New South Wales Auditor-General's Report
Financial Audit

Volume Eight 2012
Focusing on Transport and Ports

audit office
OF NEW SOUTH WALES

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 2012 report.

Peter Achterstraat

Peter Achterstraat
Auditor-General
5 December 2012

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Chief Investigator of the Office of Transport Safety Investigations

The Chief Investigator of the Office of Transport Safety Investigations has recorded deficits for the last six financial years and has net liabilities	60

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New ten-year country regional network management agreement is to deliver over $1.5 billion in maintenance and upgrade works	61
Backlog maintenance has decreased by $45.0 million to $635 million, and is expected to be cleared over the next eight years	62

Department of Transport

Government contributions to all transport agencies totalled $9.7 billion, 79 per cent of total revenue	66
The State spent $2.0 billion during the year, maintaining its $94.1 billion investment in roads, rail, buses and ferries	67

Public Transport Ticketing Corporation

Over $115 million was spent on the discontinued Tcard project and associated litigation, with the State recovering only $32.0 million in damages	69
The Tcard project is still costing NSW taxpayers over $300,000 per month	70
Transport for NSW advises the rollout of the Electronic Ticketing System is on track and within budget	71

Rail Corporation of New South Wales

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Failure to upgrade electrical infrastructure could impact RailCorp's ability to run its Waratah services	74
Passenger revenue covered only 20 per cent of Railcorp’s cost of operations in 2011-12	74

Patronage on the airport line has increased after the NSW Government negotiated the removal of access fees at two stations	76
The March 2012 survey recorded eight per cent of peak trains carrying more passengers than the 135 per cent seating capacity target	76
Late payments to suppliers increased from $896 million in 2010-11 to $1.0 billion in 2011-12	77
A total of 287 employees were paid 50 per cent or more of their annual salary in overtime, down from 442 in 2010-11	78
The highest overtime paid to an employee was $66,505 in 2011-12	79
Service remains the major area of complaints, representing 18.3 per cent of all complaints during 2011-12	80
CityRail's on-time running performance declined during the year, but still exceeded the target of 92 per cent	81
For CountryLink only 62.1 per cent of services ran on time, against a target of 78 per cent	81
On average, two per cent of all carriages suffer a failure during peak period services per month	83
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Transport for NSW

There is no service level agreement between Transport for NSW and the other transport agencies for corporate services	111
More than 11,000 complaints against taxi drivers and operators were received during 2011-12	114

Recommendations

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

Transport Overview

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Transport for NSW should complete its performance measurement framework and report publicly against these measures by 30 June 2013.	11
Transport for NSW should complete its Environment and Sustainability Policy Framework by June 2013 and should publicly report its results annually.	12
Transport for NSW should observe and report on crowding on all transport modes.	20
All transport entities should do more to reduce excessive annual leave balances to ensure they will comply with new targets set by the Premier.	22
Transport for NSW should ensure lessons learnt from previous public private partnerships are considered in the arrangements for the North West Rail Link.	34

Ports Overview

Sydney Ports Corporation should continue developing and implementing strategies and initiatives with Transport for NSW to increase the share of container freight movement by rail mode.	41

Roads and Maritime Services

Roads and Maritime Services should finalise its service level agreement with Transport for NSW and ensure it includes adequate procedures, guidelines and key performance indicators to more effectively manage its corporate service functions.	50
Roads and Maritime Services should work with Transport for NSW to establish maintenance targets, which can be used for performance monitoring and funding requirements.	54

Public Transport Ticketing Corporation

Transport for NSW and Treasury should urgently determine the most cost effective way to extinguish the borrowings for the discontinued Tcard project.	69

Rail Corporation of New South Wales

Rail Corporation of New South Wales should continue to take action to reduce the late payment of its suppliers.	77
Rail Corporation of New South Wales should take further actions to improve the on-time running performance of CountryLink.	81
Rail Corporation of New South Wales should review and redress the effectiveness of its policies and procedures for managing excessive annual leave.	85

State Transit Authority of New South Wales

State Transit should continue to develop and implement effective strategies to manage its ageing workforce.	98

Transport for NSW

Transport for NSW and the other transport agencies should implement service level agreements by 30 June 2013 for the delivery of corporate services.	111

Section One

Overview

Transport Overview

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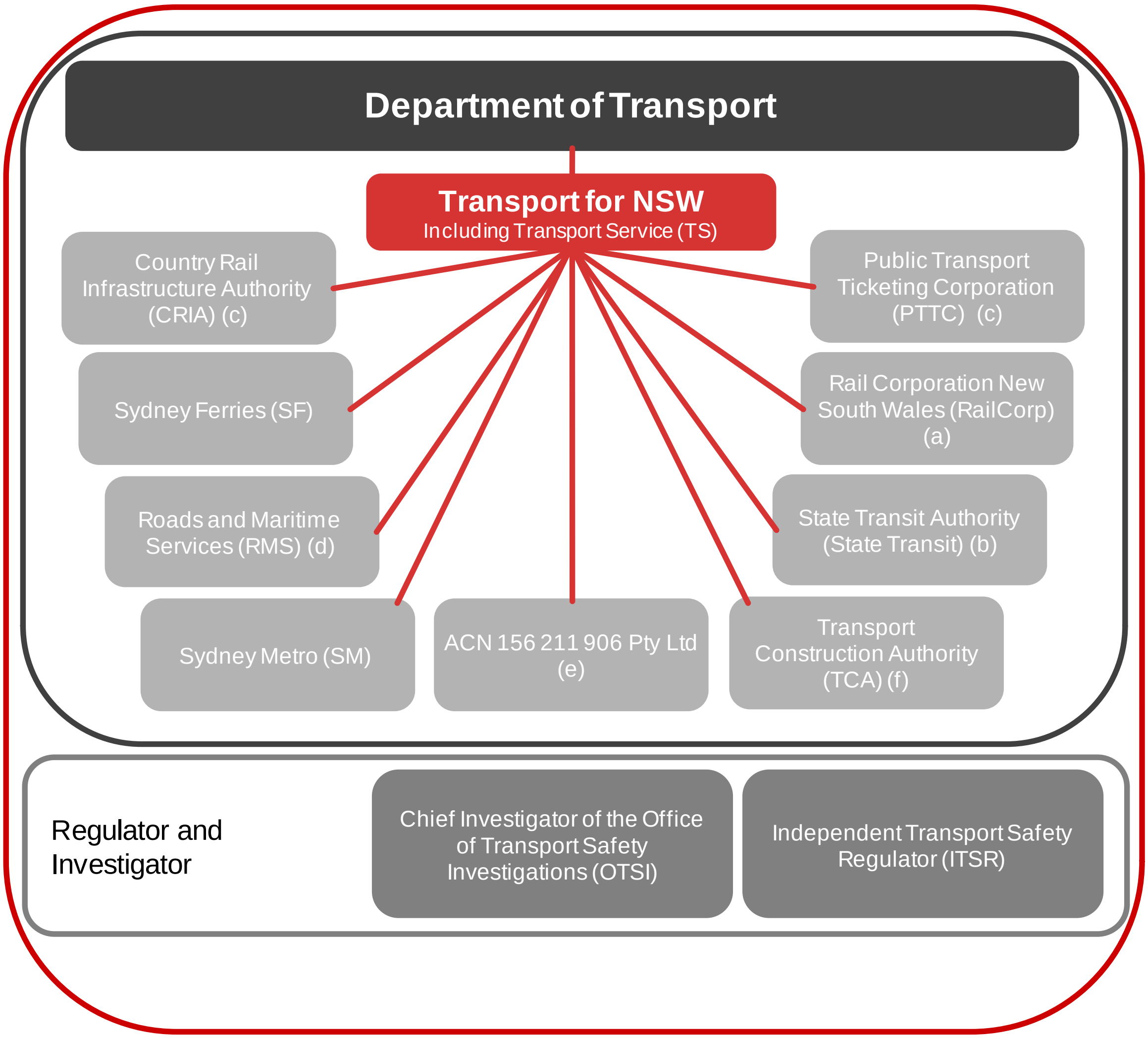
Transport Overview

Transport Services

The following government entities provided, facilitated and regulated the State's road, rail, bus and ferry services during the year ended 30 June 2012:



a RailCorp includes CityRail, CountryLink and Trainworks Limited.

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

c CRIA and the PTTC were abolished on 1 July 2012. The assets, rights and liabilities of the entities were transferred to Transport for NSW.

d The former Roads and Traffic Authority and Maritime Authority of NSW were abolished during the year. The assets, rights and liabilities of these entities were transferred to Roads and Maritime Services on 1 November 2012.

e ACN 156 211 906 Pty Ltd was established by Transport for NSW on 12 March 2012. ACN purchased the Metro Transport Sydney Pty Ltd group, which owns and operates Sydney's light rail network and monorail.

f TCA was abolished on 30 March 2012 and its assets rights and liabilities were transferred to Transport for NSW.

Audit Opinions

I issued unqualified audit opinions on the transport entities' 30 June 2012 financial statements.

Transport Restructures

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

The Transport Construction Authority, Public Transport Ticketing Corporation and Country Rail Infrastructure Authority were abolished as separate entities and now form part of Transport for NSW. The Roads and Traffic Authority (RTA) and Maritime Authority of NSW were also amalgamated to create a new entity, Roads and Maritime Services during the year. Roads and Maritime Services took over all the functions of the RTA and the Maritime Authority of NSW, except for certain minor functions, which went to Transport for NSW. Sydney Metro continues to exist, however, it is also expected to be abolished shortly.

The establishment of Transport for NSW was designed to provide, for the first time, an integrated transport authority. In addition to improved customer service outcomes it aims to enable the transport system to support the economic development of the State with particular focus on improving the coordination of freight.

Transport for NSW assumes various functions and responsibilities from the agencies which provide transport services. It has primary responsibility for:

- transport coordination
- transport policy and planning
- transport services
- transport infrastructure
- freight
- marine pollution response.

For more information please refer to the Transport for NSW comment in this volume.

Key Issues

Cost of Public Transport in New South Wales

Public transport incorporates rail, light 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 benefits are funded by taxpayers through government subsidies.

Government funding to the public transport operators totalled $4.4 billion in 2011-12 ($3.7 billion in 2010-11)

RailCorp, State Transit, private bus operators and Sydney Ferries are heavily reliant on government funding. Government funding to the public transport operators totalled $4.4 billion in 2011-12 ($3.7 billion in 2010-11).

Year ended 30 June	Government funding		Funding per Day		Movement	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	Trend	%
RailCorp - government contributions (towards both operating and capital expenditure)	3,131,255*	2,510,831	8,579	6,879	↑	24.7
Private bus operators - service contract payments**	832,424	782,605	2,281	2,144	↑	6.4
State Transit - service contract payments**	345,958	311,644	948	854	↑	11.0
Sydney Ferries - service contract payments	134,517	125,187	369	343	↑	7.6
Total funding to public transport operators	**4,444,154**	**3,730,267**				

Source: Amounts calculated based on audited financial statements of RailCorp and Sydney Ferries and Department of Transport general ledger.

Key: ↑ Trend upwards

* The significant increase from last year was due to additional capital funding allocated to RailCorp, after a number of large projects in progress were transferred to RailCorp.

** Represents the value of Service Contract Payments to State Transit and private bus operators for operating the bus networks (net of operating revenue of fares, charters and tourist services).

For further information on government funding of transport refer to the Department of Transport comment in this volume.

The percentage of costs recovered from users of public transport has declined slightly in the last three years.

Cost Recovery from Users

Source: Amounts were calculated based on audited financial statements of RailCorp and Sydney Ferries and management accounts of State Transit (unaudited).

Passenger services revenue only covered 20 per cent of RailCorp's operating costs

RailCorp continues to be reliant on government funding for operating expenses and capital investment needs. Average daily government funding to RailCorp has increased to $8.6 million while passenger services revenue only covered 20 per cent of RailCorp's operating costs.

State Transit's cost recovery was approximately 46 per cent in 2011-12 (46 per cent in 2010-11). The average government funding provided to State Transit per day in 2011-12 increased by 11.0 per cent to $948,000.

Sydney Ferries received the least government funding of the three transport entities, averaging $369,000 per day in 2011-12 ($343,000 in 2010-11). Since April 2010 ticket fares collected by Sydney Ferries are remitted to Transport for NSW and it does not recognise any passenger revenue.

The cost of providing services per passenger journey increased for all the three transport entities.

Year ended 30 June	**RailCorp**		**State Transit**		**Sydney Ferries**	
	2012 $	**2011 $**	**2012 $**	**2011 $**	**2012 $**	**2011 $**
Cost of services provided per passenger journey	12.52	11.82	2.93	2.88	8.49**	8.47
Passenger revenue per passenger journey	2.51	2.37	1.36	1.33	na	na
Net cost per passenger journey*	10.01	9.45	1.57	1.55	na	na

Source: Amounts were calculated based on audited financial statements of RailCorp and Sydney Ferries, management accounts of State Transit (unaudited), 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 cost of services excludes cost of restructuring for the franchising of ferry services to the private sector

na Sydney Ferries recognises revenue based on fixed and variable components per the Ferry System Contract effective 1 April 2010. Ticket fares collected by Sydney Ferries are remitted to TfNSW and Sydney Ferries does not recognise any passenger revenue.

RailCorp had a 5.9 per cent increase in costs per passenger journey which was equal to the percentage increase in passenger revenue per journey.

State Transit had a 1.7 per cent increase in costs per passenger journey, Sydney Ferries a 0.2 per cent increase and State Transit a 2.3 per cent increase.

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

Performance Measurement Framework

Recommendation

Transport for NSW should complete its performance measurement framework and report publicly against these measures by 30 June 2013.

The NSW Government implemented the new transport structure and established Transport for NSW to facilitate the integration of transport agencies and drive efficiencies in the delivery of transport services.

Transport for NSW advises the transport restructure was supported by a cabinet submission, which detailed the proposed structure and efficiencies to be gained. The proposal was also supported by an analysis of its costs and benefits.

Transport for NSW advises it is developing a performance measurement framework to establish a consistent approach to performance indicators across the transport group. The aim is to improve the quality, coverage and comparability of indicators, and streamline reporting processes to ensure they are aligned to the needs of the business. This development is a positive step for the group.

Conflicts of Interest Risk

Transport for NSW has formalised a protocol to mitigate the risk of potential conflicts of interests

Last year, I recommended the Department of Transport finalise development of an appropriate framework to manage potential conflicts of interests within the new transport structure.

In response, Transport for NSW has formalised a protocol to mitigate the risk of potential conflicts of interests arising from the new transport structure.

Transport for NSW contracts with public and private agencies for the delivery of transport services. An example of a perceived conflict of interest is if Transport for NSW awards a bus contract to its direct subsidiary, State Transit.

The protocol adopted by Transport for NSW for managing potential conflicts of interests is detailed below:

- potential conflicts of interests are identified by the Group Corporate Counsel, Transport for NSW
- an officer independent of the steering committee overseeing the procurement process considers the committee's purchasing recommendations
- an independent probity auditor is appointed to assess how potential conflicts are managed
- access to confidential information is strictly controlled.

Environment and Sustainability

At present, no sustainability framework exists for the transport agencies

Recommendation

Transport for NSW should complete its Environment and Sustainability Policy Framework by June 2013 and should publicly report its results annually.

At present, no sustainability framework exists for the transport agencies. Transport for NSW advises it is developing a Transport Environment and Sustainability Policy Framework in consultation with Roads and Maritime Services, RailCorp and State Transit. The framework will establish environmental sustainability targets and reporting for the transport agencies by 2013. It will comprise specific objectives, actions and targets, building on the previous individual environmental efforts of transport agencies.

Greenhouse gases emitted as a result of transport services and the construction of transport projects have an adverse effect on the environment.

Transport for NSW's Transport Projects division set sustainability targets in 2008. A review of these targets was due in 2012, but the results of the review have not been released yet.

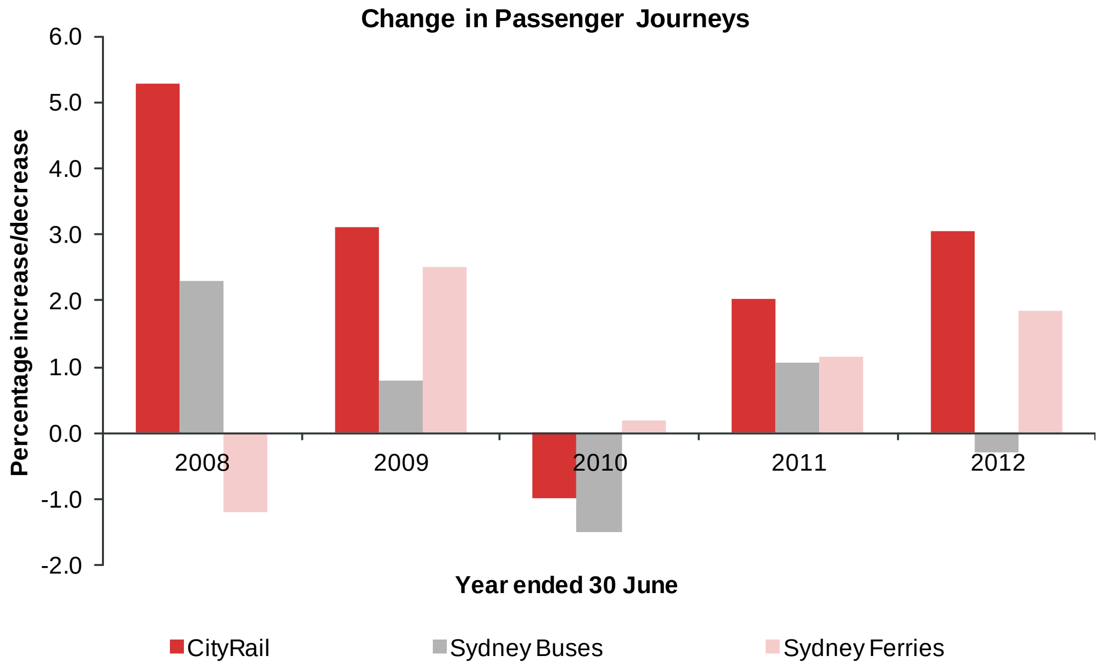
Last year, I recommended RailCorp and State Transit increase efforts to reduce the impact of their activities on the environment. Transport for NSW advises that RailCorp has implemented initiatives that helped it reduce waste and conserve energy. State Transit advises its emissions continue to improve when measured against the number of kilometres driven.

Transport patronage continued to grow with 510 million journeys on train, bus and ferry services

Performance Information

Patronage Growth

In 2011-12, patronage continued to grow with 510 million journeys (501 million in 2010-11) on CityRail services, Sydney Buses and Sydney Ferries, a 1.8 per cent increase from the prior year. All carriers recorded an increase in passenger journeys, except Sydney Buses, which had a slight decrease of 0.3 per cent. The chart below shows year on year passenger growth over the last five years.



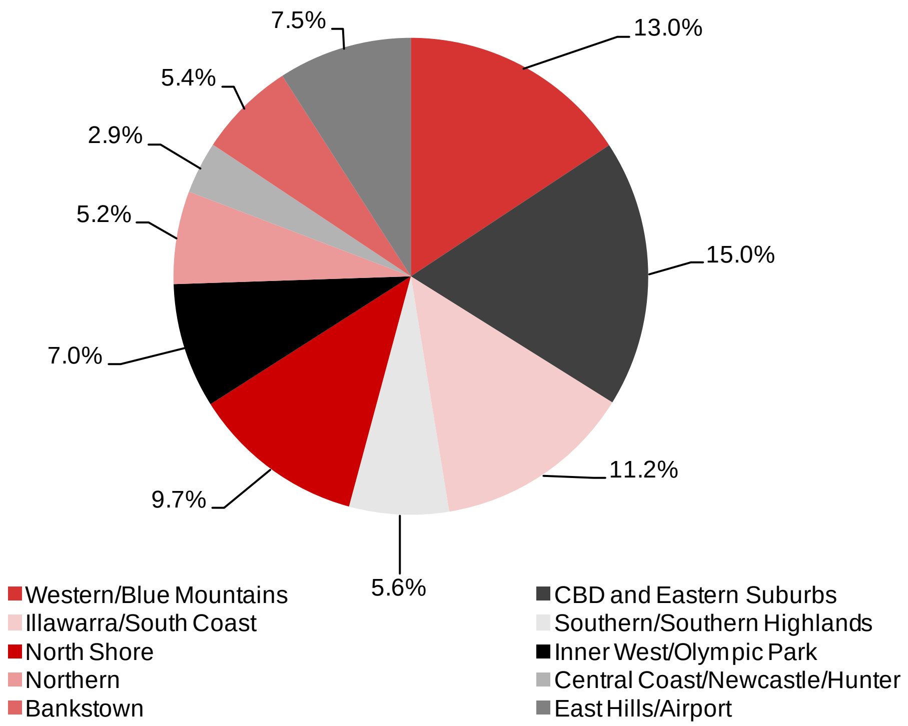
Source: Information provided by various transport agencies (unaudited).

CityRail advises the increase in passenger journeys in 2011-12 was due to improved economic conditions, coupled with residential developments along rail lines and removal of station access fees at selected stations on the airport line. State Transit advises the removal of station access fees contributed to decreased patronage on bus services as passengers switched from buses to rail.

Sydney Ferries patronage grew by 1.8 per cent in 2011-12. Special events, including the Outpost Festival at Cockatoo Island, and discounted tickets such as the Family Funday Sunday ticket, contributed to growth in Inner Harbour and Parramatta River patronage in 2011-12.

The graph below shows the percentages of CityRail's total passenger journeys made on each of its top ten routes. Passenger journeys on the CityRail network totalled 304 million in 2011-12 (295 million in 2010-11).

CityRail's Top Ten Routes - Passenger Journeys for Year Ended 30 June 2012

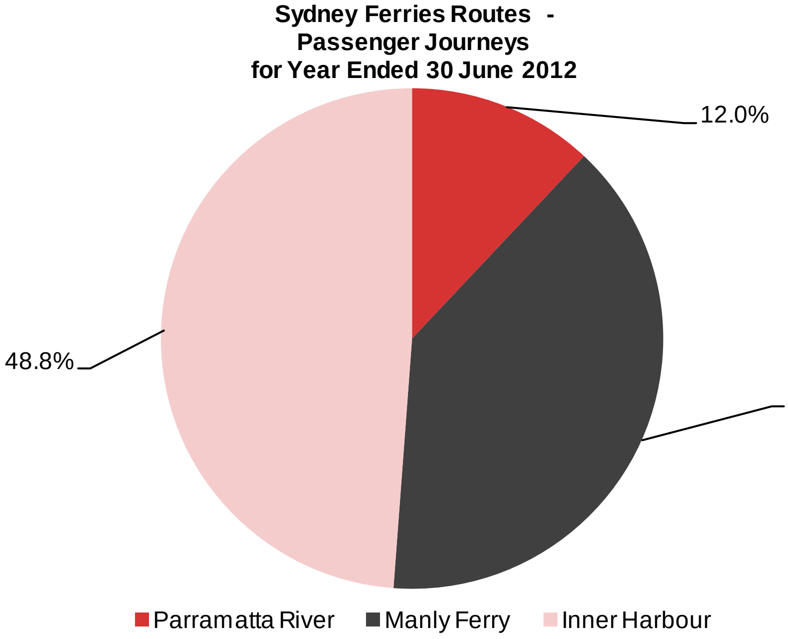


Source: Information provided by RailCorp (unaudited). Graph shows proportion of journeys on top ten routes as a percentage of total journeys.

