was the finalisation of cost reimbursement claims by tenderers for the major construction contracts in the prior year.

### Abridged Statements of Financial Position

At 30 June	2011* \$'000	2010* \$'000
Current assets	206,682	215,591
Non-current assets	--	55,840
<b>Total Assets</b>	<b>206,682</b>	<b>271,431</b>
Current liabilities	2,489	7,506
<b>Total Liabilities</b>	<b>2,489</b>	<b>7,506</b>
<b>Net Assets</b>	<b>204,193</b>	<b>263,925</b>

\* Refer to commentary above concerning the 2010 comparative data.

The Authority holds significant cash assets, which appear to be in excess of budgeted requirements.

All non-current assets were transferred to the Department of Transport in December 2010.

Current liabilities decreased mainly due to:

- a reduction in payables and accruals resulting from the continued winding down of the Authority's activities
- the transfer of all employees and associated employee benefit provisions to the Department during the year.

## Entity Activities

The Authority was established as a statutory body under the *Transport Administration Act 1988* on 27 January 2009. Its principal activities were to develop safe and reliable metro railway systems as well as hold, manage and maintain metro rail infrastructure facilities.

The government cancelled all metro projects in February 2010 and since that date the Authority has been responsible for management of residual assets and liabilities and any claims arising from the decision to terminate the metro projects.

Amendments to the *Transport Administration Act 1988* commenced on 1 July 2010 which established the Department and abolished the Authority's Board. The affairs of the Authority, from 1 July 2010, are managed and controlled by the Director General of the Department.

For further information on the Authority, refer to [www.transport.nsw.gov.au](http://www.transport.nsw.gov.au).

## Controlled Entity

In 2010, the Authority had one controlled entity, the Sydney Metro Division which provided personnel services to the Authority. During the year, all of the division's staff were transferred to the Department of Transport and the division was dissolved. Separate financial statements were not required for the division in 2011.

# Transport Construction Authority

## Audit Opinion

The audit of the Authority's financial statements for the year ended 30 June 2011 resulted in an unmodified audit opinion within the Independent Auditor's Report.

## Operational Snapshot

The Authority is responsible for constructing large transport infrastructure projects in New South Wales. Key projects currently in progress are:

Project	Total estimated project costs (\$'m)	Cost incurred in 2010-11 (\$'m)	Estimated completion date
South West Rail Link	2,122	231	Progressively between 2013-16
Rail Clearways Program	2,044	348	2015
Commuter Car Park and Interchange Programs	333*	133	2013

\* Includes estimated costs of \$20.5 million for four car parks funded by other programs.

## Key Issues

For general transport industry information, refer to the 'Transport Overview' section earlier in this report.

### Transport Restructure

The *Transport Legislation Amendment Act 2011* was passed by the New South Wales Parliament in September 2011. The legislation established Transport for NSW (TfNSW) as a NSW Government agency and sets out the objectives and functions of TfNSW.

The legislation also provides for the abolition of the Transport Construction Authority, subject to TfNSW obtaining the necessary rail safety accreditation. The Authority's functions are expected to transfer to TfNSW during 2011-12.

For further information on the transport restructure refer to the 'Transport Overview' in this volume.

## Other Information

### Commissioning of Constructed Assets

Last year, I reported the Homebush Turnback and Lidcombe Turnback, constructed in April 2008, could not be commissioned in a timely manner due to a shortage of signal engineers in the rail industry. The Authority advises the turnbacks, which cost \$102 million to construct as part of the Clearways program, were commissioned in November 2010 and March 2011 respectively. The original planned commission date for the turnbacks was June 2008. The Authority advises there are currently no completed projects where commissioning is being delayed due to the shortage of signalling engineers.

The Authority also commissioned a significant number of commuter car parks in 2010-11.

For more information on how Rail Corporation New South Wales (RailCorp) is managing the shortage of signal engineers, refer to the comments on RailCorp in this Volume.

### Rail Clearways Program

The Rail Clearways program was announced in the 2004 Mini Budget as a 15 project program to be completed over six years (ending in 2010) at an estimated cost of \$1.0 billion. The original approved budget for the program was \$1.3 billion, excluding the cost of interest and escalation.

The revised Rail Clearways program will be completed five years after original completion date at a cost of \$2 billion (previously \$1.3 billion)

As part of the 2008 Mini Budget, the government reviewed the priorities of the rail capital program to ensure it met the needs of growing demand on the CityRail network. As a result, two projects were cancelled (Carlingford Loop and the Sydenham to Erskineville project), with the delivery of two further projects to be staged (Richmond Line Duplication and Macarthur Station and Interchange).