The Western/Blue Mountains and Central Business District/Eastern Suburbs lines continue to be the main contributors to CityRail patronage, accounting for 28 per cent of its total passenger journeys in 2011-12 (28 per cent in 2010-11). Higher demand for train services on the western route is primarily due to:

- 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
- higher population growth rates 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 Bus services in the eastern region continue to generate the highest patronage levels, due to a higher population density and fewer available train lines.



Source: Information provided by Sydney Ferries (unaudited).

Inner Harbour ferry services continue to have the highest patronage journeys, accounting for 48.8 per cent of total ferry patronage.

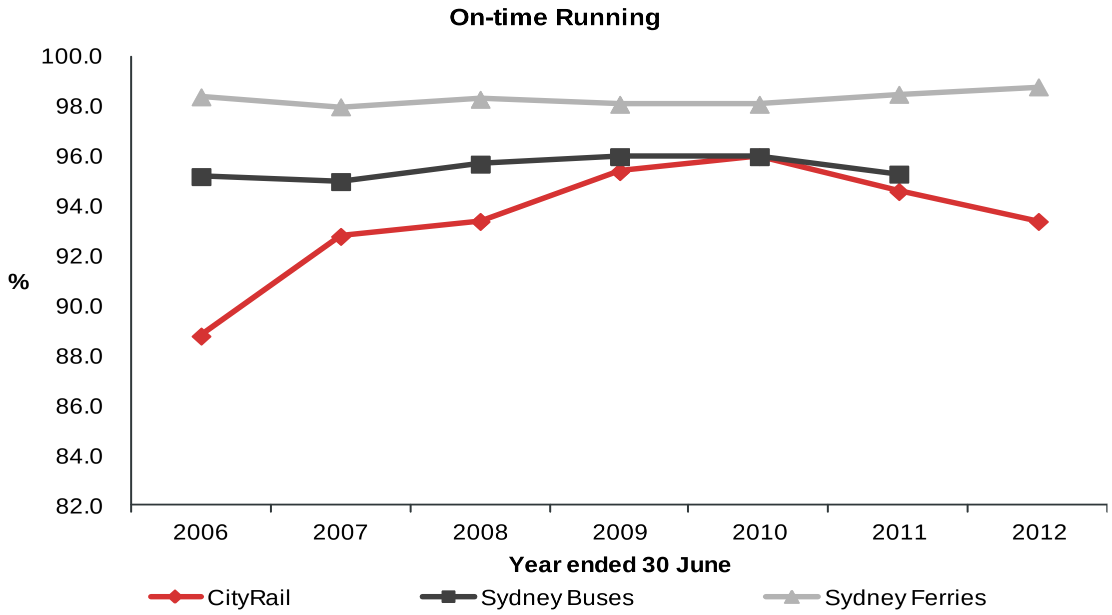
For further information on passenger journeys, refer to the comments on RailCorp, State Transit and Sydney Ferries in this volume.

On-time Running

On-time running for Sydney Ferries has been improving since 2008-09 and reached 98.8 per cent in 2011-12.

CityRail's performance has declined since its peak in 2009-10 of 96 per cent to 93.4 per cent in 2011-12.

For State Transit, Transport for NSW implemented a different regime, which now measures on-time running of bus services by region only, and an overall figure is no longer available. On-time running by region is shown later in the overview



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

CityRail had two peak hour periods where only 36 per cent and 39 per cent of services were on time

CityRail continues to experience difficulties meeting customer expectations for on time running. Whilst CityRail achieved 93.4 per cent on-time running across the network in 2011-12, there were eight peak periods when less than 60 per cent of the network operated on time. CityRail had two peak periods where only 36 per cent and 39 per cent of services were on time. The table below summarises the on-time performance:

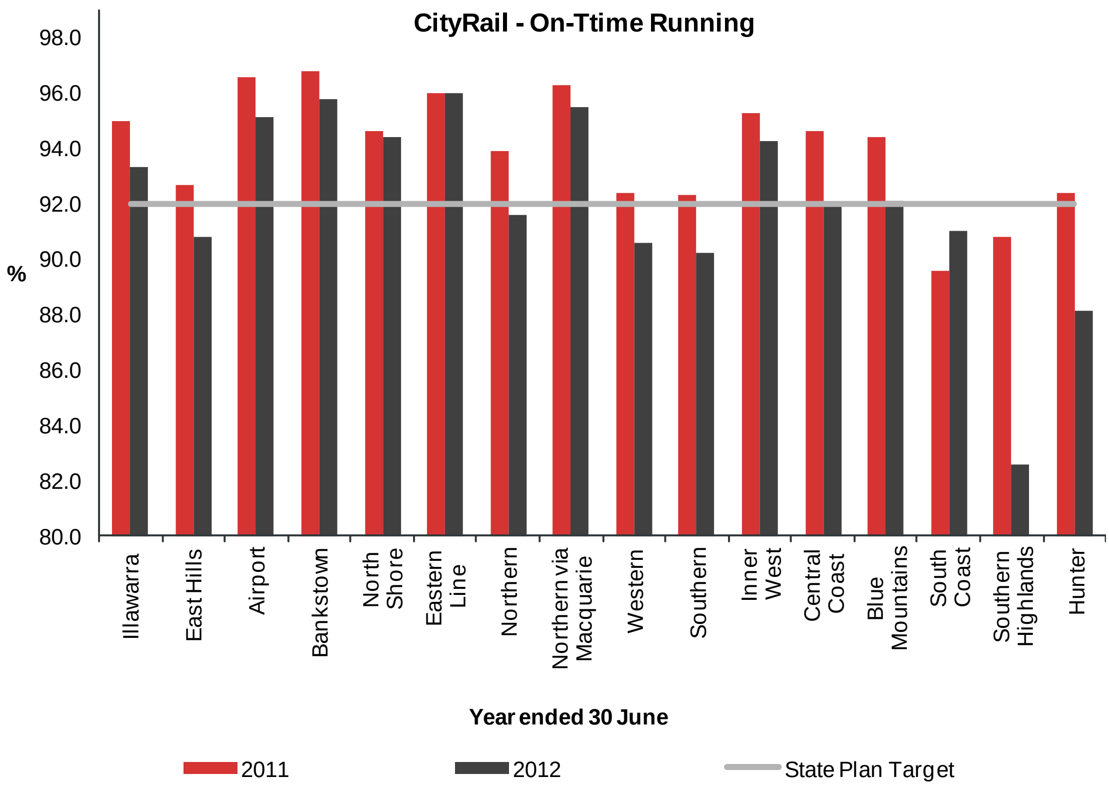
Year ended 30 June	2012		2011	
Percentage of total services running on time*	AM peak hour periods	PM peak hour periods	AM peak hour periods	PM peak hour periods
Less than 60 per cent	1	7	--	1
60 to 80 per cent	3	21	8	12
80 to 85 per cent	8	14	8	14
85 to 90 per cent	30	32	17	25
Over 90 per cent	210	178	219	200
Total	**252**	**252**	**252**	**252**

Source: CityRail.

* Before adjustment for force majeure.

Force majeure refers to incidents beyond the control of either CityRail or its customers, and come into effect when a single external event impacts ten or more peak services.

The chart below shows CityRail's on-time running performance for 2010-11 and 2011-12 by train line against the target in the ten year NSW 2021 plan.



Source: Information provided by RailCorp (unaudited)

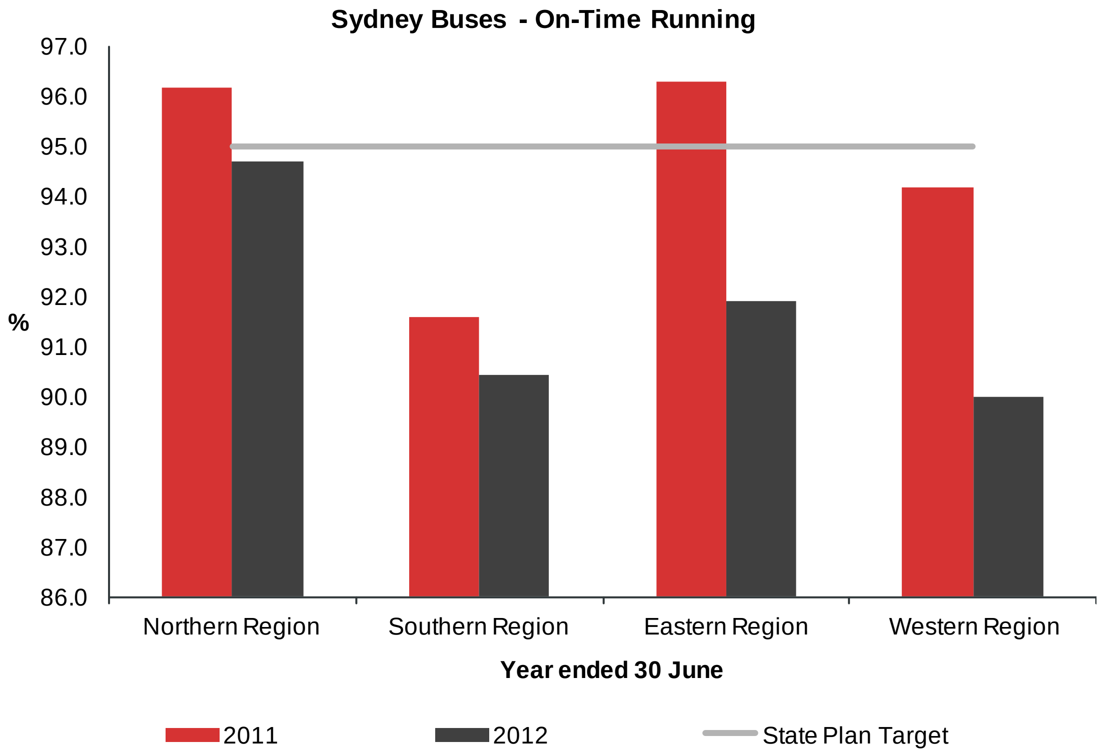
The NSW 2021 target is for 92 per cent of CityRail trains to run on time, and CityRail achieved 93.4 per cent. However, seven out of 16 lines did not reach this level of on-time running. The worst performing line was the Southern Highlands at 82.6 per cent.

CityRail advises on-time running performance was affected by incidents beyond its control, such as extreme weather conditions. For instance, flooded tracks at Wolli Creek in July 2011, lightning strikes and damaging winds across the network in November 2011 and torrential rain at Bardwell Park in March 2012.

RailCorp 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 in this volume.

The substantial network expenditure over recent years has not had the expected improvements for on-time running compared to previous years.

The chart below shows Sydney Buses' on-time running performance during 2011-12 by region compared to the NSW 2021 target.



Source: Information provided by State Transit (unaudited).

Note: Sydney Buses refers to State Transit's Metropolitan services and excludes private bus operator services.

All Sydney Buses' regions performed below the 95 per cent target of services departing within five minutes of the scheduled time

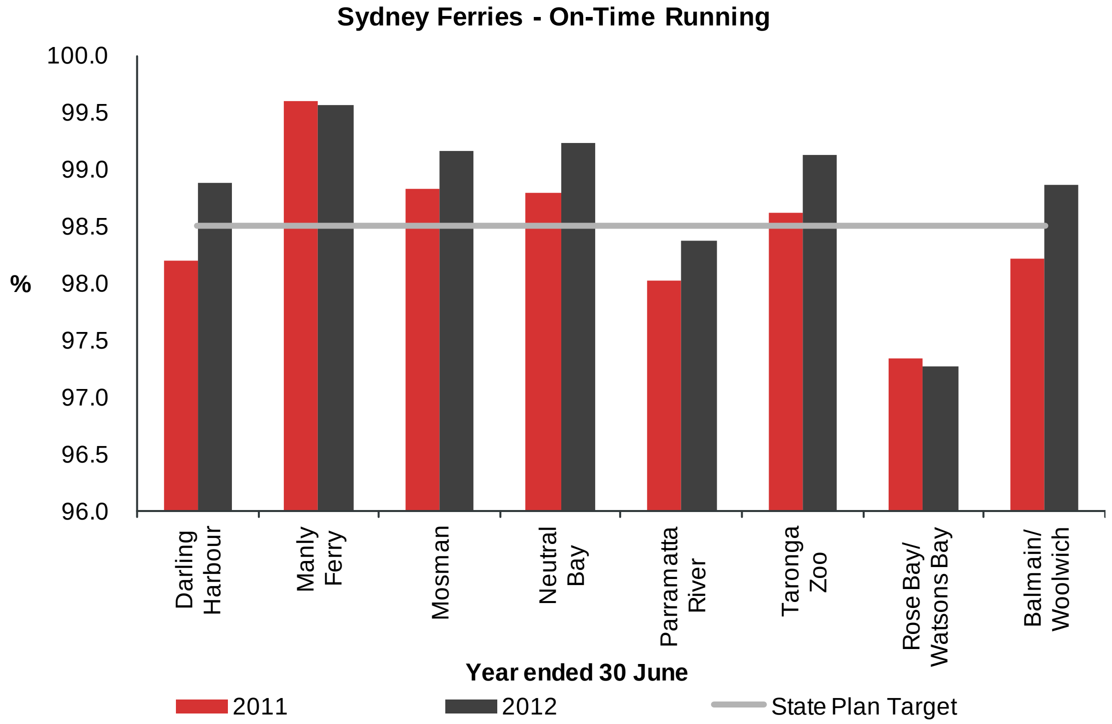
All Sydney Buses' regions performed below the target of 95 per cent of services departing within five minutes of the scheduled time. The Western Region was the worst performing with 90 per cent on-time running. The target is based on the entire State Transit network rather than individual regions.

In 2011-12 on-time running figures were independently produced by Transport for NSW. These figures cover only morning peak periods for Sydney Buses services across 11 locations within State Transit's four Sydney contract regions. State Transit advises the figures for 2011-12 are not directly comparable to the 2010-11, figures which were compiled across the whole network and all time periods.

State Transit advises planned and unplanned traffic events adversely impact on-time running on all road transport, including buses.

For more information on State Transit on-time running refer to the State Transit comment in this volume.

On-time running performance for Sydney Ferries was above the NSW 2021 plan target of 98.5 per cent. Six of its eight routes exceeded the target in 2011-12.



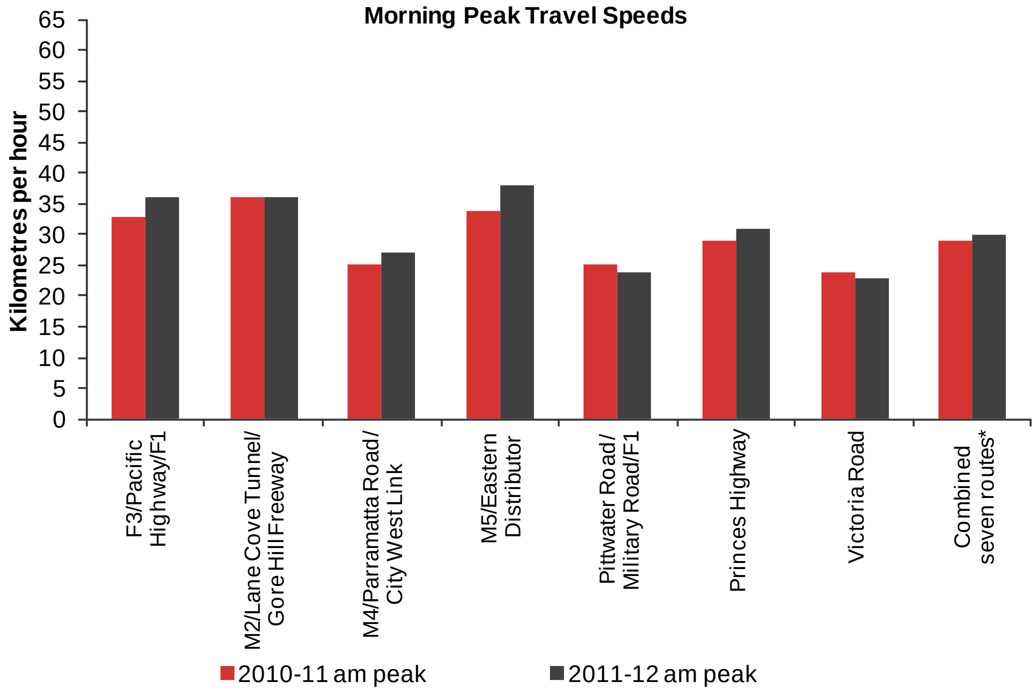
Source: Information provided by Sydney Ferries (unaudited).

On-time running performance for Sydney Ferries was above the NSW 2021 plan target of 98.5 per cent for most routes in 2011-12

The Manly Ferry service achieved the best on-time running at 99.6 per cent. The Rose Bay/Watsons Bay service reported the worst on-time running performance at 97.3 per cent due to slow loading times at the wharves. A new floating pontoon wharf is under construction at Rose Bay, which will alleviate the issue at this wharf.

Road Travel Speeds

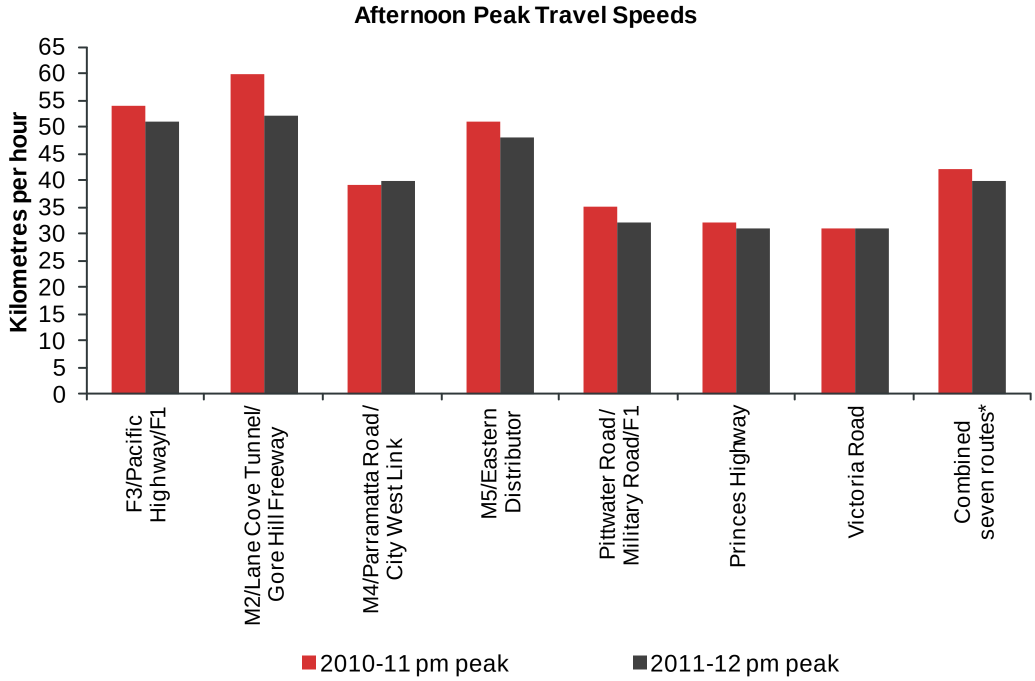
Roads and Maritime Services has advised that the number of cars on the roads continues to increase impacting travel times and road congestion. The graphs below show travel speeds on major routes in New South Wales.



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

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

Between 2010-11 and 2011-12, all but two routes experienced an increase to average travel speed during the AM peak. The largest increase was 4 km/h on the M5/Eastern Distributor.



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

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

The PM peak overall average travel speed decreased from 42 km/h to 40 km/h. Five of the seven routes experienced a decline, one remained constant and one increased by 1 km/h. The average speed on the M2/Lane Cove Tunnel/Gore Hill Freeway corridor in the afternoon peak declined from 60 km/h in 2010-11 to 52 km/h in 2011-12 due to road works and speed limit changes in the outbound direction. However, to put this in perspective, the average trip on the corridor was just five minutes longer and it is still the quickest of the seven routes for the afternoon peak.

Managing Road Congestion

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

The NSW Government has committed $200 million over a four year period from 2011-12 to tackle congestion and safety on key routes. This is in addition to key long-term Roads and Maritime Services 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, completed in 2011-12, targeted peak hour traffic 'hotspots' in 23 corridors in Sydney. It included treatments to maintain travel speeds, provide reliable travel times and improve the information Sydney motorists have access to while travelling on the road network. In 2011-12, 16 projects were completed under the program at a cost of $32.4 million. Some of these were:

- widening exit ramps at the M4/Cumberland Highway interchange, South Wentworthville
- widening the on-load ramp at the F3 at Pacific Highway, Wahroonga
- roundabout improvements at Campbelltown Road/Raby Road
- extension of turn bays at key intersections on the Cumberland Highway, Elizabeth Drive (Liverpool), Hume Highway, Pacific Highway and Princes Highway.

Crowding on Public Transport

Recommendation

Transport for NSW should observe and report on crowding on all transport modes.

Customer surveys by transport agencies no longer specifically address crowding on public transport

Customer surveys by transport agencies no longer specifically address crowding on public transport. A customer survey released in December 2010 found 51 per cent of train users and 19 per cent of bus users were dissatisfied with crowding at peak times.

The Bureau of Transport Statistics conducts an annual independent survey of all transport modes, including private bus operated routes. It does not specifically target crowding, but has reported 87 per cent of travellers were able to the catch trains they intended to, 84 per cent for buses and 95 per cent for ferries.

CityRail has an ongoing rollingstock procurement program, including Oscar and Waratah trains, to increase the number of carriages on train services. In the year ended 30 June 2012, CityRail added 72 Waratah and 42 Oscar carriages. RailCorp and the former Transport Construction Authority also worked on the Clearways projects to increase network capacity and reliability. Timetable changes in October 2012 added 42 services per week, including an express daily service from Bathurst to Sydney.

State Transit monitors loading levels on bus routes across its network to determine where increased services are required. Some initiatives State Transit completed in 2011-12 to ease crowding on buses included more articulated buses and 63,000 more services.

Safety Performance

Passenger injuries increased at RailCorp and State Transit, whilst Sydney Ferries recorded a decrease of 76.5 per cent. Passenger safety performance measures the number of passenger injuries/fatalities that occurred as a result of the agency's service operations. Non-passenger related injuries and fatalities do occur, but these are primarily outside the agencies' control.

Year ended 30 June **Number of passenger injuries**	**Trend**	**2012**	**2011**	**2010**	**2009**	**2008**
RailCorp (trains)*	↑	911	895	613	478	348
State Transit (buses)	↑	390	338	370	383	404
Sydney Ferries (ferries)	↓	4	17	15	12	16

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

Key: ↑ Trend upwards, ↓ Trend downwards.

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

Since 2008, RailCorp has advised the increase in passenger injuries is due to better data capture and incident recording.

Transport Planning

Transport Master Plan

A draft NSW Long Term Transport Master Plan was released for public consultation on 4 September 2012 and is due to be finalised in late 2012. The plan is a comprehensive and integrated strategy for all modes of transport across New South Wales.

The plan identifies a direction for transport over the next 20 years, building on current commitments of a $13.2 billion investment in roads and transport in the 2012-13 State Budget.

The draft plan outlines the role of each transport mode and the integration of all modes in meeting future needs of passengers and freight as well as highlighting key transport priorities for the future. It details a range of actions to achieve the NSW 2021 plan goals and respond to key transport challenges. Six of the 32 NSW 2021 plan goals are addressed by the master plan.

Transport for NSW will provide an annual update with a full review of the master plan every five years.

The State Infrastructure Strategy

The State Infrastructure Strategy released on 3 October 2012 is a 20 year strategy that assesses the current condition of infrastructure and identifies strategic priorities. It contains over 70 urban and regional projects and reforms.

The scoping estimate for priority projects and programs in the transport sector is $27.8 billion of which $9.3 billion will come from road users. This excludes projects already included in agency plans and capital forecasts, such as the North West Rail Link and Pacific Highway duplication, and projects sponsored by the private sector.

The strategy looks across a broad range of sectors and identifies specific projects and programs for priority consideration. Non-transport sectors include Energy, Water, Health and Social Infrastructure.

The draft Transport Master Plan and State Infrastructure Strategy share some similar areas of focus in regional transport and public transport in Sydney. The NSW Government indicated it will consider the recommendations in the master plan and the strategy. The table below highlights key short-term projects from the draft Transport Master Plan and State Infrastructure Strategy.

Key Short Term Projects

Draft Transport Master Plan	State Infrastructure Strategy
A new integrated electronic ticketing system - Opal	Westconnex (connecting the M4 with the M5 East) planning and delivery of initial phases
Modern public transport fleet	Construct F3 to M2
North West and South West Rail links	Develop and construct Anzac Parade Light rail from Central Station to Moore Park and UNSW
Second harbour crossing and new CBD line	Start construction of North West Rail link
Wynyard Station and bus precinct upgrades and reorganise CBD bus routes	Moorebank intermodal terminal site development
Strategic Bus Network Program	Complete Pacific Highway duplication
Managed Motorway Systems on the M4 Western Motorway	Modernise Wynyard and Town Hall Stations

The draft Transport Master Plan and the State Infrastructure Strategy each outline ways their outcomes could be funded. The NSW Government will need to identify savings, methods and investment opportunities to ensure it can deliver the Transport Master Plan and the State Infrastructure Strategy.

Excessive Annual Leave

Recommendation

All transport entities should do more to reduce excessive annual leave balances to ensure they will comply with new targets set by the Premier.

Over 2,500 transport staff, or 8.3 per cent of the workforce, have excessive leave balances

Over 2,500 transport staff, or 8.3 per cent of the workforce, have excessive annual leave balances. The number of transport staff with excessive annual leave has increased for the past three years.

The Premier of New South Wales has issued a memorandum requiring employees to reduce annual leave balances to 30 days or less by 30 June 2015. To achieve this target, transport entities must reduce leave balances to a maximum of 40 days by 30 June 2013 and 35 days by 30 June 2014. Transport entities will find it difficult to meet these targets due to the number of employees with excessive balances.

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

Year ended 30 June		2012		2011		2010	
Transport entities	**Trend**	**Number of employees**	**Amount $'000**	**Number of employees**	**Amount $'000**	**Number of employees**	**Amount $'000**
RailCorp*	↑	1,291H	24,292	1,222 H	21,921	1,056 H	17,128
State Transit	↓	328	4,006	363	5,202	362	4,746
Sydney Ferries**	↓	19 L	408	63 L	1,243	78	1,502
RMS***		747	13,282	--	--	--	--
Others#	↑	125	3,786	74	2,206	67 L	1,535
RTA***		--	--	557	10,259	542	9,308
Total	↑	**2,510**	**45,774**	**2,279**	**40,831**	**2,105**	**34,219**

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 Ferries staff are impacted by franchising arrangements that came into effect on 28 July 2012.

*** The RTA and the Maritime Authority of NSW were abolished and their staff transferred to newly created RMS on 1 November 2011. The 2012 data for RMS includes former Maritime Authority of NSW staff. Comparisons with RTA data from prior years is not meaningful.

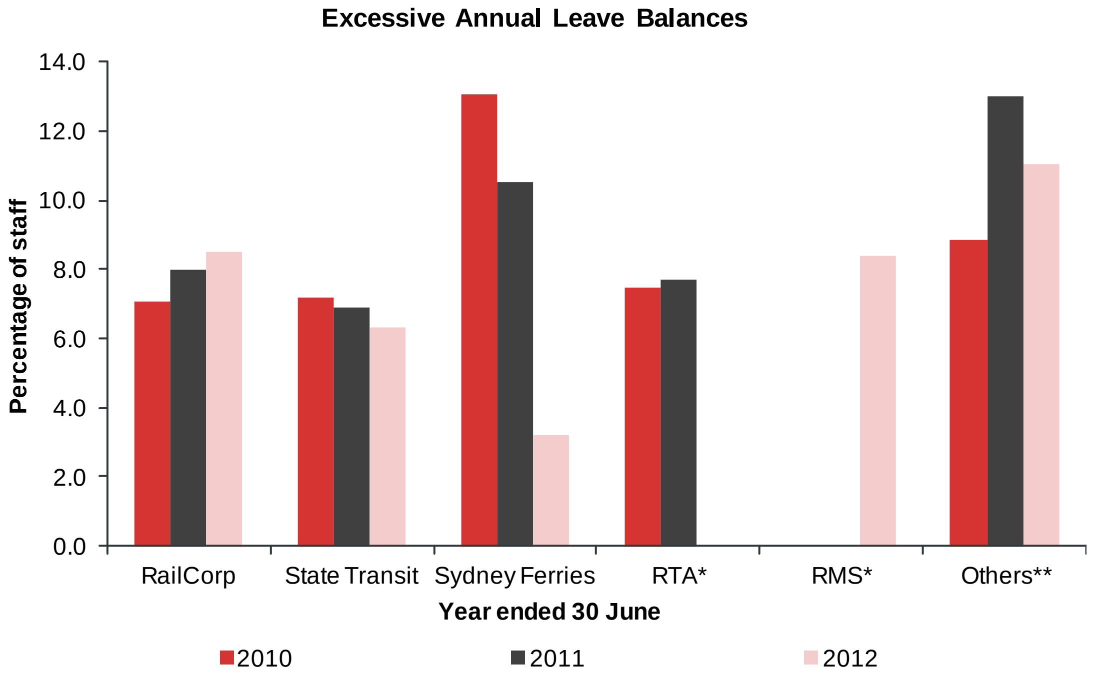
\# Others includes the Department of Transport, TfNSW, Transport Service, CRIA, OTSI, ITSR and TCA. Sydney Metro and PTTC staff transferred to the Department of Transport by 30 June 2011.

Key: ↑ Trend upwards, ↓ Trend downwards.

L Lowest balance compared to all transport entities.

H Highest balance compared to all transport entities.

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).

* Refer to the table above concerning the establishment of the RMS and comparison with RTA.

** Others include the Department of Transport, TfNSW, TS, CRIA, OTSI, ITSR and TCA.

At RailCorp the proportion of staff with excessive annual leave increased from seven per cent in 2009-10 to 8.5 percent in 2011-12. In comparison, the proportion of staff with excessive annual leave at State Transit dropped from 7.2 to 6.3 per cent over the same period. This was largely due to policies adopted by State Transit, including the executive management's monthly and quarterly reviews. RailCorp advises a range of initiatives are available to reduce annual leave balances, including allowing employees to have leave paid-out.

All entities advise policies have been implemented to manage excessive annual leave. The chart and information above demonstrates that in some cases these policies need to be reviewed and improved because they have not been effective in reducing the overall level of excessive annual leave.

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.

Engagement of Contractors

The number of contractors employed by transport group fell by 11.2 per cent at 30 June 2012

Last year, I recommended the transport entities review the effectiveness of practices to monitor the contractor workforce. All transport entities advise they continue to use a central registry of contractors and have improved governance structures to ensure contractor use is not excessive and represents value for money. These ongoing initiatives have helped reduce the number of contractors employed by transport agencies by 11.2 per cent compared to the previous year. At 30 June 2012, there were 1,248 contractors (1,405 at 30 June 2011).

The use of contractors may have benefits for entities, particularly on projects. However, extensive reliance on 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.

At 30 June	**2012**		**2011**	
Duration since contractors start date	**No. of contractors ***	**Proportion of total contractors %**	**No. of contractors**	**Proportion of total contractors %**
> 6 years	74	5.9	91	6.5
5-6 years	11	0.9	19	1.4
4-5 years	31	2.5	21	1.5
3-4 years	67	5.3	49	3.5
2-3 years	91	7.3	175	12.4
1-2 years	309	24.8	343	24.4
Less than one year	665	53.3	707	50.3
Total contractors in all transport entities	**1,248**	**100.0**	**1,405**	**100.0**

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

* Sydney Ferries was unable to provide information on contractor numbers at 30 June 2012 due to staff changes associated with the franchising arrangements of the entity. At 30 June 2011, there were 23 contractors employed by Sydney Ferries.

At 30 June 2012, the number of contractors engaged for more than six years decreased by 18.7 per cent compared to 30 June 2011. The proportion of contractors engaged by respective transport entities for more than 12 months has also fallen to 46.7 per cent at 30 June 2012 from 49.7 per cent at 30 June 2011.

The highest paid contractor engaged by the Department of Transport Group and was paid $529,000 in 2011-12

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

Year ended 30 June	2012			
Transport entity*	**No. of contractors at 30 June**	**Total cost of contractors for the year $'000**	**Term of longest serving contractor (years)**	**Highest amount paid to a contractor for the year $'000**
DoT Group**	277	24,944	6.0	529
RailCorp	549	77,000	10.1	407
State Transit	3	1,267	1.8	176
RMS	411	66,600	10.9	324
CRIA	1	210	0.9	183
ITSR	7	134	0.5	47
Total	**1,248**	**170,155**		

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

* OTSI is the only transport entity not to employ contractors. Refer below for comments concerning the Public Transport Ticketing Corporation and Sydney Metro.

** The Department of Transport Group includes the Department of Transport, Transport for NSW and Transport Service.

Roads and Maritime Services had the longest serving contractor who has been engaged for over ten years. Transport for NSW advises a contractor was paid $529,000 in 2011-12.

RailCorp has 96 fewer contractors employed at 30 June 2012 compared to 30 June 2011. Management advises this is the result of targeted strategies and close monitoring of contractor use by senior executives. Forty-six RailCorp contractors obtained full-time employment during 2011-12. State Transit also significantly reduced contractor numbers during the year and, at 30 June 2012, only had three contractors (51 at 30 June 2011). State Transit advises recent restructures have prioritised the filling of vacant positions.

Public Transport Ticketing Corporation and Sydney Metro are project based organisations and have been excluded from the analysis above. Public Transport Ticketing Corporation advises it uses professional services firms to engage contractors on its behalf to deliver the new Opal electronic ticketing system. Contract employment arrangements are most appropriate due to the project based nature of the organisation's work. Public Transport Ticketing Corporation incurred expenses of $19.1 million for the services provided by these firms in 2011-12 ($16.7 million in 2010-11).

Sydney Metro is being wound up and incurred $218,000 in contractor costs in 2011-12 ($3.0 million in 2010-11).

Transport for NSW advises the extent of contractors will continue to be a focus across transport agencies. However, it notes the specialised projects underway do, on occasion, require the skills of contractors.

The total overtime cost for the transport agencies fell by 1.8 per cent in 2011-12

Overtime

Transport entities are making some progress in reducing overtime expenditure, with total overtime costs falling by 1.8 per cent in 2011-12. Overtime continues to represent a significant employment expense.

The table below shows total overtime in 2011-12 was $228 million.

Year ended 30 June		**Overtime cost**	
Transport entity	**Trend**	**2012 $'000**	**2011 $'000**
RailCorp	↑	135,062	133,693
State Transit	↓	42,328	47,929
Sydney Ferries	↑	2,976	2,749
RMS*		46,668	--
Others**	↑	640	567
RTA*		0	46,885
Total	↓	**227,674**	**231,823**

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

Key: ↑Trend upwards, ↓ Trend downwards.

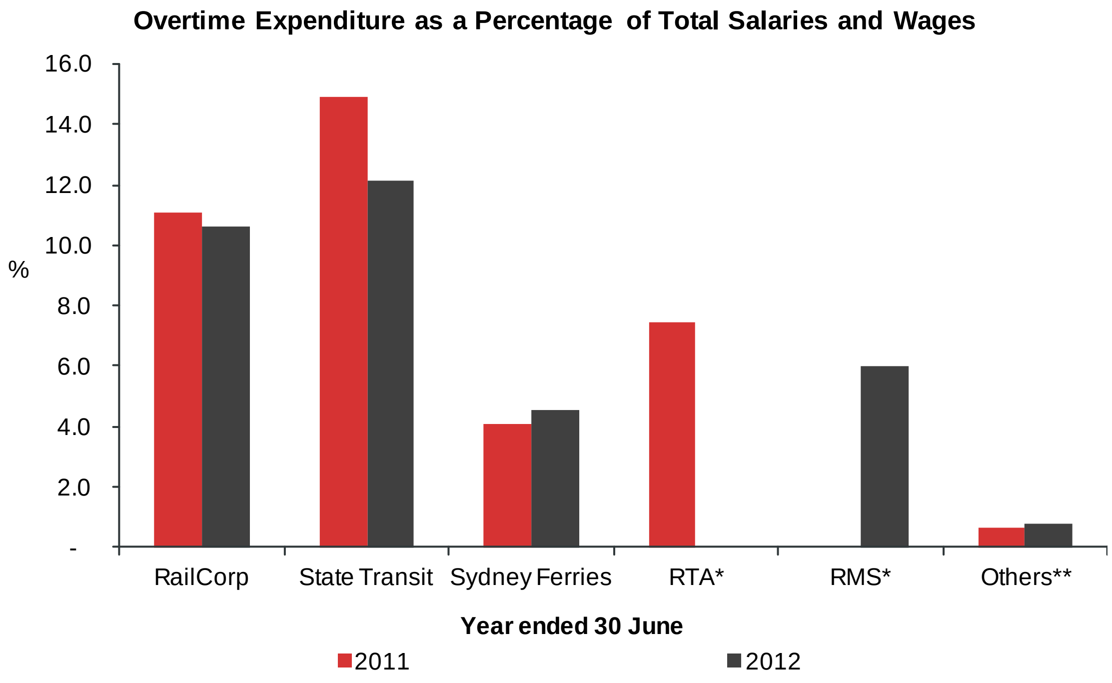
* The RTA and the Maritime Authority of NSW were abolished and their staff transferred to newly created RMS on 1 November 2011. Comparisons of RMS and RTA are not meaningful.

** Others consist of the Department of Transport, TfNSW, TS, CRIA, ITSR and TCA.

The table shows:

- State Transit's overtime expense decreased by a significant 11.7 per cent in 2011-12
- RailCorp's overtime expenses increased by one per cent, an achievement considering wage rates increased 3.5 per cent during 2011-12.

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



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

* Refer to comment on RTA and RMS in the table above.

** Others consist of the Department of Transport, TfNSW, TS, CRIA, ITSR and TCA.

State Transit reduced its overtime payments by $5.6 million, mainly through more efficient rostering

All transport entities, except Sydney Ferries and Country Rail Infrastructure Authority, recorded a decrease in the percentage of overtime paid to total salaries and wages over the past two years. State Transit reduced overtime by $5.6 million, mainly through more efficient rostering, but continues to have the highest percentage at 12.1 per cent. This has fallen from 14.9 per cent in 2010-11. Management advises State Transit has higher overtime than other transport operators because all work on Sunday is paid as overtime in accordance with its award.

During the year, I released a performance audit report on how well RailCorp and Roads and Maritime Services manage overtime. In my report, I made seven recommendations to RailCorp and ten to Roads and Maritime Services. I am pleased both entities are implementing my recommendations. For further information refer to www.audit.nsw.gov.au/Publications/Performance-Audit-Reports/2012-Reports.

Major contributors to overtime at Roads and Maritime Services 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
- resourcing of traffic arrangements for special events throughout the year.

RailCorp advises its operations run 24 hours a day, 365 days of the year. Its operations require overtime to ensure front line operations are staffed and maintenance and construction occur outside normal operating hours.

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	**2012**		**2011**	
Overtime paid as a percentage of annual salary	**Number of employees**	**Overtime paid $'000**	**Number of employees**	**Overtime paid $'000**
> 100	7	392	6	459
90-100	7	353	12	626
80-89	19	921	29	1,402
70-79	30	1,156	97	4,090
60-69	149	5,788	200	7,734
50-59	383	12,906	494	16,488
40-49	1,053	29,565	1,150	30,680
30-39	2,328	47,887	2,338	46,256
20-29	4,092	58,300	4,057	56,799
10-19	5,852	49,766	5,249	44,567
>0-9	9,219	20,640	9,908	22,722
Nil overtime	9,643	--	8,775	--
Total	**32,782**	**227,674**	**32,315**	**231,823**

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

The table shows 70.6 per cent of employees (72.8 per cent in 2010-11) received an overtime payment in 2011-12 and 595 employees (838 employees) were paid 50 per cent or more of their annual salary in overtime.

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

Year ended 30 June	2012			2011		
Top ten 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	RMS	86,154	82	RTA	101,683	127
2	RMS	74,356	85	RTA	85,344	107
3	RMS	67,483	86	RTA	83,848	109
4	RailCorp	66,505	64	RTA	78,688	104
5	RailCorp	65,616	63	RailCorp	72,103	91
6	RailCorp	65,374	62	RTA	71,332	73
7	RailCorp	64,990	63	RailCorp	70,839	71
8	RailCorp	63,993	56	RailCorp	70,169	70
9	RMS	63,930	66	RailCorp	65,383	70
10	RMS	63,718	62	RTA	65,134	76

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

The table shows Roads and Maritime Services and RailCorp employees received the highest overtime payments. For the other transport entities, the most overtime paid to individual employees was $34,425 in 2011-12 ($50,013 in 2010-11) at State Transit; $41,633 ($36,800) at Sydney Ferries; $33,000 ($35,903) at the Department of Transport; $6,700 ($1,389) at Country Rail Infrastructure Authority; and $1,189 ($953) at Independent Transport Safety Regulator.

High levels of overtime can adversely affect financial and operational performance as premiums paid for overtime may lead to higher than necessary costs and, operationally, high levels of overtime may increase health and safety risks for employees.

Workforce Ageing

The number and proportion of the transport workforce older than 55 continued to increase

Last year, I recommended each transport agency review the effectiveness of policies to manage the aging workforce. I am advised transport entities have implemented strategies to manage the risks associated with an ageing workforce.

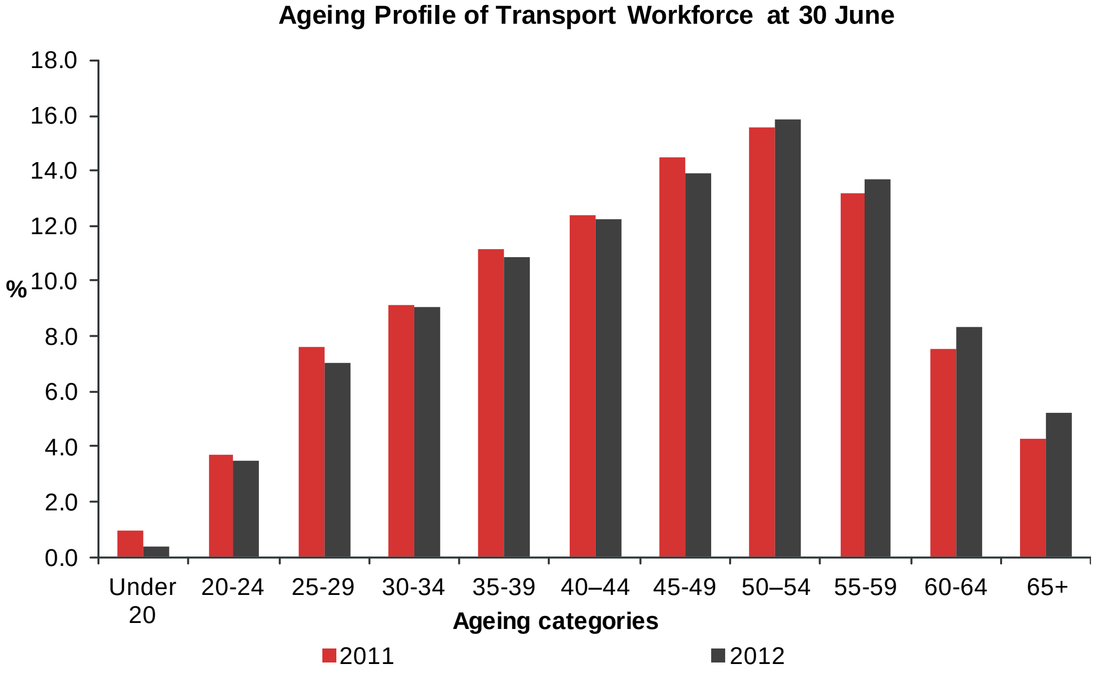
The number and proportion of the workforce older than 55 has continued to increase. Twenty-seven per cent of staff employed by transport entities at 30 June 2012 (25 per cent at 30 June 2011) were aged 55 years or older and 43 per cent (41 per cent) were over 50.

A significant proportion of these employees are due to retire in the next five to 15 years, potentially resulting in a significant loss of transport specific skills.

State Transit, RailCorp and the Independent Transport Safety Regulator have implemented succession planning programs. Roads and Maritime Services has implemented strategies and initiatives to develop, recruit and retain employees in accordance with the strategic direction in its corporate plan, such as the ‘My Journey Program’ targeting all staff aged 55 years and over. This is a continuation of the former RTA’s strategy (due to be revised in 2013) which focuses on knowledge sharing and discussions on working intentions and retirement preparedness.

I will continue to monitor the success of the policies implemented by transport agencies over the next few years.