To date, the Authority has completed and commissioned nine of the thirteen Clearways projects. The Authority's performance in delivering these nine projects is summarised below:

- six projects completed and commissioned within budget completion date, two projects completed within budget completion date, but commissioning delayed due to external factors, and one project completed late
- final construction cost of three projects within original budget, but six projects cost more than original budget, which did not include interest or escalation.

The Authority advises the revised Rail Clearways program is expected to be completed by 2015, five years later than the original completion date, at a cost of \$2.0 billion including escalation and \$75.5 million in additional work funded by other sources.

During 2010–11, expected completion dates and budgets for each project did not change, except for the Quakers Hill to Vineyard Duplication, where additional works were requested by the Roads and Traffic Authority.

The table below shows current and completed projects in the Rail Clearways Program, the original and revised budgets and planned construction completion dates (unaudited and as advised by the Authority):

Key projects	Original budget (\$m)	Revised budget at July 2010 (\$m)	Revised budget at July 2011 (\$m)(a)	Original completion date	Revised completion date (at July 2011)
<b>Current Projects</b>					
<b>Bankstown</b>					
Liverpool Turnback and Platform	84	160	160	2010	2014(b)
<b>Campbelltown Express</b>					
Kingsgrove to Revesby Quadruplication	410	790	790	2010	2012(b)
Macarthur Fourth Platform	29	55	55	2010	Stage 1– 2010 Stage 2– 2015(c)
<b>North West</b>					
Quakers Hill to Vineyard Duplication	108	246	259(f)	2012 (was 2010)(d)	Stage 1– 2011(e)
<b>Total of Current Projects</b>	<b>631</b>	<b>1,251</b>	<b>1,264(f)</b>		
<b>Total of Completed Projects</b>	<b>659</b>	<b>780</b>	<b>780</b>	<b>Various</b>	<b>Various</b>
<b>Total Program Cost</b>	<b>1,290</b>	<b>2,031</b>	<b>2,044(f)</b>		

a Excludes RailCorp management costs and borrowing costs and includes \$75.5 million works funded from other parties.

b After reprioritisation and scope review in November 2008.

c After reprioritisation in November 2008. Stage 1 relates to the bus interchange and easy access works. Stage 2 relates to platform and rail works.

d Date changed following the extension of the Quakers Hill to Schofield's project to Vineyard.

e Stage 1 Quakers Hill to Schofields to be completed by 2011. No date set for Stage 2 Schofields to Vineyard.

f Additional funding of \$12.5 million was received in 2010–11 from the RTA for new scope requirements. Original budget and revised budget are for stage 1 only.



Expenditure on the program to 30 June 2011 totalled \$1.6 billion (\$1.3 billion).

The objective of the Rail Clearways Program is to improve capacity and reliability on CityRail's Sydney suburban network. It comprises 13 key projects being delivered by the Authority on behalf of RailCorp. The program involves separating the network's 14 metropolitan rail routes into five independent rail clearways.

### South West Rail Link (SWRL)

In November 2009, the New South Wales Government committed to deliver the SWRL project at a total cost of \$2.1 billion. The current estimated total cost for this project remains at \$2.1 billion. At 30 June 2011, the Authority had incurred \$389 million on the project and had received \$105 million in land transferred from another government agency for use in the project. The project consists of the following four key pieces of work:

- Glenfield Transport Interchange – involves a major upgrade to Glenfield station, including a new platform and additional commuter car parking, which the Authority expects to be completed on time by 2013
- Glenfield to Leppington Rail Line – 11.4km of new twin track from Glenfield to Leppington, new stations and commuter car parking at Leppington and Edmondson Park and a new train stabling facility. The Authority advises the design and construction contract for the new rail line was signed in December 2010 and detailed design and early site works have commenced. The first passenger services are due in 2016, within the original budgeted timeframe
- Auburn Stabling facility – designed to cater for the expected increase in train services and is due to be fully commissioned by 2016
- Airport line power upgrade – expected to be commissioned in 2016.

### Commuter Car Park and Interchange Programs (CCPIP)

The Authority is responsible for delivering 41 car parks and interchanges in two stages of the CCPIP.