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



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

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

Fraud in Transport Agencies

The Independent Commission Against Corruption completed Operation Jarek in late October 2012. It found one person from the former RTA and others from various local government entities, guilty of corruption concerning the acceptance of gifts and benefits in return for placing orders and continuing business, and for the payment of fraudulent invoices.

Please refer to http://www.icac.nsw.gov.au/ for the report.

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 ICAC has continued to examine corruption risks with procurement and to help agencies manage these risks.

For information on fraud in the NSW public sector, please refer to Volume Seven 2012 of my Report to Parliament.

Security and Cost of Vandalism

RailCorp, State Transit 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.

The Police Transport Command is being established to improve safety and security on public transport. Under a three year plan, the command of 610 officers will replace the security functions of the various public agencies.

At RailCorp, of 600 transit officers, approximately 50 have applied to train as police cadets and eventually join the command. One hundred and fifty have applied to be retained as Revenue Protection Officers and 400 applied for redeployment.

RailCorp estimated the cost of vandalism for the year to 30 June 2012 to be $26.0 million, a reduction of 35 per cent ($40.0 million in 2010-11). RailCorp decreased its spending on vandalism remediation over the last three years as a result of more cost effective initiatives it has implemented.

For more information on the cost of vandalism, refer to the RailCorp comment in this volume.

State Transit's 2011-12 cost of vandalism was $920,000. Sydney Ferries advises no costs were incurred in cleaning vandalism as assets are locked up at night and staffed during the day.

Electronic Ticketing System for Greater Sydney

Commuters should be using the new electronic Opal smart card 'ticket' on all modes of public transport by the end of 2014

I am advised significant progress was made in the design and testing phase of the electronic ticketing system during 2011-12. Commuters should be using the new Opal smart card 'ticket' on all modes of public transport by the end of 2014.

The former Public Transport Ticketing Corporation was responsible for managing the design, delivery, implementation and operation of the new integrated electronic ticketing system. This project now forms part of Transport for NSW.

In 2011-12, the Corporation also finalised litigation with the private sector contractors involved in the discontinued Tcard project.

For further information on the electronic ticketing system and the Tcard litigation, refer to the comments on Public Transport Ticketing Corporation in this volume.

Other Information

Transport Access Program

The Transport Access Program currently includes projects worth $772 million over four years to improve public transport facilities

The Transport Access Program includes projects worth $772 million over four years to improve public transport facilities. It started in April 2012 and brings together six packages of work previously managed by separate transport agencies, including interchange upgrades and commuter car parks.

The Transport Access Program will be managed by Transport for NSW to ensure the scope of works is delivered in a more coordinated and integrated way than in the past.

At 31 October 2012, the Transport Access Program includes around 50 projects throughout Greater Sydney, the Central Coast, Illawarra and Hunter regions. The scheduled works include:

- major station upgrades such as installation of new lifts, improving footpath access, new and upgraded CCTV surveillance and lighting
- commuter car parks to provide additional car spaces
- transport interchange upgrade works that include improving pedestrian access, bicycle parking facilities and formalised 'kiss and ride' areas for passenger pick up and drop off
- wharf upgrades.

Commuter Car Park and Interchange Program

One program consolidated in the Transport Access Program is the Commuter Car Park and Interchange Program, previously managed by the former Transport Construction Authority and RailCorp.

Stage one of the Commuter Car Park and Interchange Program delivered 6,589 commuter car parking spaces across 29 railway stations in Sydney, the Central Coast, Illawarra and Blue Mountains.

Stage two of the Commuter Car Park and Interchange Program originally comprised 19 projects. Eight projects were completed at a total cost of $35.6 million. The remaining projects were reassessed and some included as part of the Transport Access Program.

Transport Projects

The NSW Budget Papers show the NSW Government will invest $5.8 billion in transport infrastructure during 2012-13. The major investments include:

The NSW Government will invest $5.8 billion in transport infrastructure during 2012-13

- $2.8 billion on road transport, including $845 million for major upgrades on the Pacific Highway, $629 million to continue work on the Hunter Expressway and ancillary works and funding for works on the Great Western Highway, Princes Highway, Hume Highway and Central Coast Highway
- $2.5 billion for rail, including $397 million for the South West Rail Link, $360 million for the North West Rail Link, $85.0 million to improve the capacity and reliability of the Northern Sydney Freight Corridor and $131 million for the Transport Access Program (a further $17.0 million is being spent by Roads and Maritime Services on the program).

In 2011-12, the following major projects were completed by transport agencies:

- Pacific Highway: Ballina bypass dual carriageway for a cost of $640 million and Banora Point upgrade costing $359 million
- Hume Highway: Tarcutta Bypass dual carriageways for a cost of $290 million and Woomargama Bypass dual carriageways costing $265 million
- the Quakers Hill to Schofields rail track duplication including a new Schofields station for a cost of $235 million
- buses for State Transit and private operators costing $119 million.

Forty-eight per cent of major transport projects are either late or over budget

Forty-eight per cent of major transport projects (44 per cent in 2010-11) are either late or over budget.

Key transport projects are subject to change as the NSW Government's priorities are reviewed and updated. 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.

The table below shows the original and latest revised budgets for the top ten capital projects of each major transport entity. Transport for NSW has taken over delivery some of projects, including the Rail Clearways program and the South West Rail link.

Transport entity(a)	Number of projects 2011-12	Forecast completion year	Original budget $'000	Latest revised budget $'000	Maximum delay of delivering project months
RailCorp/TfNSW(b)	10	2013-20	6,126,300	8,368,515	48
RMS	10	2012-14	5,314,000	5,298,000	24
DoT Group	4	2012-13	307,248	344,345	--
PTTC(c)	1	2014-15	273,331	329,183	--
CRIA	1	2012-13	55,677	44,767	--
State Transit	1	2011-12	17,000	16,681	--
Total	**27**		**12,093,556**	**14,401,491**	

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

a The original and revised budgets for some of the largest capital projects, e.g. North West Rail Link, have not been developed to a stage where a full budget is available.

b RailCorp has a portfolio of projects in excess of $100 million. Some are still in the planning phase or subject to tender and the details are commercial in confidence. Some projects included in the figures for RailCorp are being delivered by TfNSW.

c 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.

The table above shows transport entities are committed to key transport projects totalling over $14.4 billion with expected completion dates ranging between 2012 and 2020. They expect to deliver 14 of the 27 projects on time and within budget, but the remaining 13 projects are expected to be late or over budget. The largest delay of a project is 48 months due to changes in project scope.

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

Rail Infrastructure Project Costing in New South Wales

The Legislative Council issued a report on 8 March 2012 on current costing methods used for rail projects in New South Wales. The report focused on:

- methodologies used to cost rail projects
- 'concept estimates' for rail project costs
- differences between rail and road project costs methodologies
- cost estimate methodologies, and any other related matters.

A key finding from the inquiry is that it costs slightly more to build new railway infrastructure in New South Wales than other jurisdictions in Australia. The report made nine recommendations on that finding, which were accepted by the NSW Government in its response dated 6 September 2012.

For details on the recommendations and the response from the Premier of New South Wales, refer to www.parliament.nsw.gov.au.

Bus Contracts

Transport for NSW awarded four new Sydney Metropolitan Bus Service Contracts to private bus operators in November 2012

Transport for NSW awarded four new Sydney Metropolitan Bus Service Contracts (regions 1, 3, 12 and 14) to private bus operators in November 2012. It changed its awarding of contracts based on negotiation to competitive tendering in the metropolitan area.

The Minister for Transport announced the four contracts will result in customer service improvements and average savings of more than $18.0 million per year.

The introduction of the tender process for private bus operator regions will be staged over three years and commenced in July 2012. Transport for NSW advises it will negotiate directly with State Transit for new contracts in the four regions it currently operates.

The Sydney Metropolitan Bus Contract Regions are illustrated in the map below.

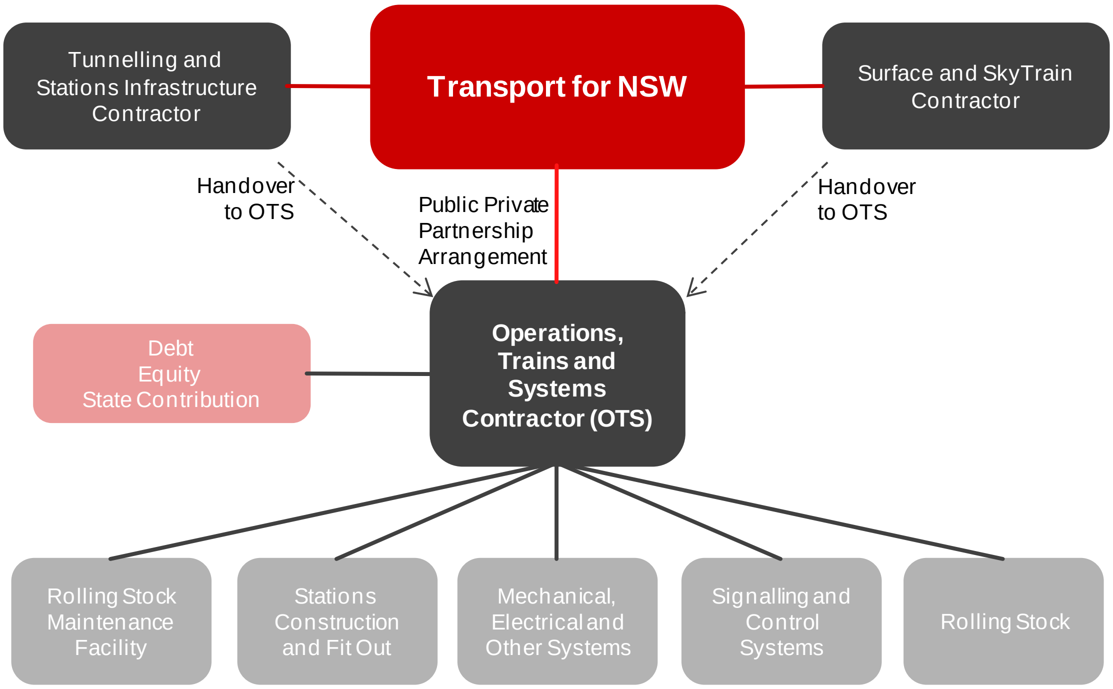
North West Rail Link

Transport for NSW is responsible for delivering the North West Rail Link, a high frequency train system which will operate as a shuttle between Rouse Hill and Chatswood. It estimates the total cost of the project will be between $7.5 and $8.5 billion, with $3.3 billion allocated over the next four years.

Initial plans for the North West Rail Link were for an extension of the CityRail network. A decision was announced in June 2012 to run the North West Rail Link as a rapid, high frequency, single deck service, integrated into but independent of the existing suburban network. A plan for a three tier network is described in 'Sydney's Rail Future' released by the NSW Government in June 2012.

The North West Rail Link project will include construction of the new line between Rouse Hill and Epping and conversion of the Epping to Chatswood rail line to the new operating model.

The North West Rail Link will feature 15.5 kilometres of tunnels between Bella Vista and Epping and a 4 kilometre above-ground viaduct or SkyTrain section. It is estimated almost 70,000 tonnes of steel will be used to build the North West Rail Link, about 20,000 tonnes more than used on the Sydney Harbour Bridge. The NSW Government is committed to having private sector involvement in the project, with the line to be operated under a public/private partnership. The structure of the delivery phase of the North West Rail Link is expected to be as follows:



The current timetable for awarding these major contracts is as follows:

- tunnels and station infrastructure contractor: to be awarded by the third quarter in 2013
- surface and SkyTrain contractor: to be awarded in the fourth quarter of 2013
- operations, trains and systems (OTS): the delivery, maintenance and operation of the line, rolling stock and associated signalling infrastructure. Expressions of Interest released in October 2012 with the final contract scheduled to be award in the third quarter of 2014.

Recommendation:

Transport for NSW should ensure lessons learnt from previous public private partnerships are considered in the arrangements for the North West Rail Link.

New South Wales public sector agencies have been involved in significant public private sector partnerships where significant issues have risen. Examples include the RailCorp, Reliance Rail Rollingstock project, the Airport Line and the Cross City Tunnel.

To date, Transport for NSW and RailCorp have paid $200 million to acquire 31 properties for the North West Rail Link

Issues include unrealistic patronage estimates, the financial structure of the partnerships and risk sharing between the parties.

While each public private partnership is different, the experience gained from past partnerships should be carefully considered when developing the North West Rail Link public private partnership.

Property Acquisition

At 25 October 2012, Transport for NSW and RailCorp had paid $200 million to acquire 31 properties for the North West Rail Link. Around 85 properties need to be acquired for the project. Transport for NSW advises the purchases involve both voluntary and compulsory acquisitions.

Transport for NSW announced that in addition to the market values of the acquired properties, the following costs will also be incurred:

- legal costs, including conveyancing fees
- valuation fees
- relocation expenses, including stamp duty costs for purchasing other properties of equal value
- removal costs
- mortgage transfer fees (and other financial costs)
- compensation to home owners for the inconvenience of moving.

The acquisitions are governed by the *Land Acquisition (Just Terms Compensation) Act 1991.*

Most buildings acquired will be demolished, but some will remain tenanted until this takes place.

Commuter Car Parks

A 2011 survey by the Bureau of Transport Statistics showed a third of train commuters are not satisfied with the availability of car parking at stations.

Of the eight new rail stations of the North West Rail Link, it is proposed five will have commuter car parks, providing spaces for 4000 vehicles. All stations will have bus interchanges with major interchange facilities at Castle Hill and Rouse Hill. The North West Rail Link is to be planned as part of a fully integrated transport network including 'feeder' buses providing frequent access to the stations.

Key Achievements to Date

Achievements to date include:

- lodged and received approval for the first Environmental Impact Statement
- completed initial geotechnical investigations
- government approval to start major procurement
- acquisition of key properties for tunnel construction and start of demolition.

Ports Overview

Port Corporations and Operational Snapshot

The port corporations provide and facilitate port operations in New South Wales. Trade at each port varies depending on local conditions and strategic advantages for types of trade. The following State owned corporations provide and facilitate port operations in New South Wales.

New South Wales Port Corporations

Newcastle Port Corporation	Port Kembla Port Corporation	Sydney Ports Corporation
Port Location:	Port Location:	Ports Location:
Newcastle Port	**Port Kembla**	**Port Botany** **Sydney Harbour** **Port of Eden*** **Port of Yamba***
Major commodities:	Major commodities:	Major commodities/services:
• Coal	• Coal • Iron Ore • Motor Vehicles • Wheat • Steels	• Containerised trade • Bulk liquids • Dry bulk, gas and oil • Cruise vessels
Profit after tax: $19.6 million	Profit after tax: $19.5 million	Profit after tax: $52.4 million
Dividend to government: $13.2 million	Dividend to government: $13.6 million	Dividend to government: Nil

* The ports of Eden and Yamba were transferred to Sydney Ports Corporation on 1 December 2011. Prior to that date they were controlled by Roads and Maritime Services. These ports are not covered in this overview before the transfer due to their small size relative to the other ports listed above.

Audit Opinion

I issued unqualified audit opinions on the above corporations' 30 June 2012 financial statements.

Performance Information

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

Trade Performance

Year ended 30 June	Target*	Actual		
	2012	2012	2011	2010
Total container trade ('000 TEUs)**				
Newcastle Port Corporation	20	15	18	16
Port Kembla Port Corporation	4	15	4	2
Sydney Ports Corporation	2,117	2,036	2,020	1,928
Total trade* ('000 mass tonnes)**				
Newcastle Port Corporation	132,849	128,610	114,576	103,026
Port Kembla Port Corporation	31,682	27,821	29,977	27,216
Sydney Ports Corporation	30,492	30,662	29,732	28,200
Total chargeable vessel visits				
Newcastle Port Corporation	2,064	1,958	1,862	1,712
Port Kembla Port Corporation	1,111	1,010	1,014	1,001
Sydney Ports Corporation	2,124	2,179	2,087	1,940
Total chargeable vessel gross tonnage ('000)				
Newcastle Port Corporation	84,741	86,520	77,320	67,801
Port Kembla Port Corporation	43,080	41,336	39,609	37,357
Sydney Ports Corporation	69,810	73,900	68,200	61,000
Total coal trade gross tonnage ('000)				
Newcastle Port Corporation	127,000	121,905	108,257	97,077
Port Kembla Port Corporation	16,000	14,657	14,256	13,875

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

* Target agreed with shareholder ministers in the Statement of Corporate Intent. If not available in the Statement of Corporate Intent, the target set by the corporations.

** TEU (20-foot equivalent unit) represents the cargo capacity of a standard shipping container.

*** Including container and non-container cargo.

Newcastle Port Corporation

Total trade continued to trend upwards mainly due to continued strong demand for coal and further expansion of capacity in the port's coal terminals.

Port Kembla Port Corporation

The Port Kembla Port Corporation advises the decrease in total trade was due to BlueScope Steel's decision in August 2011 to cut Port Kembla steelworks production by 50 per cent. This unexpected change reduced iron ore and steel trades dramatically, but was partially offset by a record year for grain exports.

The corporation secured additional container trade in 2011-12 with the South Pacific islands.

Sydney Ports Corporation

The Sydney Ports Corporation advises the total container trade target was not met due to weather events in Sydney and Asia in July and August 2011. These events created congestion in the subsequent months, which resulted in vessels omitting Sydney from their schedules. In addition, a shipping company moved all its transhipments to Melbourne, reducing transhipments by over 20 per cent for 2011-12.

Total chargeable vessel visits increased by over four per cent mainly due to the growth in passenger vessel movements.

Some carriers increased the overall size of their vessels entering the Australian market, increasing total chargeable vessel tonnage.

Financial Performance

The table below compares NSW port corporations' financial results against targets set in the respective Statements of Corporate Intent.

Year ended 30 June	Target*	Actual		
	2012	2012	2011	2010
Return on average equity (%)(a)				
Newcastle Port Corporation	4.5	6.6	4.9	4.3
Port Kembla Port Corporation	4.7	5.6	5.1	8.0
Sydney Ports Corporation	2.0	5.0	7.4	6.6
Return on average assets (%)(b)				
Newcastle Port Corporation	5.6	7.5	6.1	6.1
Port Kembla Port Corporation	5.3	6.5	5.8	10.4
Sydney Ports Corporation	3.9	5.4	6.3	6.1
Interest cover (times)(c)				
Newcastle Port Corporation	5.3	5.1	4.4	3.4
Port Kembla Port Corporation	6.1	8.1	7.5	10.4
Sydney Ports Corporation**	2.5	2.8	3.1	2.5
Debt to equity ratio (%)(d)				
Newcastle Port Corporation	na	22.3	24.3	28.7
Port Kembla Port Corporation	14.6	15.0	15.4	18.2
Sydney Ports Corporation	64.0	53.8	57.2	64.8
Dividend to government ($m)(e)				
Newcastle Port Corporation	9.6	13.2	9.0	3.1
Port Kembla Port Corporation	11.5	13.6	--	--
Sydney Ports Corporation	--	--	--	--

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

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

** Sydney Ports Corporation used a different definition of interest cover which excluded net revaluation adjustments, construction costs recoverable from the Barangaroo Delivery Authority and amortisation of prepaid licence fee.

Calculated as:

a Profit after income tax expense divided by average equity.

b Profit before income tax and net interest expense divided by average assets.

c Profit before income tax expense plus net interest expense, depreciation and amortisation divided by interest expense (Newcastle Ports Corporation used a different formula which is divided by net interest expense).

d External debt divided by equity (net assets).

e Dividend declared for the year.

na Not available.

Newcastle Port Corporation

Increases in the returns on average equity and average assets were mainly due to a $8.6 million increase in profit before tax as a result of increased coal trade and contribution of assets by port tenants.

Port Kembla Port Corporation

Increases in the return on average equity, return on average assets and interest cover were mainly due to a $3.5 million increase in profit before tax attributable to an increase in port charges from 1 July 2011.

Port Kembla Port Corporation resumed paying dividends in 2011-12. Management advises that due to funding requirements for the Inner Harbour Development project, a dividend holiday was granted in prior years.

Sydney Ports Corporation

The significant decrease in the return on average equity was a result of a $21.1 million decrease in profit after tax. This was mainly due to an increase in finance costs, no longer capitalised after completing of the Port Botany Expansion project in June 2011.

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

Coal remains a key commodity for NSW ports, with trade increasing by 11.5 per cent in 2011-12

Major Trade Commodities

The corporations' major trade commodities were:

Year ended 30 June	2012	2011	2010	2009	2008
Newcastle Port Corporation ('000 tonnes)					
Coal	121,905	108,257	97,077	90,493	88,882
Wheat and grains	1,863	1,284	1,180	882	290
Alumina	1,348	1,353	1,391	1,347	1,303
Other	3,494	3,682	3,378	3,118	2,838
Total	**128,610**	**114,576**	**103,026**	**95,840**	**93,313**
Port Kembla Port Corporation ('000 tonnes)*					
Coal	14,657	14,256	13,875	13,233	12,557
Iron ore	4,920	8,194	7,125	5,768	8,057
Motor vehicle	4,136	3,842	4,004	2,005	739
Steels	1,892	3,278	2,902	1,931	2,951
Wheat	2,204	1,281	589	768	--
Other	4,387	2,746	2,551	2,700	3,005
Total	**32,196**	**33,597**	**31,046**	**26,405**	**27,309**
Sydney Ports Corporation					
Container trade ('000 TEUs):**					
Machinery and transport equipment	275	262	245	235	233
Miscellaneous manufactured articles	258	249	228	221	229
Chemicals	178	181	170	159	164
Others	761	767	751	704	647
Total container trade ('000 TEUs)	**1,472**	**1,459**	**1,394**	**1,319**	**1,273**
Non-container trade ('000 tonnes):					
Oil	12,561	12,217	11,603	11,198	12,587
Dry bulk	1,181	1,209	1,115	1,234	1,225
Bulk liquids and gas	496	474	502	684	797
Others	594	1	1	144	481
Total non-container trade ('000 tonnes)	**14,832**	**13,901**	**13,221**	**13,260**	**15,090**

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

* Port Kembla Port Corporation 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.

Other Information

Long-Term Lease of Port Botany and Port Kembla

The NSW Government expects to complete 99-year leases of Port Botany and Port Kembla in 2013

On 27 July 2012, the NSW Government announced it planned to proceed to market with 99-year leases of Port Botany and Port Kembla. The transactions are expected to start in the fourth quarter of 2012. The anticipated completion date is in the first half of 2013.

Sydney Ports Corporation and Port Kembla Port Corporation will retain marine safety and emergency pollution response, vessel traffic control, the role of Harbour Master, the marine pilots and navigation buoys and markers. Sydney Ports Corporation will also retain the Sydney Harbour wharves and cruise shipping functions, as well as the ports of Eden and Yamba.

Container Freight Movements by Rail

Recommendation

Sydney Ports Corporation should continue developing and implementing strategies and initiatives with Transport for NSW to increase the share of container freight movement by rail mode.

Transporting freight by rail is widely recognised as having significant environmental and social benefits compared to transport by road, including*:

- using one third of the fuel required for road transport per tonne of freight hauled
- producing less greenhouse gases, for example, one third the nitrous oxide, half the volatile organic compounds and less than two thirds the carbon monoxide
- being twice as energy efficient as road, even after allowing for fuel use for road pick-up and delivery from rail terminals
- substantially lowering social and environmental costs, such as road congestion, traffic accidents, urban amenity, road wear and air pollution.

The Cooperative Research Centre for Rail Innovation asserts the social and environmental costs of freight transport by roads are approximately five times those for transport by rail.

*Source: Rail Freight Transport in NSW, NSW Parliamentary Library Research Service, November 2009.

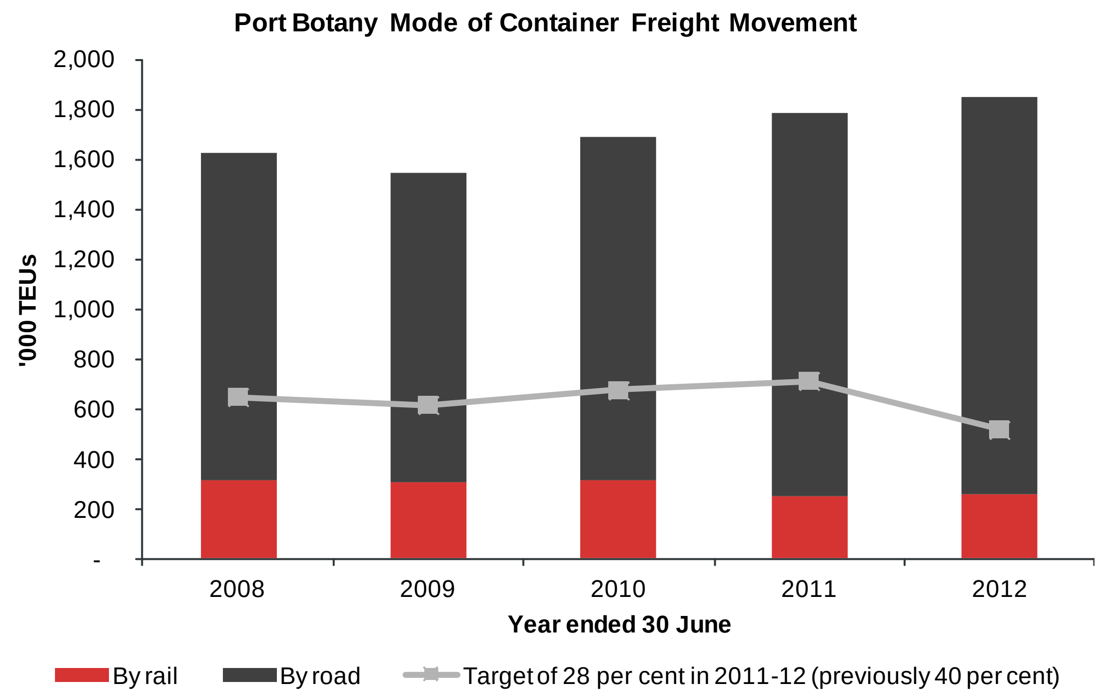
The more freight moved by road, the greater the number of trucks on the roads and the congestion that results.

Last year, I reported only 14 per cent of container movements at Port Botany were by rail against a target of 40 per cent. I recommended Sydney Ports Corporation review the underlying causes hindering growth in the rail mode and develop and implement strategies to address the unfavourable trend. I also recommended it should continue working with other government authorities and industry stakeholders to improve the effectiveness of program initiatives for increasing container freight movement by rail.

In 2011-12 the proportion of freight moved by rail remained stable at 14.1 per cent against a revised target of 28 per cent by 2020

In 2011-12 the proportion of freight moved by rail remained stable at 14.1 per cent against a revised target of doubling the proportion of container freight moved by rail through NSW ports by 2020.

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



Year ended 30 June	2012	2011	2010	2009	2008
Port Botany proportion of container freight movement (%)					
Rail	14.1	14.0	18.8	19.8	19.2
Road	85.9	86.0	81.2	80.2	80.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Port Botany container freight movement* ('000 TEUs)					
Rail	261	250	317	305	311
Road	1,586	1,533	1,371	1,237	1,311
Total	**1,847**	**1,783**	**1,688**	**1,542**	**1,622**

Source: Sydney Ports Corporation (unaudited).

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

The NSW Government has decided to remove the limit on container movements at Port Botany

The NSW Government has decided to remove the limit on container trade through Port Botany. The existing cap is 3.2 million twenty-foot equivalent units (TEUs) per year. The State Infrastructure Strategy 2012-2032 noted container trade through Port Botany is forecast to nearly quadruple by 2031, reaching over seven million TEUs.

The table above illustrates an increasing trend in container movements at the port, making increasing the proportion of containers moved by rail more difficult. The NSW Government has reduced the target for containers moved by rail from 40 per cent to 28 per cent by 2020.

Sydney Ports Corporation advises it continues to work with Transport for NSW and industry, including the Australian Rail Track Corporation, through the Port Botany Rail Team to facilitate increased rail volumes.

In November 2011, the newly established Transport for NSW created a Freight and Regional Development Division. The new division is the central point of coordination for the NSW Government's role in freight transport, distribution and servicing in New South Wales. One of its objectives is to ensure road, rail, ports and intermodal terminals are properly planned and regulated.

Transport for NSW and Sydney Ports Corporation released strategies and initiatives in 2011-12, including:

- development of the first ever NSW Freight and Port Strategy for public consultation by 11 February 2013, which aims to provide a transport efficient flow of goods to markets
- the Northern Sydney Freight Corridor Program, which is designed to improve the capacity and reliability for freight trains on the Main North Line between North Strathfield and Broadmeadow, Newcastle
- The draft NSW Long Term Transport Master Plan issued in September 2012. Chapter Seven of the draft plan 'Supporting Efficient and Productive Freight' which addresses:
  - increased road and rail network efficiency and improve freight productivity
  - future growth of the freight network capacity
  - management of community and environmental impacts of freight to promote sustainability.
- Sydney Ports Corporation continuing to construct the Enfield Intermodal Logistics Centre
- Sydney Ports Corporation creating a Rail Charter for the Port Botany Rail Team in August 2012 to support the operation, coordination and protocols and new rail governance model for the rail supply chain
- Sydney Ports Corporation establishing a Rail Operations Coordination Centre at Port Botany.

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 and the proportion has remained stable at approximately 95 per cent over the last five years.

Major Projects

The table below provides the completion dates and costs for projects over $20.0 million, based on estimates in the NSW Budget Papers.

Project	Original target date	Forecast/actual completion date	Months late	Project approval* $m	Forecast/ actual final cost $m	Savings/ (overrun) $m
Port Kembla Port Corporation						
Outer Harbour Stage 1A - reclamation for bulk products (including Master Plan and environmental assessment)	June 2012	September 2012	3	24.5	22.3	2.2
Sydney Ports Corporation						
Port Botany expansion	July 2011	December 2012	17	725.5	715.5	10.0
Intermodal Logistics Centre at Enfield	June 2011	August 2013	26	233.4	248.9	(15.5)
Second bulk liquids berth	August 2011	December 2012	16	83.8	78.9	4.9
White Bay Passenger Terminal	June 2012	June 2013	12	57.0	55.7	1.3

Source: Port Kembla Port Corporation, Sydney Ports Corporation (unaudited) and NSW Budget Papers 2012-13.

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

Port Kembla Outer Harbour Development

In 2008, the Minister for Ports and Waterways announced a $700 million outer harbour development project, which 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 reclamation and dredging for the footprint of the total development and construction of one new multi-purpose terminal and container berth. The first part of Stage 1A reclamation works was completed in September 2012, two months ahead of last year's forecast and for $2.2 million less than anticipated. Stages two and three comprise construction and operation of additional berths and associated cargo storage and handling facilities.

When the port is leased, the lessee will be expected to take over developing the project in the medium to long term.

Sydney Ports Corporation

Major components of the Port Botany expansion project, including reclaimed land, wharf structures and channels, were completed by June 2011. Sydney Ports Corporation handed over the assets to the new tenant on 1 August 2011. The construction of a separate elevated road access network is scheduled to complete in December 2012.

After the cranes and other stevedoring infrastructure are installed by the private operator, the new facilities are expected to commence operations in late 2013.

Sydney Ports Corporation advises the extension to the forecast completion of the Enfield Intermodal Logistics Centre is due to delays in appointing contractors to do this work. The cost increases for this project are due to unexpected land contamination rectification.

Property Management

Year ended 30 June	2012	2011	2010	2009	2008
Newcastle Port Corporation					
Value of rental properties ($m)	227.0	227.0	164.4	68.2	60.0
Rental revenue ($m)	25.0	24.5	20.4	8.0	7.2
Return on rental properties (%)	11.0	10.8	12.4	11.7	12.0
Port Kembla Port Corporation					
Value of rental properties ($m)	131.8	130.9	133.2	126.2	106.8
Rental revenue ($m)	9.3	8.7	29.5	19.8	15.9
Return on rental properties (%)	7.0	6.6	22.1	15.7	14.9
Sydney Ports Corporation					
Value of rental properties ($m)	477.6	355.9	338.9	338.9	338.9
Rental revenue ($m)	61.1	54.4	49.2	49.0	47.6
Return on rental properties (%)	12.8	15.3	14.5	14.5	14.0

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

Newcastle Port Corporation

Rental revenues and returns on rental properties remained stable in 2011-12.

Port Kembla Port Corporation

Port Kembla Port Corporation advises its returns are lower than the other port corporations due to lower market rentals in the region. However, both rental revenue and return on rental properties have improved from 2011.

Returns dropped in 2010-11 following expiration of the performance rent component of a coal terminal lease at 30 June 2010.

Sydney Ports Corporation

The increase in the value of its rental properties is due to additional reclaimed land from the Port Botany expansion project. The growth in rental revenue is mainly due to a market rental review increase and the start of a new lease at Port Botany in 2011-12.

Human Resources

Long Service Leave Liability

Long service leave liabilities for the port corporations have increased by 26 per cent over the past five years to $16.1 million at 30 June 2012. 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	2012 $m	2011 $m	2010 $m	2009 $m	2008 $m
Newcastle Port Corporation	↑	4.9	4.6	4.4	4.1	4.1
Port Kembla Port Corporation	~	1.4	1.4	1.4	1.1	1.1
Sydney Ports Corporation	↑	9.8	8.9	8.5	8.4	7.6
Total	↑	**16.1**	**14.9**	**14.3**	**13.6**	**12.8**

Source: Respective port corporation's financial statements.

Key: ↑ Trend upwards, ~ No trend.

Financial Information

Abridged Statements of Comprehensive Income

Year ended 30 June	Newcastle Port Corporation		Port Kembla Port Corporation		Sydney Ports Corporation	
	2012 $m	2011 $m	2012 $m	2011 $m	2012 $m	2011 $m
Employee benefits	20.7	18.4	7.9	6.8	46.8	41.5
Depreciation and amortisation	5.6	5.2	6.2	6.0	32.3	23.9
Finance costs	8.6	7.6	4.5	4.3	48.6	13.8
Other expenses	29.3	28.0	13.1	11.6	73.3	71.5
Total expenses	**64.2**	**59.2**	**31.7**	**28.7**	**201.0**	**150.7**
Port revenue	59.3	49.9	46.6	39.4	175.0	164.2
Rental revenue	25.0	24.5	10.3	10.4	61.9	54.8
Other	8.0	4.3	2.6	3.2	39.6	36.6
Total revenue	**92.3**	**78.7**	**59.5**	**53.0**	**276.5**	**255.6**
Profit before tax	**28.1**	**19.5**	**27.8**	**24.3**	**75.5**	**104.9**
Income tax equivalent expense	8.5	6.3	8.3	7.3	23.1	31.4
Profit after tax	**19.6**	**13.2**	**19.5**	**17.0**	**52.4**	**73.5**
Total other comprehensive income/(expense), net of income tax	**(6.1)**	**41.5**	**(4.1)**	**(0.3)**	**13.8**	**52.2**
Total comprehensive income	**13.5**	**54.7**	**15.4**	**16.7**	**66.2**	**125.7**

Newcastle Port Corporation

The increase in total revenue reflects the growth in trade activities from the continued expansion of coal terminals.

The decease on other comprehensive income reflects that there was no revaluation of property, plant and equipment in 2011-12.

Port Kembla Port Corporation

The increase in port revenue was mainly due to the increase in port charges from 1 July 2011.

Sydney Ports Corporation

Port revenue rose mainly due to the increase in port charges and trade growth in 2011-12.

The significant increase in finance costs was mainly due to the substantial completion of the Port Botany Expansion project in June 2011. Finance costs can no longer capitalised for that project. The increase in depreciation and amortisation was also due to depreciation on the Port Botany Expansion assets.

Other comprehensive income reduced mainly due to an increase of $22.0 million in superannuation losses and a $16.6 million decrease in the revaluation increment on property, plant and equipment. The superannuation losses were mainly due to a decrease in the bond rate used to discount liabilities to present values.

Abridged Statements of Financial Position

At 30 June	Newcastle Port Corporation		Port Kembla Port Corporation		Sydney Ports Corporation	
	2012 $m	2011 $m	2012 $m	2011 $m	2012 $m	2011 $m
Current assets	24.1	18.6	54.2	54.9	137.3	187.5
Non-current assets	470.2	458.8	421.9	397.1	1,961.0	1,779.6
Total assets	**494.3**	**477.4**	**476.1**	**452.0**	**2,098.3**	**1,967.1**
Current liabilities	38.4	32.6	27.4	19.6	92.1	77.3
Non-current liabilities	156.1	152.1	102.3	87.8	882.6	833.5
Total liabilities	**194.5**	**184.7**	**129.7**	**107.4**	**974.7**	**910.8**
Net assets	**299.8**	**292.7**	**346.4**	**344.6**	**1,123.6**	**1,056.3**

Newcastle Port Corporation

The increase in current assets was mainly due to an improved cash balance generated from profit.

The increase in current liabilities was largely due to a dividend payable of $13.2 million ($9.0 million in 2010-11). Non-current superannuation liabilities also increased to $5.6 million due to the decline in the NSW Government bond rate used in calculating the liability.

Port Kembla Port Corporation

The increase in non-current assets was mainly due to the additions in major projects and port infrastructure. Total liabilities increased primarily due to the dividend payable of $13.6 million (nil in 2010-11) and an additional $5.5 million in superannuation liabilities due to the fall in the NSW Government bond rate used in calculating the liability.

Sydney Ports Corporation

Cash applied to major projects contributed to a decrease in cash and current assets by $50.2 million.

Capital expenditure on major projects and the revaluation of property, plant and equipment were the primary contributors to an increase in non-current assets.

The increase in total liabilities was largely due to the increase in superannuation liabilities of $31.1 million due to the decline in the NSW Government bond rate used in calculating the liability.

Entity Activities

All NSW 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 Corporations
- 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.

For further information on Port Kembla Port Corporation, refer to www.kemblaport.com.au.

For further information on Sydney Ports Corporation, refer to www.sydneyports.com.au.

Section Two

Agencies with Individual Comments

Minister for Roads and Ports

Minister for Transport

Roads and Maritime Services

Audit Opinions

I issued an unqualified audit opinion on Roads and Maritime Services' and its controlled entity's financial statements for the period 1 November 2011 to 30 June 2012.

On 31 October 2011, The *Transport Legislation Amendment Act 2011* abolished the Roads and Traffic Authority, the Maritime Authority of NSW and their respective divisions, and transferred the functions, rights, assets and liabilities to the newly created Roads and Maritime Services.

Following the restructure, I issued unqualified audit opinions on the Roads and Traffic Authority's and the Maritime Authority of NSW's and their controlled entities' financial statements for the period 1 July 2011 to 31 October 2011.

The following comments are for the Roads and Maritime Services' consolidated entity, unless otherwise stated.

Operational Snapshot

Roads and Maritime Services

Managing	Outcomes
18,000 kilometres of roads and 32,424 square kilometres of waterways	Major capital projects are in line with budgets and timetables
5.5 million driving licences and 487,000 boat licences	Consistent travel speeds maintained on Sydney's major routes
5.7 million motor vehicle registrations and 230,000 boat registrations	5.4 road fatalities for every 100,000 people

Roads and Maritime Services generated revenue of $3.7 billion, incurred expenses of $2.6 billion and recorded a surplus of $1.1 billion for the period 1 November 2011 to 30 June 2012. During the year ended 30 June 2012, it collected $2.7 billion in licence fees, duty and tax.

Key Issues

Corporate Services Reform

Recommendation

Roads and Maritime Services should finalise its service level agreement with Transport for NSW and ensure it includes adequate procedures, guidelines and key performance indicators to more effectively manage its corporate service functions.

Roads and Maritime Services expects to finalise a service level agreement with Transport for NSW in 2013

Roads and Maritime Services and Transport for NSW have not implemented a service level agreement in accordance with Department of Premier and Cabinet's guideline (C1999-02). Under the guideline a service level agreement is seen as an integral part of corporate services reform and is a key platform for building long-term improvement in the NSW public sector.

The transfer of key functions to Transport for NSW should be supported by a comprehensive service level agreement to clarify responsibilities and performance levels for the various functions. The absence of such an agreement limits improvements to corporate services infrastructure across the transport sector, which may adversely impact better delivery of government services to the NSW community.

Government Licensing Service

Roads and Maritime Services uses the NSW Government Licensing System to manage boat and driver licences, and vessel registrations. The system has continued to experience significant operational issues since it was implemented in 2010. For the last two years, I concluded the system could not be relied on to generate accurate and complete financial information. While the potential impact of this issue is not material to the audit of the financial statements, there are risks to the organisation which need to be addressed. Roads and Maritime Services and the Government Licensing Service continue to work on system improvements.

I have also noted operational issues in the licensing system at other agencies and will report on these matters during 2013.

Unregistered Vehicles

Data collated by Roads and Maritime Services on registrations which have not been renewed indicates there are potentially 124,000 unregistered vehicles in New South Wales (about two per cent of total vehicle registrations in the State). Unregistered vehicles are also uninsured for third party injury.

I note the United Kingdom has taken steps to address the issue of uninsured drivers by recently legislating 'keeping a vehicle with no motor insurance' as an offence. The new legislation requires owners of unregistered vehicles to obtain a certificate of exemption to avoid being found guilty of such an offence. Similar legislation may also have a positive impact on compulsory third party CTP insurance premiums.

The decision to implement a scheme of this nature resides with Transport for NSW.

Managing Congestion

One of the NSW Government's NSW 2021 plan's priorities is to improve the efficiency of the road network to maintain travel speeds with the increase in travel volumes. Roads and Maritime Services has completed specific programs at a cost of $395 million to improve travel times.

The programs included minor infrastructure works and operational improvements such as traffic signal optimisation, changes to parking restrictions, tidal flow arrangements and communication technology, which appear to have improved the travel times.

In 2011-12, the NSW Government committed an additional $200 million to tackle congestion and safety on key routes.

The Strategic Bus Corridor Program is an initiative to improve the reliability of bus services. Roads and Maritime Services completed 151 bus priority projects and installed 157 kilometres of bus lanes on the Sydney road network.

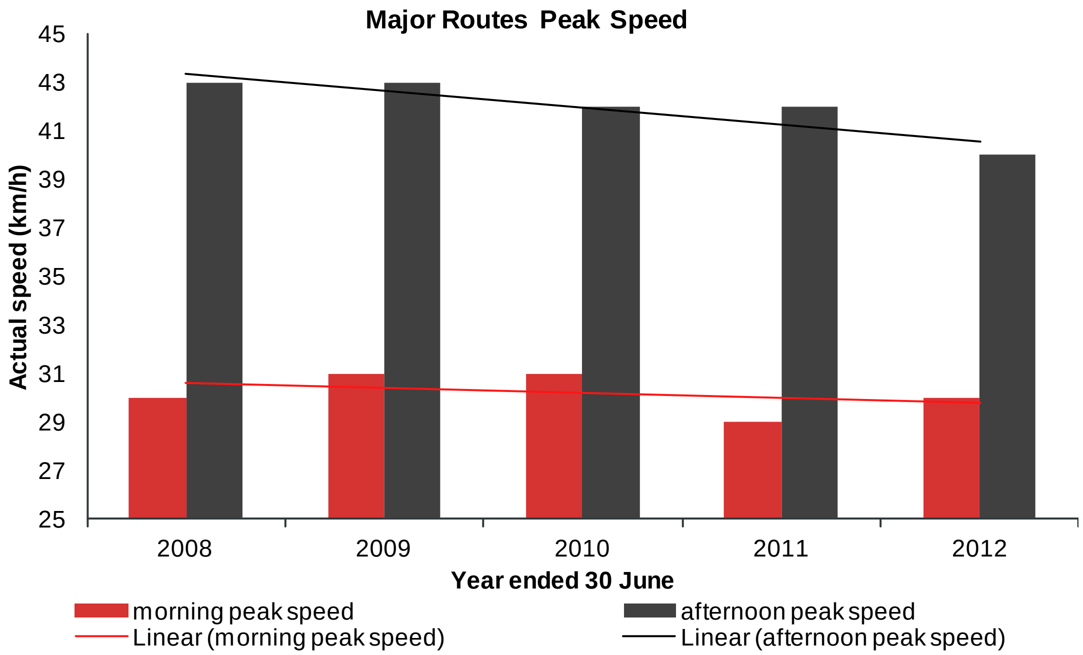
Roads and Maritime Services implemented the Public Transport Information and Priority System, which identifies late-running buses and responds by providing green signals at traffic lights.

More than 3,060 State Transit and other buses in Sydney and Newcastle are equipped with PTIPS and 1,000 traffic lights can react to late-running buses.

Average Travel Speed on Seven Major Routes to and from Sydney

A survey of Sydney's seven major routes shows travel speeds remained broadly consistent over the past five years

Roads and Maritime Services is responsible for improving efficiency, measured by travel speeds, on Sydney's major roads during peak times. A survey of Sydney's seven major routes continues to show broadly consistent trends in travel speeds for morning and afternoon peaks over five years.



Source: Roads and Maritime Services (unaudited).