The Authority advises:

- twenty of the 22 Stage One Car Parks were fully open to the public at 31 October 2011, with the remaining two car parks to open in late 2011
- costs incurred on Stage One at 30 June 2011 were \$216 million (\$103 million)
- the overall revised budget for Stage One decreased compared to the prior year estimate by \$35.2 million due to revised program contingency costs and lower actual construction expenses
- Stage Two projects are being developed within a total approved budget of \$80.5 million. This budget includes design, development and construction of 8 of the nineteen car parks and interchanges and minor costs associated with the remaining 11 projects. The remaining 11 car parks and interchanges are currently being reviewed to ensure they address the needs of local communities. At 31 October 2011, Transport interchange facility upgrades have been completed at Narwee, Allawah and Panania and construction work or planning and design activities have commenced on all other projects.

Twenty of the 22 Stage One commuter car parks are commissioned, with remaining car parks to be commissioned in late 2011

The next table shows the original and latest forecast completion dates, together with the original and revised budgets for Stage One projects.

Location	Original completion date	Current forecast or actual completion date at July 2010	Current forecast or actual completion date at July 2011	Original Budget (\$m)	Revised Budget at July 2010 (\$m)	Revised Budget (\$m)
1 Berowra	Sep 10	Dec 10	Dec 10	2.1	5.7	5.2
2 Blacktown	Feb 11	Jul 11	Jul 11	35.9	45.5	36.9
3 Emu Plains	Sep 10	Oct 10/Nov 10	Oct 10/ Feb 11	5.7	6.2	5.0
4 Glenfield M/Deck	Sep 10	Sep 10	Sep 10/ Dec 10	15.5	16.5	13.6
5 Helensburgh	Sep 09	Sep 09	Sep 09	1.7	2.3	2.1
6 Katoomba	Apr 10	Jul 10	Jul 10	1.3	2.8	2.6
7 Macarthur (one)	Dec 10	Dec 10	Dec 10	8.0	1.0	0.6
8 Macarthur (two)	Oct 10	Dec 10/Feb 11	Dec 10/ Nov 11	9.3	16.3	22.5
9 Quakers Hill	Oct 10	Sep 10	Sep 10	5.9	6.6	5.8
10 Ourimbah	Jul 10	Jul 10	Jul 10	1.2	2.3	1.9
11 Revesby	Dec 10	Apr 11	Apr 11	30.4	40.5	33.9
12 Schofields	Sep 11	Oct 11	Oct 11/ Dec 11	2.4	2.7	5.0
13 Seddon Park	Oct 09	Oct 09	Oct 09	0.8	0.8	0.8
14 Seven Hills	Nov 10	Nov 10/Feb 11	Dec 10/ Mar 11	22.7	24.8	22.4
15 St Marys	Nov 10	Dec 10	Dec 10	24.8	21.4	19.0
16 Warwick Farm	Mar 11	Mar 11	Mar 11	30.9	25.6	18.4
17 Waterfall	Sep 10	Aug 10/Nov 10	Aug 10/ Dec 10	2.4	6.3	5.3
18 Werrington	Mar 10	Jun 10	Jun 10	2.1	1.9	1.6
19 Wollongong	Dec 10	Oct 10	Oct 10	14.6	15.7	14.1
20 Woonona	Jun 10	Jun 10	Jun 10	1.5	2.2	1.9
21 Woy Woy	Dec 10	Apr 11	Apr 11	26.9	33.8	27.8
22 Wyong	Oct 10	Dec 10	Mar 11	7.3	6.7	6.0
<b>Total Program including other funding (a)</b>				<b>265.2</b>	<b>287.6</b>	<b>252.4</b>

a Including additional funding from other programs

The CCPIP will provide additional commuter car parking and improved interchange facilities at railway stations across Sydney, the Central Coast, the Illawarra and the Blue Mountains. Stage One of the program has delivered around 7,000 new car spaces for rail commuters at 28 facilities. As reported in previous volumes, RailCorp and various local councils were responsible for managing the construction of six out of the 28 car parks.

### Northern Sydney Rail Freight Corridor (NSRF)

The NSRF program is an Australian Government initiative to remove operational impediments to freight rail traffic between North Strathfield and Broadmeadow at Newcastle. The Authority received \$15.0 million from the Australian Government in 2008–09 to commence feasibility studies. At 30 June 2011, the Authority had incurred \$12.6 million on the project and expects to complete the feasibility study by June 2012. The Authority advises the majority of scoping tasks have been completed, with finalisation of remaining tasks delayed until agreement is reached between the Australian and State Governments.

The Authority advises work has commenced on the development phase of the project. The Australian Government has allocated funding to the development and delivery phases of this project, which will be made available to New South Wales after a formal intergovernmental agreement has been reached.