The average speed trends for seven major routes to and from Sydney are:

Year ended 30 June	Actual speed (km/h)				
	2012	2011	2010	2009	2008
Morning peak speeds					
F3/Pacific Highway/F1	36	33	34	35	35
M2/Lane Cove Tunnel/Gore Hill Freeway	36	36	39	36	31
M4/Parramatta Road/City West Link	27	25	28	29	28
M5/Eastern Distributor	38	34	35	41	34
Pittwater Road/Military Road/F1	24	25	25	26	26
Princes Highway	31	29	31	30	28
Victoria Road	23	24	26	21	23
Combined seven routes	**30**	**29**	**31**	**31**	**30**
Afternoon peak speeds					
F3/Pacific Highway/F1	51	54	53	50	52
M2/Lane Cove Tunnel/Gore Hill Freeway	52	60	65	66	61
M4/Parramatta Road/City West Link	40	39	35	39	40
M5/Eastern Distributor	48	51	54	56	48
Pittwater Road/Military Road/F1	32	35	34	38	39
Princes Highway	31	32	32	32	36
Victoria Road	31	31	34	33	32
Combined seven routes	**40**	**42**	**42**	**43**	**43**

Source: Roads and Maritime Services (unaudited).

Overall travel speeds increased for the morning peak and decreased for the afternoon peak.

Road widening works and speed limit changes on M2/Lane Cove Tunnel/Gore Hill Freeway corridor contributed to this drop in travel speed for this route.

Roads and Maritime Services introduced a system to collect travel speeds on 114 roads in the Sydney, Newcastle, Central Coast and Wollongong areas in September 2011. It plans to report on the average travel speed for the entire year from 2012-13.

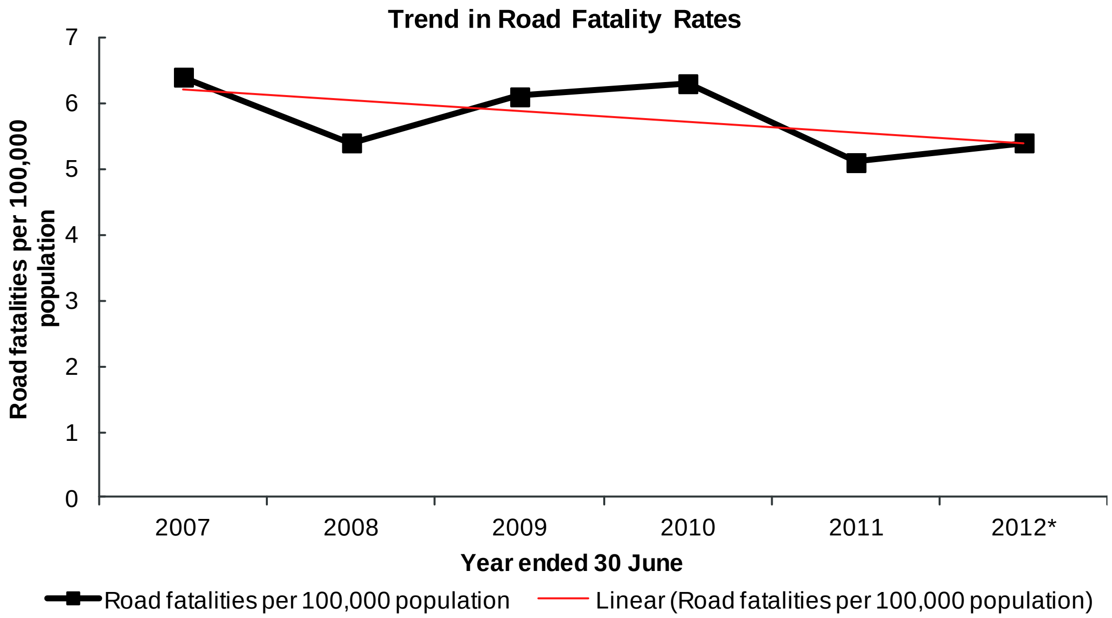
Performance Information

Road Safety Performance Outcomes

During 2011-12, Transport for NSW took over the road safety functions from Roads and Maritime Services. It is now the lead agency for road safety in New South Wales and works with Roads and Maritime Services to ensure road safety.

NSW road fatalities are the third lowest since 1945

Roads and Maritime Services reported 396 fatalities in 2011-12, 11.5 per cent more than the previous year. It advises this was the third lowest number recorded since 1945.



Source: Roads and Maritime Services Monthly Bulletin of Preliminary Traffic Crash Data (unaudited),

* NSW Centre for Road Safety (unaudited).

In 2011-12, Roads and Maritime Services spent $104 million on road safety including Black Spot, Road Toll Response Package and Heavy Vehicle Safety programs.

Statistics on fatalities and injuries from road traffic crashes were:

Year ended 30 June	Actual				
	2012*	2011	2010	2009	2008
Road fatalities per 100,000 population*	5.4	5.1	6.2	6.1	5.4
Total fatalities	**396**	**355**	**447**	**432**	**376**
Total injuries	**26,313**	**24,855**	**23,754**	**24,103**	**24,775**

Source: Roads and Maritime Services Monthly Bulletin of Preliminary Traffic Crash Data (unaudited),

* NSW Centre for Road Safety (unaudited).

Pavement Rebuilding Targets

Recommendation

Roads and Maritime Services continues to face challenges in meeting its road maintenance targets

Roads and Maritime Services should work with Transport for NSW to establish maintenance targets, which can be used for performance monitoring and funding requirements.

The percentage of pavement rebuilding represents the road surface area repaired for structural damages compared to the total area of road surfaces. In 2011-12, Roads and Maritime Services achieved its own short-term target of 1.3 per cent, but not its long-term target of two per cent. Roads and Maritime Services advises this target is unlikely to be achieved under existing funding arrangements.

As recommended by the NSW Public Accounts Committee, Roads and Maritime Services is reassessing its current target.

Year ended 30 June	Target*	Actual				
	2012	2012**	2011	2010	2009	2008
Road maintenance expense ($m)	--	857	621	572	605	671
Pavement rebuilding rate (%)	1.3	1.4	1.3	1.4	1.2	1.1

Source: Roads and Maritime Services (unaudited).

* Target set by Roads and Maritime Services.

** Total twelve months' expenditure.

Roads and Maritime Services once again 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.

To address these issues, Roads and Maritime Services has adopted a risk based approach to prioritise its works.

Ride Quality and Pavement Durability

The State's NSW 2021 plan includes a 'Good Ride Quality' target of 93.0 per cent by 2016. Ride quality measures the 'roughness' of travel over road surfaces (including national highways) and is used as a primary indicator of road condition.

Roads and Maritime Services did not achieve its 'Good Ride Quality' target for 2012 because of an increase in the rate of road deterioration caused by heavy and prolonged periods of rain across the State.

It did achieve its 2012 target for pavement durability, which measures road surface cracking on sealed State roads.

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

Year ended 30 June	Target*	Actual				
	2012 %	2012 %	2011 %	2010 %	2009 %	2008 %
Ride quality*						
Good	91.3	91.1	91.2	91.5	91.6	90.7
Pavement durability						
Good	78.0	78.1	78.1	77.4	76.3	78.0

Source: Roads and Maritime Services (unaudited).

* Targets are set by Roads and Maritime Services.

Other Information

Integrated Transport Policy

Roads and Maritime Services plays a key role in implementing the State's integrated transport policies for road transport. Transport for NSW coordinates these policies under the NSW 2021 plan and the NSW Long-Term Transport Master Plan.

Details of the role of Transport for NSW and transport strategies are included elsewhere in this report.

Workforce Ageing

The age profile of Roads and Maritime Services is skewed towards employees over 50 years old, with 602 employees over 65 at 30 June 2012 (499 at 30 June 2011).

Over 32.6 per cent (29.8 per cent) of employees are over 55 years of age and 47.3 per cent (45.3 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.

Roads and Maritime Services has implemented strategies and initiatives, which focus on those areas where skill shortages are apparent, such as engineering, road design, traffic and transport. The initiatives include Roads and Maritime Services' targeted employment programs aimed at graduates and trainees. In 2010-11, Roads and Maritime Services 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.

We plan to review the outcome of these initiatives in 2012-13.

Annual Leave

Employee annual leave balances greater than 40 days increased to 8.4 per cent of total employees' annual leave balances at 30 June 2012 (6.5 per cent at 30 June 2011).

Liabilities for annual leave generally increase over time as salary rates increase and the health and welfare of the staff may also suffer if they do not take regular leave. Allowing excess annual leave balances also means employees performing key control functions may not be rotated regularly, which is a preventive control against fraud.

At 30 June	2012			2011*		
	No. of employees	Total days	Amount $'000	No. of employees	Total days	Amount $'000
Annual leave entitlement (days)						
> 100	2	236	92	3	339	137
81-100	13	1,103	505	6	538	225
61-80	76	5,096	1,960	65	4,449	1,754
41-60	656	30,509	10,725	533	25,229	9,063
Total	**747**	**36,944**	**13,282**	**607**	**30,555**	**11,179**

* Combined Roads and Traffic Authority and Maritime Authority of NSW data for 2010-11.

Use of Contractors

The percentage of skill hire contractors decreased to 4.6 per cent of the workforce from 6.5 per cent in 2010-11. However, 61.8 per cent (74.0 per cent) of the contractors had been engaged for more than 12 months. The longest serving contractor has been with Roads and Maritime Services and its predecessors for over ten years.

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

Year end 30 June	Number of skill hire contractors	
	2012**	**2011***
Cost of skill hire contractors ($m)	66.6	82.9
Duration since current skill hire contract start date		
Over 6 years	69	84
5-6 years	7	14
4-5 years	28	16
3-4 years	23	35
2-3 years	25	125
1-2 years	102	170
less than one year	157	156
Total	**411**	**600**

Source: Roads and Maritime Services (unaudited).

* Combined Roads and Traffic Authority and Maritime Authority of NSW data for 2010-11.

** Data for 2012 is for the twelve month period 1 July 2011 to 30 June 2012.

Roads and Maritime Services uses skill hire contractors as a short-term employment option for a period of generally not more than one year for specialised positions. It continues to monitor the 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 these contractors since 2010-11.

Roads and Maritime Services reiterated it uses contractors as a result of:

- skill shortages in engineering and information technology
- the NSW Government's recruitment freeze
- the construction and information technology industry using contingent workforces
- growth in the overall road program due to higher Australian Government funding.

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

Overtime

Overtime at Roads and Maritime Services represents 6.0 per cent of employees' base salaries and wages for 2011-12 (7.5 per cent for 2010-11). This figure includes its predecessor authorities from 1 July 2011. Overtime for the year totalled $46.7 million ($47.4 million in 2010-11). Overtime expense is incurred from both planned maintenance and unplanned events, primarily flood damage.

In my June 2012 performance audit report, Managing Overtime, I found the best opportunities for Roads and Maritime Services to implement overtime savings from reforms to traditional work practices involved renegotiating awards to deliver new shift patterns. Such reforms should strike a balance between worker safety, fatigue and adequate reward for shift work.

Roads and Maritime Services is responding to my recommendations by:

- determining an appropriate level of overtime across each major business unit using industry based benchmarks, by December 2012
- reviewing and refining performance reporting to executive management and undertaking more detailed analysis of overtime to enable better management and monitoring of overtime performance
- investigating the opportunity for a single industrial award for all salaried staff, including a review of potential changes to rostering and work practices over the next twelve months.

I plan to follow up on the implementation of Roads and Maritime Services' initiatives in 2012-13.

Major Projects

I am pleased to report Roads and Maritime Services' major capital projects are generally in line with its budgets and timetables.

Details of Roads and Maritime Services' highest valued projects are:

Year ended 30 June 2012	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 2012 $m	Forecast/ actual final cost $m	Forecast variance $m
Hunter Expressway-F3 to Branxton Freeway	2010-11	2013	2013	1,700	834	1,700	--
Pacific Highway, Tintenbar to Ewingsdale	2012-13	2014	2014	862	110	862	--
Pacific Highway, Coffs Harbour (Sapphire) to Woolgoolga	2010-11	2014	2014	733	345	705	(28)
Pacific Highway, Kempsey Bypass	2010-11	2014	2013	618	480	618	--
Pacific Highway, Banora Point, Upgrade	2010-11	2012	2012	359	313	341	(18)
Pacific Highway, Bulahdelah Upgrade	2007-08	2013	2013	300	199	315	15
Holbrook Bypass, South Gundagai	2011-12	2013	2013	247	107	247	--
Great Western Highway, Lawson Upgrade	2008-09	2012	2012	220	194	220	--
Great Western Highway, Woodford to Hazelbrook	2008-09	2011	2014	160	116	175	15
Great Western Highway, Wentworth Falls east	2009-10	2012	2012	115	104	115	--

Source: Roads and Maritime Services (unaudited).

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

Administered Revenue

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

Year ended 30 June	Actual				
	2012 $m	2011 $m	2010 $m	2009 $m	2008 $m
Vehicle registration fees	291	280	270	249	243
Drivers licences fees	141	118	146	116	91
Vehicle transfer fees	43	41	38	36	38
Stamp duty	598	588	586	538	605
Motor vehicle weight tax	1,567	1,474	1,312	1,231	1,186
Fines	--	4	4	5	5
Other	78	80	76	70	58
Total	**2,718**	**2,585**	**2,432**	**2,245**	**2,226**

Collections from driver licences and vehicle registrations increased by 8.2 per cent from the previous year mainly due to increases in the number of motor vehicle registrations and driving licences.

Financial Information

As Roads and Maritime Services was created on 1 November 2011, financial information and commentary is for the eight month period 1 November 2011 to 30 June 2012.

Abridged Statement of Comprehensive Income

Period ended 30 June	2012 $'000
Sale of goods and services	351,596
Grants and contributions	3,062,505
Other	282,742
Total revenue	**3,696,843**
Personnel services	443,759
Other	2,176,334
Total expenses	**2,620,093**
Result - surplus	**1,076,750**
Other comprehensive income	
Net increase in revaluation of assets	2,028,547
Superannuation actuarial losses	(368,654)
Total other comprehensive income	**1,659,893**
Total comprehensive income	**2,736,643**

Grants and contributions represents amounts received from Transport for NSW. They are provided on an annual basis primarily to fund Roads and Maritime Services' maintenance activities and infrastructure expenditure.

Other expenses include:

- $525 million for repairs and maintenance of road infrastructure assets
- $331 million of grants to councils for road maintenance
- $618 million depreciation expenses.

Abridged Statement of Financial Position

At 30 June	2012 $'000
Current assets	771,999
Non-current assets	65,599,344
Total assets	**66,371,343**
Current liabilities	1,482,471
Non-current liabilities	2,812,703
Total liabilities	**4,295,174**
Net assets	**62,076,169**

Non-current assets include $54.7 billion of roads and bridges and $1.4 billion of maritime port facilities.

Authority Activities

Roads and Maritime Services is a statutory authority established on 1 November 2011 under the *Transport Legislation Amendment Act 2011*.

Its principal functions include:

- building and maintaining road infrastructure
- administering motor vehicle and boat licence and registration
- providing safety management
- delivering traffic management
- delivering environmental solutions
- managing tolling services
- regulating users of roads and waterways.

For further information on Roads and Maritime Services refer to www.rms.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 Maritime Services Division	*

* This entity does not have a website.

Chief Investigator of the Office of Transport Safety Investigations

Audit Opinion

I issued an unqualified audit opinion on the Chief Investigator of the Office of Transport Safety Investigations’ 30 June 2012 financial statements.

Key Issues

Financial Position of the Chief Investigator of the Office of Transport Safety Investigations

The Chief Investigator of the Office of Transport Safety Investigations has recorded deficits for the last six financial years and has net liabilities

In 2011, I recommended the Chief Investigator of the Office of Transport Safety Investigations (OTSI) closely monitor its financial position to ensure it can continue to meet its financial and statutory obligations. The Chief Investigator advises that monitoring is carried out and Treasury and Transport for NSW are kept informed.

OTSI recorded a deficit of $191,000 for the year ended 30 June 2012 ($118,000 in 2010-11) and had net liabilities of $221,000 at 30 June 2012 ($30,000 net liabilities at 30 June 2011). It has recorded deficits for the last six financial years resulting in cumulative losses since 2007 of $998,000.

OTSI received a letter of financial support from Transport for NSW, providing assurance that it will be able to meet its debts as and when they fall due until September 2013. From 2012-13, OTSI will receive additional funding of $100,000 per annum from Transport for NSW to help fund employee related costs. However, it is budgeted to make another loss in 2012-13 of $51,000 despite receiving grants and contributions of $2.3 million.

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.

Country Rail Infrastructure Authority

Audit Opinion

I issued an unqualified audit opinion on the Country Rail Infrastructure Authority's (CRIA) 30 June 2012 financial statements.

Operational Snapshot

CRIA managed and operated the country regional network of railway lines in rural New South Wales until it was abolished on 1 July 2012. The network has the following four classifications:

At 30 June	2012	
CRN line classification	**CRN kilometres**	**Gross tonnes per kilometre (million)***
Core passenger	870	1,746
Core freight	521	721
Grain	996	341
Non-operational	3,127	--
Total	**5,514**	**2,808**

Source: CRIA (unaudited).

* Gross tonnes per kilometre is a standard measure of line usage being the gross weight of a train multiplied by kilometres travelled. Figures are for the year ended 30 June.

Currently 3,127 kilometres of the network are non-operational. These lines have been made non-operational at various times over the last 40 years after government decisions that the line or lines were no longer viable. Limited maintenance is carried out on these lines until their status is decided. Maintenance expenditure on disused lines for 2011-12 was $1.3 million ($1.3 million in 2010-11).

CRIA also oversaw the management of the leased network by the Australian Rail Track Corporation. 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.

Country Regional Network

New ten-year country regional network management agreement is to deliver over $1.5 billion in maintenance and upgrade works

John Holland Rail took over management of the country regional network on 15 January 2012 under a ten-year contract. The contract is expected to deliver over $1.5 billion in maintenance and upgrade works on the network over its ten-year life, funded by the NSW Government.

The ten-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.

CRIA was liable for exit costs incurred by the Australian Rail Track Corporation, the former manager, and start up costs incurred by John Holland Rail. Exit costs incurred to 30 June 2012 were $7.1 million. Future costs to complete the transition are expected to be minor. Total start up costs incurred to 30 June 2012 were $38.6 million with no further costs expected.

Other Information

Transport Restructure

CRIA was abolished on 1 July 2012. All CRIA's operations, assets, rights and liabilities were transferred to Transport for NSW on that date.

Voluntary redundancies were offered to CRIA's employees with 11 of its 24 employees accepting the offer. The total cost of redundancies was $2.0 million.

For further information on this and other transport restructures, refer to the Transport Overview in this volume.

Major Capital Projects

CRIA spent $64.4 million on capital works in 2011-12 ($78.0 million in 2010-11). 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	Completion date	Months late	Original budget $m	Forecast final cost $m	Total costs to 30 June 2012 $m
Steel resleepering program	June 2012	June 2012	--	55.7	44.7	44.7
Signalling and train control systems	June 2009	January 2012	31	32.0	30.0	30.0
Bridge renewals	June 2012	June 2012	--	10.3	7.0	7.0
Conversion to continuous welded track	October 2011	December 2011	2	3.7	2.0	2.0

Source: Country Rail Infrastructure CRIA (unaudited).

During the year CRIA installed 287,670 sleepers under the annual steel resleepering program at a cost of $44.7 million.

Backlog maintenance has decreased by $45.0 million to $635 million, and is expected to be cleared over the next eight years

Maintenance activities

As noted above, CRIA changed contractors for the delivery of operations and maintenance of the network. An initial five month ramp-up stage for the new contractor included a focus on establishing and bedding down routine maintenance, inspections and operations with reduced capital works to minimise risks and ensure network reliability.

The table below shows CRIA increased its maintenance spend to $135 million in 2011-12 ($123 million in 2010-11). The country regional network still has a significant amount of backlog maintenance, comprising mainly asset renewals. At 30 June 2012, backlog maintenance was approximately $635 million ($680 million). The reduction in backlog maintenance is consistent with CRIA's Total Asset Management Plan.

Year ended 30 June	2012 $m	2011 $m
Actual maintenance expenditure	135.3	123.5
Backlog maintenance:		
- timber sleepers	428.5	462.0
- timber under bridges	74.1	81.1
- timber over bridges	132.5	137.0

Source: Country Rail Infrastructure CRIA (unaudited).

Despite the existence of backlog maintenance, Transport for NSW advises the safety of the network is not compromised. It also advises that, under the current asset management plan and funding allocations, all timber assets (bridges and sleepers) will be replaced by modern, low maintenance equivalents over the next eight years.

Limited maintenance is undertaken on non-operational lines to meet legislative obligations, for example, management of noxious weeds.

Financial Information

Abridged Statement of Comprehensive Income

Year ended 30 June	2012 $'000	2011 $'000
Government contributions	165,329	173,608
Access fees	9,546	21,593
Other revenue	71,144	25,619
Operating revenue	**246,019**	**220,820**
Employee costs	5,656	3,221
Depreciation	112,750	133,421
Maintenance and contractors	137,182	126,077
Tripartite agreement payment	--	11,820
Finance costs	2,625	3,884
Other expenses	331,609	5,754
Operating expenses	**589,822**	**284,177**
Net result - deficit	**(343,803)**	**(63,357)**
Other comprehensive income		
Net increase in revelation of assets	60,615	3,178
Total other comprehensive income	**60,615**	**3,178**
Total comprehensive expense	**(283,188)**	**(60,179)**

The increase in other revenue and other expenses is due to the Australian Rail Track Corporation exercising an option to lease the section of track from Gap to Boggabilla. Other revenue increased due to receipts from third parties to payout all CRIA's borrowings and associated costs. Other expenses increased due to the derecognition of property, plant and equipment assets now controlled by ARTC for the term of the lease.

The increase in the revaluation of assets is a result of a revaluation of CRIA's property, plant and equipment.

Abridged Statement of Financial Position

At 30 June	2012 $'000	2011 $'000
Current assets	45,124	63,650
Non-current assets	1,830,253	2,144,431
Total assets	**1,875,377**	**2,208,081**
Current liabilities	55,642	105,144
Non-current liabilities	2	16
Total liabilities	**55,644**	**105,160**
Net assets	**1,819,733**	**2,102,921**

Non-current assets include $1.6 billion of trackwork and infrastructure assets which relate to the country regional network. The decrease in total assets is due to the Australian Rail Track Corporation exercising its right to lease sections of the network and adding the section of track from Gap to Boggabilla to its leased network.

Non-operational lines are recorded at nil value.

The decrease in current liabilities was due to the repayment of all CRIA borrowings.

CRIA Activities

CRIA and its functions have been absorbed into Transport for NSW, refer to www.transport.nsw.gov.au.

Department of Transport

Audit Opinion

I issued an unqualified audit opinion on the Department of Transport's 30 June 2012 financial statements.

The following comments are for the consolidated entity, unless otherwise stated.

Operational Snapshot

Most of the Department's functions were transferred to Transport for NSW on 1 November 2011. However, it still provides policy advice to the Minister for Transport and the Minister for Roads and Ports and controls most of the other agencies within the transport portfolio.

The entities controlled by the Department are shown below:

Transport entity	Main activities	Total comprehensive income/(expense) 2011-12 $m	Net assets at 30 June 2012 $m
Department of Transport^	--	27	--
Transport for NSW and division#	Lead transport agency	251	604
Roads and Maritime Services and division#	Road and maritime services	2,737	62,076
Rail Corporation New South Wales	Rail services	71	23,785
Country Rail Infrastructure Authority	Rail services	(283)	1,820
State Transit Authority and divisions	Road transport services (mainly bus services)	(13)	231
Sydney Ferries	Ferry services	--	85
A.C.N. 156 211 906 Pty Ltd and its controlled entities*	Light rail and monorail services	(1)	19
Public Transport Ticketing Corporation	Ticketing and fare payment services	(19)	--
Sydney Metro	Rail services	9	5
Roads and Traffic Authority**	Road and traffic services	(2,779)	--
Transport Construction Authority***	Rail infrastructure	7	--

Source: Transport entities' financial statements (audited).

^ Parent entity.

Controlled entity from 1 November 2011.

* Controlled entity from 12 March 2012.

** Controlled entity until 31 October 2011 when assets and liabilities were transferred to Roads and Maritime Services.

*** Controlled entity until 31 March 2012 when assets and liabilities were transferred to Transport for NSW.

For general transport industry information, refer to the Transport Overview section earlier in this report. For detailed comments on the activities of controlled entities refer elsewhere in this volume.

Other Information

Administrative Restructure

The *Transport Legislation Amendment Act 2011* established a new corporation called Transport for NSW on 1 November 2011. On that date, Transport for NSW assumed most of the Department's functions, roles, assets and liabilities. Net assets transferred to Transport for NSW on 1 November 2011 totalled $202 million.

Financial Information

Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2012 $m	2011 $m	2012 $m	2011 $m
Employee related expenses	2,946	2,538	97	123
Maintenance*	1,466	1,408	--	1
Depreciation and amortisation	1,994	1,887	16	41
Grants and subsidies	553	497	2,417	7,286
Bus operator expenses (metropolitan and regional service costs), major events, project costs and income tax expense	1,060	1,000	435	1,157
Other expenses	1,232	1,069	34	107
Total expenses	**9,251**	**8,399**	**2,999**	**8,715**
Government contributions	9,662	8,603	2,909	8,602
Passenger revenue, fees and charges, other**	1,887	1,596	74	80
Other revenue	691	499	43	89
Total revenues	**12,240**	**10,698**	**3,026**	**8,771**
Other losses	(1,404)	(237)	--	(1)
Net result - surplus	**1,585**	**2,062**	**27**	**55**
Other comprehensive income				
Net increase/(decrease) in revaluation of assets	(465)	4,029	--	--
Superannuation actuarial losses	(965)	(28)	--	--
Other	7	4	--	--
Total other comprehensive income/(expense)	**(1,423)**	**4,005**	**--**	**--**
Total comprehensive income	**162**	**6,067**	**27**	**55**

* does not include $552 million in employee related expenses related to maintenance.

** represents passenger service revenue, toll revenue including E-Toll 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.

Government contributions to all transport agencies totalled $9.7 billion, 79 per cent of total revenue

Government contributions to all agencies in the transport group totalled $9.7 billion, 79 per cent of total revenue. The contributions were used to fund agency operations, $4.9 billion in major capital works projects and the purchase of property, plant and equipment.

Other losses of $1.4 billion mainly represent write downs to asset values and the write off of assets disposed or transferred to other agencies.

The $5.4 billion change in other comprehensive income to a $1.4 billion comprehensive expense for the year to 30 June 2012 was due to decreases in asset valuations and a significant increase in defined benefit superannuation liabilities from a fall in the NSW Government bond rate used to discount the liabilities to present value.

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

Abridged Statement of Financial Position

At 30 June	Consolidated		Parent	
	2012 $m	2011 $m	2012 $m	2011 $m
Current assets	1,592	1,574	94	195
Non-current assets	95,966	92,755	--	1,030
Total assets	**97,558**	**94,329**	**94**	**1,225**
Current liabilities	3,126	3,230	94	213
Non-current liabilities	5,702	3,951	--	837
Total liabilities	**8,828**	**7,181**	**94**	**1,050**
Net assets	**88,730**	**87,148**	**--**	**175**

The State spent $2.0 billion during the year, maintaining its $94.1 billion investment in roads, rail, buses and ferries

Non-current assets at 30 June 2012 include $65.6 billion from Roads and Maritime Services and $26.2 billion from RailCorp. The $96.0 billion in non-current assets includes the State's $94.1 billion investment in roads, rail, buses and ferries. Transport agencies spent $2.0 billion during 2011-12 maintaining these assets.

Liabilities at 30 June 2012 include borrowings of $2.8 billion, mostly $1.1 billion by RMS and $613 million by RailCorp. They also include employee benefit provisions of $3.3 billion, mainly comprising $1.5 billion from RMS and $1.3 billion from RailCorp. Employee benefit provisions include $2.0 billion for defined benefit superannuation liabilities.

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

Abridged Service Group Information

The Department's net result by service group, excluding government contributions is detailed below:

Year ended 30 June	Actual net result deficit $m		Actual net assets/ (liabilities) $m	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Rail services	3,085	2,744	26,093	26,153
Bus and related services	1,315	1,178	231	243
Roads and maritime services	3,258	2,319	62,159	60,680
Ferry services	110	82	85	84
Integrated transport services	8,058	7,380	173	(10)
Inter-services eliminations	(7,749)	(7,162)	(11)	(2)
Total all service groups*	**8,077**	**6,541**	**88,730**	**87,148**

* If government contributions of $9.7 billion ($8.6 billion) are included, the net deficit for the service groups equals the net surplus of $1.6 billion ($2.1 billion) reported in the abridged statement of comprehensive income.

Integrated transport services include the provision of grants to the other service groups. Bus and related services includes the results for State Transit Authority and the costs of services provided by private sector bus operators.

Department Activities

The *Transport Legislation Amendment Act 2011* created Transport for NSW on 1 November 2011 to take over the roles and functions previously carried on by the Department of Transport.

The Department continues to provide policy advice to the Minister for Transport and the Minister for Roads and Ports.

For further information on the Department refer to www.transport.nsw.gov.au.

Public Transport Ticketing Corporation

Audit Opinion

I issued an unqualified audit opinion on the Public Transport Ticketing Corporation's 30 June 2012 financial statements.

Operational Snapshot

The Corporation was responsible for managing the design, delivery, implementation and operation of a new integrated Electronic Ticketing System (ETS) for public transport users and operators in Greater Sydney. The system will involve the use of the Opal smart card and will cost the State about $1.2 billion (2010 dollars) over the 15-year contract term. The Opal smart card will be progressively delivered to all target modes of public transport starting with ferries in late 2012.

Key Issues

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

Discontinued Tcard Project

Recommendation

Transport for NSW and Treasury should urgently determine the most cost effective way to extinguish the borrowings for the discontinued Tcard project.

Over $115 million was spent on the discontinued Tcard project and associated litigation, with the State recovering only $32.0 million in damages

In February 2012, the Corporation settled the litigation it brought against the private sector contractor involved in the discontinued Tcard project. The Corporation retained about $27.0 million it had previously recovered and received an additional $5.0 million cash payment. The private sector contractors discontinued their cross-claim against the Corporation.

Note: The Tcard reader and ticket on a bus during field trials. Photo: Fairfax Media, Bob Pearce.

The Corporation advises that at 30 June 2012, over $115 million had been expended on Tcard and related interest payments. The litigation alone cost $19.9 million in legal fees and support costs.

Most of the expenditure associated with the project and the litigation has been funded through borrowings. At 30 June 2012, total Tcard borrowings were over $110 million and these amounts remain outstanding at the date of this report. Interest on these funds totalled $27.3 million at 30 June 2012, representing 24 per cent of the total Tcard expenditure.

The NSW taxpayer is continuing to incur over $300,000 a month in interest charges related to this discontinued project. Transport for NSW and Treasury are still determining the most appropriate way to extinguish the Tcard liabilities.

The Tcard project is still costing NSW taxpayers over $300,000 per month

This project was terminated on 23 January 2008 on the basis the contractor failed to meet the relevant milestone dates in the contract. The Corporation claimed the contractor failed to submit a satisfactory remediation program, and sought damages in excess of $70.0 million.

Performance Information

The Corporation made further significant progress with the design and implementation phase of the ETS in 2011-12. The major achievements during the year include:

- managing the installation of new ETS-compatible bus driver consoles, with over 2,700 installations on private buses due to be completed within the budgeted timeframe of December 2012
- installing infrastructure at 60 RailCorp stations to enable Opal card readers to be fitted in the future
- managing the installation of about 50 new ticketing gates at Sydney Ferry wharves
- commencing analysis to facilitate the roll out of the Opal card to Sydney's light rail network
- incurring $81.1 million in capital costs on the ETS project, including $38.8 million in milestone costs for Cubic Transportation Systems (Australia) Pty Ltd, $21.2 million for work completed by the transport operators and $2.6 million to the Independent Certifier
- maintaining the total project budget at $1.2 billion over the 15-year contract term and keeping the rollout schedule within the budgeted timeframe.

Note: An example of new Video Graphic Array (VGA) displays that have been installed on RailCorp ticket barriers.

Other Information

Electronic Ticketing System for the Greater Sydney Region

Transport for NSW advises the rollout of the Electronic Ticketing System is on track and within budget

The ETS contract was awarded to Cubic in May 2010. Cubic, as the lead contractor for the Pearl Consortium, which includes Downer EDI Engineering Power and the Commonwealth Bank of Australia, will build and then operate and maintain the ETS for a period of 15 years.

Transport for NSW advises the rollout of the ETS is on track and within budget. The Opal card is being introduced on a limited basis on ferries from December 2012 and will become progressively available across further ferry routes throughout 2013. The Opal card will then be introduced on Sydney's trains from mid 2013 and on all buses after that.

When the Opal card is fully rolled out across ferries, trains and buses, existing magnetic stripe paper tickets are planned to be phased out. Transport for NSW is developing detailed transition plans to ensure transport users and operators migrate successfully from the current ticketing systems to the new Opal cards.

The total cost to build and maintain the ETS on ferries, trains and buses over the 15-year term of the contract is $1.2 billion. This is made up of:

- $413 million in fixed charges payable to Cubic
- $264 million in variable charges payable to Cubic over approximately ten years
- $528 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.

The inclusion of the Light Rail Network was not originally in the scope of the ETS contract and will result in a variation to the final budget, the amount of which has not yet been determined.

The initial operating and capital costs for the ETS project will be funded through borrowings. Total forecast borrowings for the project have increased from $415 million in 2010-11 to around $542 million in October 2012. The expected interest expense to be incurred over the 15-year life of the contract has also increased to $193 million ($135 million in 2010-11). Transport for NSW advises the increase in borrowings and interest are related to changes in the expected timing of capital expenditures. Cost reductions have been identified over the operational phase of the ETS which offset the increased borrowing and interest expenses.

Transport for NSW is currently investigating the most appropriate options to repay the loans and fund ongoing operating and capital costs of the system. Previously, it was anticipated 10.4 per cent of ETS revenue over the operational period of the system would be applied to meet these commitments.

The ETS will operate on the greater Sydney public transport network, including private sector entities providing public transport, such as private bus companies. It will extend as far as Newcastle and the Hunter region, as well as Wollongong, the Illawarra and the Blue Mountains. Transport for NSW expects the ETS will result in:

- avoided capital and operating costs 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.

Transport Restructure

The Corporation's, assets, rights and liabilities were transferred to Transport for NSW on 30 June 2012. The Corporation was then dissolved on 1 July 2012.

For further information on this and other transport restructures, refer to the Transport Overview section earlier in this report.

Financial Information

Abridged Statement of Comprehensive Income

Year ended 30 June	2012 $'000	2011 $'000
Government contributions	16	128
Other revenue	5,189	617
Total revenue	**5,205**	**745**
Personnel services expenses	1,166	1,255
Finance costs	10,461	6,746
Other expenses	12,844	10,934
Total expenses	**24,471**	**18,935**
Net result - deficit	**19,266**	**18,190**
Total comprehensive expense	**19,266**	**18,190**

The significant increase in other revenue was due to the settlement received on finalisation of the Tcard litigation. The increase in other expenses was associated with the increased finance costs for the ETS project and higher litigation expenditure during the period.

Abridged Statement of Financial Position

At 30 June	2012* $'000	2011 $'000
Current assets	8,109	6,679
Non-current assets	146,632	65,634
Total assets	**154,741**	**72,313**
Current liabilities	134,701	120,808
Non-current liabilities	153,105	65,304
Total liabilities	**287,806**	**186,112**
Net liabilities	**133,065**	**113,799**

* The published financial statements of the Corporation disclose nil balances on the Statement of Financial Position at 30 June 2012 due to the transfer to Transport for NSW. The amounts above represent PTTC's financial position prior to the transfer of all assets, rights and liabilities to Transport for NSW on 30 June 2012.

The $81.0 million increase in non-current assets was due to costs incurred on the ongoing development of the ETS project. The $102 million increase in total liabilities was due to the Corporation borrowing funds to develop the ETS project and support its operating and litigation costs.

Corporation Activities

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

The Corporation has been dissolved and its functions assumed by Transport for NSW.

For further information on the electronic ticketing project and Transport for NSW, refer to www.transport.nsw.gov.au.

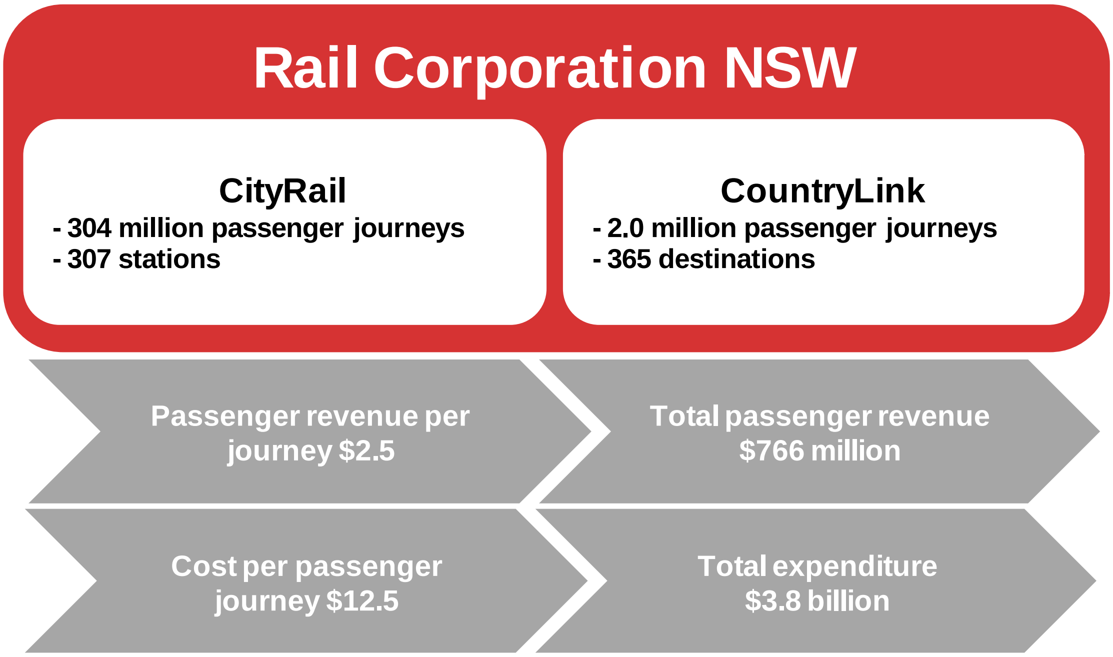
Rail Corporation of New South Wales

Audit Opinion

I issued unqualified audit opinions on the Rail Corporation of New South Wales' (RailCorp) and its controlled entity's 30 June 2012 financial statements.

The following comments are for the consolidated entity, unless otherwise stated.

Operational Snapshot



Key Issues

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

Rolling Stock Acquisitions and Replacement

The current RailCorp Rolling Stock acquisition program is planned up to 2015. It will meet the required capacity for the suburban network assuming 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 2012
74 new Outer Suburban Cars-Stage 3	30/06/2012	30/06/2012	--	370	370	74
25 new Outer Suburban Cars-Stage 3A	05/03/2013	05/03/2013	--	104	104	--
626 new cars via Public Private Partnership	05/09/2013	14/05/2015	20(a)	--(c)	2,656(b)	80

Source: RailCorp (unaudited).

a 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.

b Carriages, including ancillary and enabling capital costs of $794 million.

c 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 (Waratahs) via Public Private Partnership

The Reliance Rail project was facing up to $250 million in extra costs and up to $1.0 billion in replacement funding

The Reliance Rail consortium has experienced financial difficulties, but is continuing with the project. The consortium has also experienced problems in delivering cars to the contracted timetable and fully meeting RailCorps' requirements. The final delivery of remaining cars is now anticipated to be 20 months late.

The NSW Government has agreed to commit $175 million in 2018 in return for 100 per cent of the equity in Reliance Rail, if required, to support the project. This investment is conditional on the successful delivery of the 78 Waratah trains and Reliance Rail's ability to refinance its existing debt. Without this agreement, Treasury estimated the project could face up to $250 million in extra costs and up to $1.0 billion in replacement funding.

An additional nine eight-car trains (72 cars) achieved practical completion by 30 June 2012, bringing the total cars delivered up to 30 June 2012 to 80 cars. The remaining 68 trains (546 cars) will be progressively introduced into service, with all cars to be in operation no later than May 2015, twenty months after the initial target date. These cars operate on selected corridors, where the electrical infrastructure continues to be upgraded.

Each train in service to date has been recognised as a leased asset valued at $23.8 million, excluding financing and operating costs.

Total payments by RailCorp to Reliance Rail, including finance costs, over the period of the contract are estimated to be $9.8 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's 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 originally entered into the Rolling Stock Public Private Partnership contract with Reliance Rail on 7 December 2006 to:

Failure to upgrade electrical infrastructure could impact RailCorp's ability to run its Waratah services

- 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's 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.

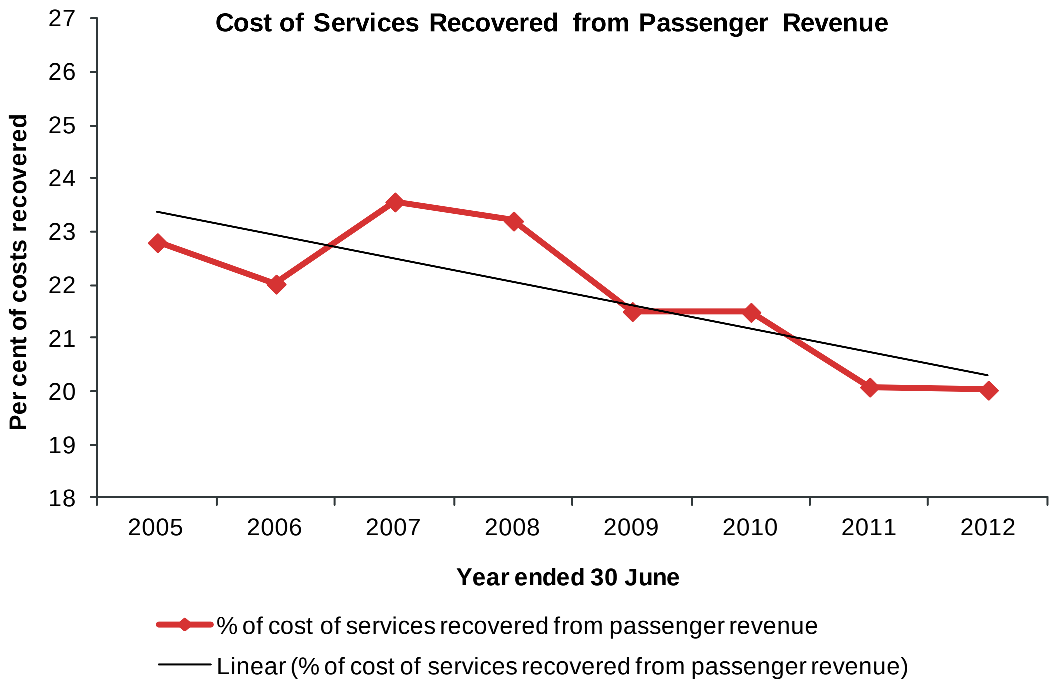
RailCorp is spending $871 million to upgrade its electrical infrastructure assets. This is necessary to operate the Waratah services without compromising reliability. It is important RailCorp completes this electrical upgrade on time. Failure to do so could impact RailCorp's ability to run its Waratah services. Total expenditure to 30 June 2012 was $255 million ($183 million to 30 June 2011). Some of the works already completed by RailCorp include substations, overhead wiring and feeders.

Passenger revenue covered only 20 per cent of Railcorp's cost of operations in 2011-12

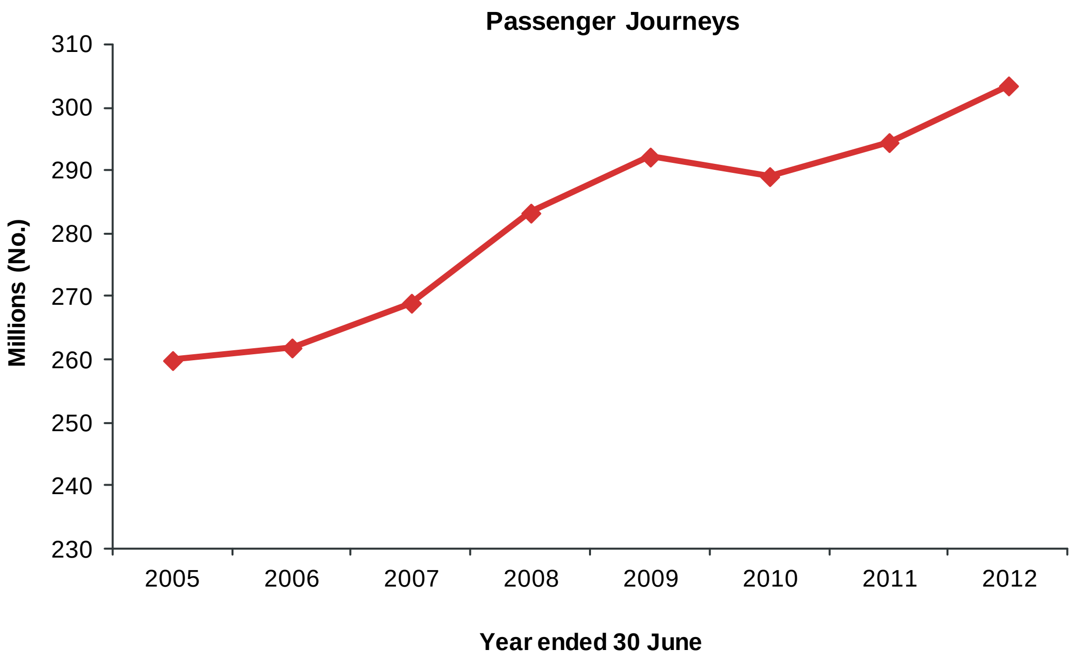
Responsibility for this project has been transferred to Transport for NSW.