## Safety Performance

The Authority's safety performance is industry leading. The Authority has developed an integrated Safety Management System and Safety Strategy to maintain and continue to improve its safety record. The Authority recorded an average lost time injury frequency rate of 1.6 on all its project sites and corporate areas in 2010–11, well below the New South Wales construction industry average of 15.5, as reported by WorkCover NSW for 2008–09. In addition, the Authority had no rail safety incidents requiring investigation by the Rail Safety Regulator. These are considered significant achievements considering the working hours and the scale of infrastructure projects being delivered by the Authority and its contractors.

## Human Resources

Last year, I reviewed the following areas relating to human resources at the Authority:

- employee age profile
- trend in long service leave liabilities
- management of annual leave balances in excess of thresholds
- extent of contract staff.

The results of that review indicated the Authority had appropriate policies and procedures in place and was managing human resource issues well. I did not find it necessary to report on these areas again in 2010–11 since there have been no major changes during the year.

For further information on the human resource issues across the transport portfolio refer to the 'Transport Services Overview' earlier in this volume.

## Financial Information

### Abridged Statement of Comprehensive Income

Year ended 30 June	2011 \$'000	2010 \$'000
Government grants	154,720	656,887
Other	371,616	385,512
<b>Total Revenue</b>	<b>526,336</b>	<b>1,042,399</b>
<b>Total Expenses*</b>	<b>376,310</b>	<b>411,254</b>
<b>Surplus</b>	<b>150,026</b>	<b>631,145</b>
<b>Other comprehensive income:</b>		
Net increase/(decrease) in property plant and equipment revaluation reserve	4,605	(8,550)
<b>Total Other Comprehensive Income/(Expense)</b>	<b>4,605</b>	<b>(8,550)</b>
<b>Total Comprehensive Income</b>	<b>154,631</b>	<b>622,595</b>

\* Total expenses exclude direct and indirect costs incurred on the South West Rail Link, Commuter Car Park and Interchange project and ECRL. These costs are capitalised as work in progress.

Other revenue comprises mainly the Clearways program income of \$337.7 million (\$371.8 million). The decrease in Clearways program income is due completion of projects by the Authority. For example, the Cronulla Duplication was largely completed by 30 June 2010.

Government grants were significantly lower in 2010–11 primarily due to the Department of Transport providing \$540.4 million (\$56.4 million in 2011) to the Authority in the prior year to fund the construction of the South West Railway Link. The Authority used this grant to fund works completed in the current year. There has been a corresponding reduction in the cash balance.

**Abridged Statement of Financial Position**

<b>At 30 June</b>	<b>2011 \$'000</b>	<b>2010 \$'000</b>
Current assets	523,972	736,084
Non-current assets	612,857	361,691
<b>Total Assets</b>	<b>1,136,829</b>	<b>1,097,775</b>
Current liabilities	143,767	150,932
Non-current liabilities	1,112	953
<b>Total Liabilities</b>	<b>144,879</b>	<b>151,885</b>
<b>Net Assets</b>	<b>991,950</b>	<b>945,890</b>

The significant increase in non-current assets was largely due to works on the South West Rail Link and the Commuter Car Park and Interchange Program in 2010–11. In addition, the Authority received \$105 million in land from another NSW government entity during the year that will be used for the South West Rail Link.

**Authority Activities**

For further information on the Authority, refer to [www.transport.nsw.gov.au](http://www.transport.nsw.gov.au).

# Appendix 1

## Agencies not commented on in this Volume, by Minister

The following audits resulted in unqualified independent auditor's reports and did not identify any significant issues or risks.

Entity name	Website	Period/year ended
<b>Minister for Transport</b>		
Independent Transport Safety Regulator	<a href="http://www.transportregulator.nsw.gov.au">www.transportregulator.nsw.gov.au</a>	30 June 2011
Independent Transport Safety Regulator Division	<a href="http://www.transportregulator.nsw.gov.au">www.transportregulator.nsw.gov.au</a>	30 June 2011



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## Our vision

To make the people of New South Wales proud of the work we do.

## Our mission

To perform high quality independent audits of government in New South Wales.

## Our values

**Purpose** – we have an impact, are accountable, and work as a team.

**People** – we trust and respect others and have a balanced approach to work.

**Professionalism** – we are recognised for our independence and integrity and the value we deliver.



**Professional people with purpose**

Making the people of New South Wales  
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