Passenger Revenue and Journeys

Passenger revenue covered only 20 per cent of the cost of operations in 2011-12. Costs recovered from passenger journeys have declined over the last four years due to increasing expenses in employee related and maintenance activities. Constraints on fare increases and the impact of the Global Financial Crisis have also impacted passenger revenue.



Source: RailCorp (unaudited).



Source: RailCorp (unaudited).

CityRail passenger journeys increased by 3.1 per cent, from 295 million in 2010-11 to 304 million in 2011-12. The increase in journeys was above the forecast growth rate of 2.9 per cent. RailCorp advises the increase is mainly due to the improvement in economic conditions and its historical long-term average patronage growth rate is approximately 1.5 per cent. RailCorp reports that since July 2007 cumulative growth has been approximately 12.8 per cent, in line with the NSW 2021 plan target. The graph below shows the increase in passenger journeys since 2005.

For more information, please refer to the Bureau of Transport Statistic website www.bts.nsw.gov.au.

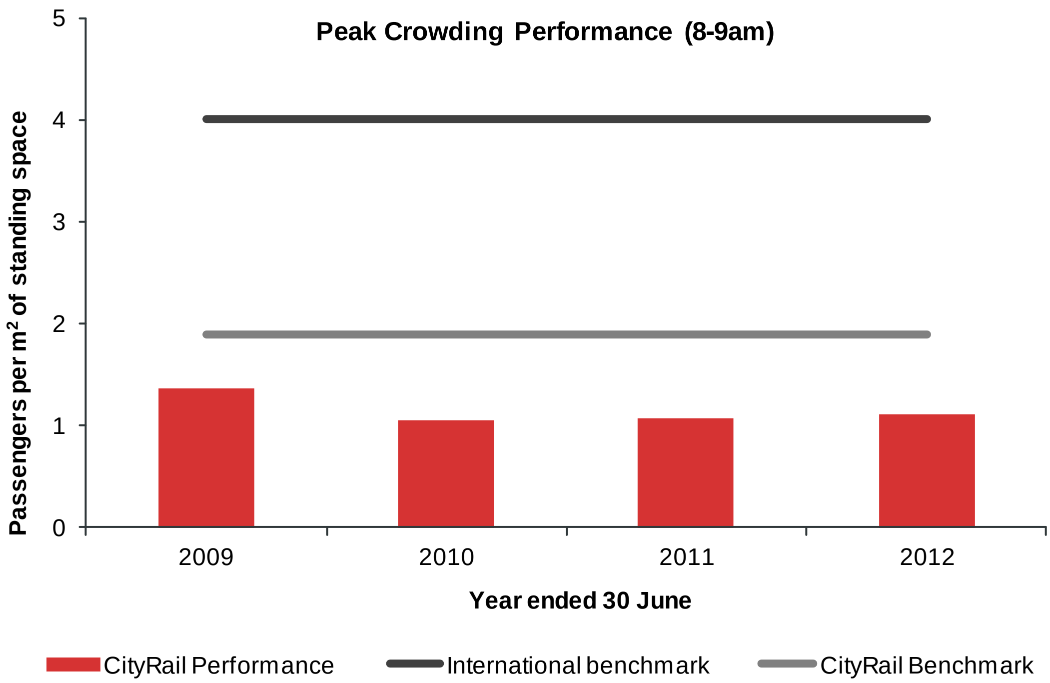
Patronage on most suburban and inter-city lines increased between 0.9 per cent and 23.4 per cent. The highest increase in number of passenger journeys was on the Airport line, which increased by approximately 0.9 million passenger journeys, followed by the Illawarra, Eastern Suburbs and Western lines, which each increased by approximately 0.9 to 0.7 million passenger journeys. Across the entire CityRail network, patronage only declined on the Carlingford line by 5.8 per cent and the Southern Highlands line by 0.4 per cent in 2011-12.

Patronage on the airport line has increased after the NSW Government negotiated the removal of access fees at two stations

RailCorp advises patronage on the airport line has increased after the NSW Government negotiated the removal of the station access fees at Green Square and Mascot stations in March 2011.

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. Transport for NSW now has responsibility for measuring crowding on trains.

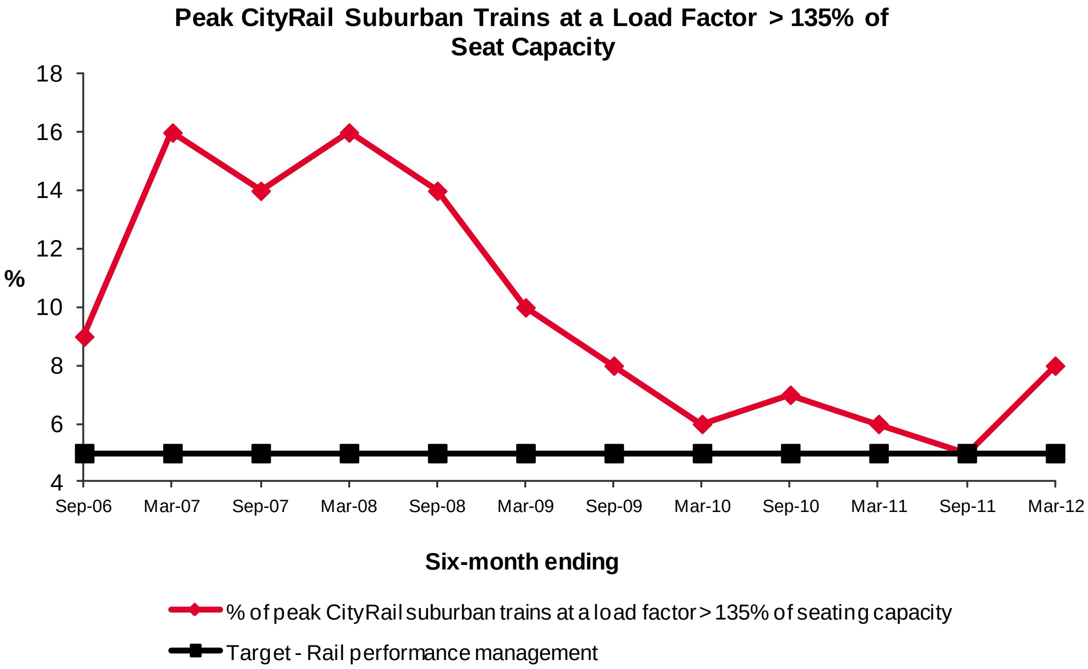


Source: RailCorp and TfNSW (unaudited).

The March 2012 survey recorded eight per cent of peak trains carrying more passengers than the 135 per cent seating capacity target

CityRail's trains continue to compare well against a global benchmark of no more than four passengers per square metre, achieving an average of 1.1 passengers in 2011-12 (1.1 in 2010-11). This is well below RailCorp's own internal target of 1.9 passengers per square metre.

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 seating capacity, consistently exceeded the former target of five per cent, set by the minister in the Rail Service Contract. The March 2012 survey recorded eight per cent of peak trains carrying more passengers than the 135 per cent seating capacity target (three per cent above the previous survey).



Source: RailCorp (unaudited).

RailCorp is very aware of the issue of crowding on the network and continues to introduce initiatives to address the issue including:

- a new timetable implemented in October 2012 designed to provide a better balance between demand and capacity. The timetable will improve spacing of trains for more of an even distribution of loads across services. The timetable has also introduced additional services during peak periods to help reduce peak loads
- the introduction of new OSCAR and Waratah trains during the year, with eight-car trains replacing six-car trains. The Waratah replacement program is a long-term project increasing the fleet size
- strategies to reduce the time trains remain at a station (dwell times) for city stations. Reduced dwell times will allow faster more regular services.

Transport for NSW is implementing new a process to measure train crowding. The process involves measuring crowding on its services more frequently and in more detail, and analysing the crowding patterns. This will show which services are most affected and enable RailCorp to better target its responses. The results of the new process are not yet available.

Procurement System

Recommendation

Rail Corporation of New South Wales should continue to take action to reduce the late payment of its suppliers.

Late payments to suppliers increased from $896 million in 2010-11 to $1.0 billion in 2011-12

In previous years, I reported s Corporation of New South Wales experienced significant system defects with its procurement system, ARIBA, since implementation in 2009. A total of $3.1 million has since been spent on remediation of the system. Remediation work was completed in February 2012 which resulted in 26 software enhancements to ARIBA.

As a result of management's continuous effort, duplicate payments have reduced to $160,000 in 2011-12 from $544,000 in 2010-11. On-time payments to suppliers improved to 85.3 per cent for 2011-12 compared to 70 per cent in 2010-11, though the result remains below RailCorp's target of 90 per cent. However, the value of late payments to suppliers increased from $896 million in 2010-11 to $1.0 billion in 2011-12.

RailCorp advised that subsequent to year-end on-time payments have exceeded its target of 90 per cent.

Overtime

In June 2012, I reported on managing overtime at RailCorp and Roads and Maritime Services in my Performance Audit Report to Parliament. RailCorp advises it will respond to my seven recommendations by:

- increasing analysis and reporting of overtime to enable better transparency and identification of linkages to sick leave and job vacancies (by 31 December 2012)
- introducing overtime costs ratios at a divisional level (by 31 December 2012)
- identifying efficiencies in train crewing (ongoing)
- preparing a plan to accelerate the revision of work practices (by 31 December 2012)
- prepare a plan to improve rostering and work scheduling to minimise penalty payment, (by 31 December 2012)
- establishing operational area targets for overtime.

Overtime payments by RailCorp in 2011-12 decreased as a percentage of base salary and wages expense to 10.6 per cent (11.1 per cent in 2010-11). Actual overtime continues to represent a significant part of employee expenses, amounting to $135 million ($134 million), and is partly attributable to ongoing essential maintenance of track work, implementation of capital budget projects and emergency situations. RailCorp's employees who were paid overtime received on average $11,052 in payments in 2012-11 ($10,643). In addition, 75.5 per cent (77.5 per cent) of RailCorp's employees received a payment for working overtime during the year.

A total of 287 employees were paid 50 per cent or more of their annual salary in overtime, down from 442. The table below shows the number of employees paid overtime, split by overtime paid as a percentage of annual salary.

A total of 287 employees were paid 50 per cent or more of their annual salary in overtime, down from 442 in 2010-11

Year ended 30 June	2012		2011	
Overtime paid as a percentage of annual salary	**Number of employees**	**Overtime paid $'000**	**Number of employees**	**Overtime paid $'000**
90-100	1	59	4	226
80-89	7	319	8	395
70-79	15	641	42	1,775
60-69	62	2,555	101	4,157
50-59	202	7,281	287	10,160
40-49	641	18,931	643	18,463
30-39	1,365	30,419	1,194	26,120
20-29	2,224	34,791	2,023	31,193
10-19	3,155	28,781	3,114	27,985
>0-9	4,549	11,286	5,146	13,219
Nil overtime	3,966	--	3,649	--
Total	**16,187***	**135,063****	**16,211***	**133,693****

Source: RailCorp (unaudited).

* Number of employees includes all staff who received overtime 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 $137 million in 2012 ($131 million).

The top ten overtime earners in 2012, based on overtime paid as a percentage of their annual salary, have been included in the table below. The 2011 comparatives for these same employees are also shown below.

Year ended 30 June	2012			2011		
Employee	**Percentage of overtime to salary**	**Annual salary $**	**Overtime $**	**Percentage of overtime to salary**	**Annual salary $**	**Overtime $**
A	92.1	64,099	59,004	84.6	61,937	52,425
B	89.1	50,793	45,254	89.1	49,074	43,704
C	85.4	46,587	39,798	63.7	45,012	28,667
D	84.5	64,099	54,171	72.5	61,937	44,877
E	82.6	56,326	46,505	71.1	54,422	38,706
F	82.0	56,326	46,179	73.4	45,012	33,024
G	81.9	56,326	46,140	96.4	54,422	52,485
H	80.9	50,793	41,113	75.3	49,074	36,936
I	79.2	64,101	50,737	79.7	61,933	49,353
J	78.3	69,888	54,739	86.7	67,525	58,522

Source: RailCorp (unaudited).

The highest overtime paid to an employee was $66,505 in 2011-12 ($72,103 in 2010-11).

The highest overtime paid to an employee was $66,505 in 2011-12

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 recognises the need to actively monitor overtime expenditure. Strategies implemented in the year have helped 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

Customer Service and Feedback

RailCorp is continuing initiatives to improve customer service as part of the Fixing The Trains reform program. This includes, and in some cases further develops, initiatives first implemented as part of the previous Everyday Service Essentials Program.

RailCorp advises five remaining initiatives of the Everyday Service Essentials Program carried over from last year. The frontline service model and behaviours initiative was completed in 2010-11, with the remaining initiatives incorporated into the Fixing the Trains program moving forward. Selection of further Customer Experience Improvement projects is made in conjunction with Transport for NSW.

Total complaints in 2011-12 increased by 9.7 per cent to 29,219 (26,647 in 2010-11). Compliments increased by 32.1 per cent on the prior year. The table below shows that only complaints about the environment and timetables fell in 2011-12. All other complaints by key performance indicator (KPI) increased in 2011-12.

Year ended 30 June Complaint type	2012	2011	Increase/ (decrease)	Increase/ (decrease) %
Service	5,346	4,922	424	8.6
Ticketing	4,179	3,591	588	16.4
On-time running	3,924	3,333	591	17.7
Staff	3,252	3,215	37	1.2
Information	2,615	2,296	319	13.9
Facilities	1,962	1,813	149	8.2
Safety	1,924	1,817	107	5.9
Cleanliness	1,920	1,515	405	26.7
Environment	1,663	1,778	(115)	(6.5)
Security	1,490	1,312	178	13.6
Timetable	547	672	(125)	(18.6)
Internal matters	232	222	10	4.5
Claim	165	161	4	2.5
Total complaints	**29,219**	**26,647**	**2,572**	**9.7**
Total compliments	**3,026**	**2,290**	**736**	**32.1**

Source: RailCorp (unaudited).

Service remains the major area of complaints, representing 18.3 per cent of all complaints during 2011-12

Service remains the major area of complaints, representing 18.3 per cent of all complaints during 2011-12. Service complaints relate to comfort and convenience experienced by the customers. As in the previous year, onboard temperatures were the biggest single cause of complaints although these dropped from 1,247 to 1,092. RailCorp advises the progressive replacement of non-air conditioned rolling stock will continue to reduce this complaint, but passengers are demanding immediate solutions to the problems of onboard comfort.

Ticketing was again the next highest source of customer dissatisfaction with the third highest percentage increase in 2011-12. Online ticketing was the biggest single cause of complaints and most online ticketing feedback cited difficulties ordering, exchanging or registering tickets via the website.

Throughout the year, 125 ticket vending machines were modified to include EFTPOS facilities and 18 new EFTPOS-only machines were installed widely across the network. The aim of these machines is to improve customer convenience and help reduce queues and congestion at busy stations. Transport for NSW is also delivering the Opal electronic ticketing system. During 2012-13, Opal card readers will start to be installed on ticketing gates across the network.

Complaints about cleanliness had the highest percentage increase in 2011-12, followed by on-time running performance, which deteriorated due to critical operational incidents on the CityRail network.

CityRail advises it is improving the cleanliness of trains and stations, by:

- giving CBD and the Eastern Suburbs stations a thorough clean during CBD station closures (such as on the weekends in May and June 2012)
- undertaking consolidation and streamlining of RailCorp cleaning services and activities to deliver service improvements and cost savings to RailCorp
- refurbishing toilet facilities incorporated with modern vandal-resistant interiors designed to be easier to clean and maintain
- painting the entrance areas of 200 train carriages with a more durable graffiti-resistant paint to achieve consistency and improve cleanliness across the fleet.

On-time Running

Recommendation

Rail Corporation of New South Wales should take further actions to improve the on-time running performance of CountryLink.

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

CityRail's on-time running performance declined during the year, but exceeded the target of 92 per cent, with 93.4 per cent of peak services arriving at their destination on-time. Although this was slightly down from 94.6 per cent achieved last year, the performance indicator has now been achieved for six consecutive years.

All lines, except the south coast and eastern lines, experienced a decline in on-time running compared to 2010-11. Nine of the 16 reported lines met the 92 per cent target for the year compared to 14 lines in 2010-11. The largest changes in on-time running performance were on the Southern Highlands and Hunter lines, which fell from 90.8 to 82.6 and 92.4 to 88.1 per cent respectively.

The most common causes of peak delays in 2011-12 continue to be 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), freight train breakdowns, trespassers in the rail corridor, ill passengers requiring ambulance assistance and police operations.

For CountryLink only 62.1 per cent of services ran on time, against a target of 78 per cent

For CountryLink, only 62.1 per cent (72.7 per cent) of services ran on time, against a target of 78 per cent. RailCorp advises the major reason for this was because Australian Rail Track Corporation (ARTC) imposed speed restrictions due to track conditions in ARTC territory, especially in southern New South Wales and northern Victoria. In addition, there have been impacts from natural disasters with flooding, trees on the track and landslides, which have caused significant delays.

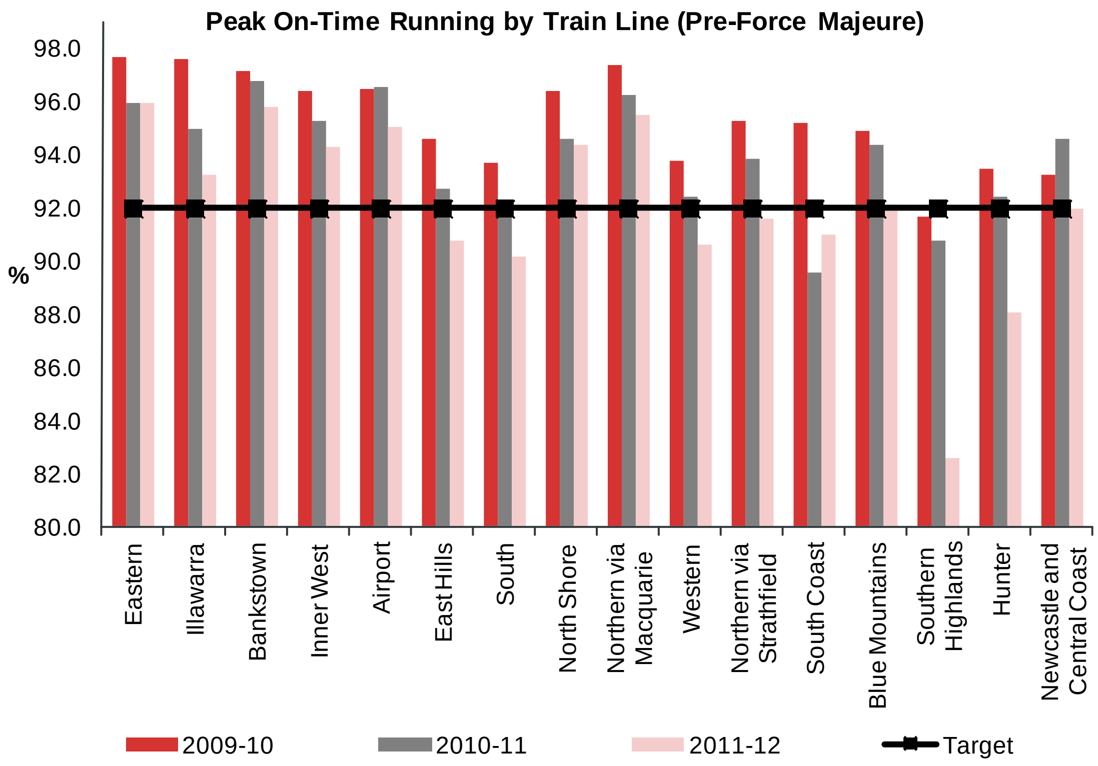
CountryLink last achieved its on-time running target in 2002-03. While significant factors outside CountryLink's direct control have impacted this outcome the continued failure to meet the performance target should be addressed.

Year ended 30 June	**Target**	**Actual***		
	2012	**2012**	**2011**	**2010**
Percentage on-time running				
CityRail-suburban	92	93.6	94.8	96.1
CityRail-intercity	92	91.7	93.2	94.3
CityRail-total	92	93.4	94.6	95.9
CountryLink	78	62.1	72.7	74.7

Source: RailCorp (unaudited).

* Before adjustment for force majeure.

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



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.

Total cancellations were 0.4 per cent while stations skipped were also 0.4 per cent. When disruptions occur, it is often necessary for trains to skip one or more stations 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.

Major Projects

Capital expenditure for the year, excluding the projects transferred from the former Transport Construction Authority, was $1.1 billion ($1.1 billion in 2010-11). This was 13.6 per cent ($128 million) below budget largely due to delays in some key projects and the timing of expenditure. In these cases the expenditure will occur in the coming years. Asset replacement and provision for growth through its capital expenditure program is a key focus for RailCorp in improving its safety and reliability performance.

The original and current cost estimates and delivery dates for RailCorp's in-house top ten major capital projects are listed in the table below. Some cost estimates include both capital and operating expenses over the life of the projects.

Project	Original completion date	Forecast completion date	Months late/ (early)	Original budget $m	Forecast final cost $m	Total costs to 30 June 2012 $m
Waratah rolling stock - Enabling and ancillary work	Dec-13	Dec-14	12	790	794	528
Outer suburban cars - Tranche 3	Jun-12	Jun-13	12	370	474	431
Automatic train protection	Dec-20	Dec-20	Nil	988	988	76
Digital train radio	Dec-13	May-15	17	191	286	99
Traction supply (power) upgrade (Waratahs)	Jun-16	Jan-16	Nil	871	871	255
Lidcombe to Granville corridor upgrade	Dec-19	Dec-16	(36)	272	386	69
Southern Sydney freight line - ARTC interface	Dec-11	Jan-13	13	82	82	60
Business finance improvement program (includes time capture to pay)	Dec-11	Mar-14	27	30	88	67
Internal emergency door release	Dec-11	Dec-15	48	52	52	11
Operations Critical Data Network	Jun-13	May-14	13	46	46	35

Source: Rail Corporation NSW (unaudited).

Delivery of these projects is managed by RailCorp. The table does not include projects delivered in partnership with the private sector or managed by Transport for NSW.

Some projects managed by Transport for NSW, but included within RailCorp's budget are:

- The North West Rail Link project - over budget by $64.0 million for 2011-12 due to compulsory land acquisitions occurring earlier than planned. For more information on the North West Rail Link Project refer to the Transport Overview comment in this volume.
- The Public Private Partnership (PPP) leased assets project - $144 million under budget, driven by delays in the Waratah trains. A total of nine Waratah train sets were delivered instead of the targeted 15 train sets during 2011-12.
- The revised Rail Clearways project - expected to be completed by January 2014 and have a budget overrun of $502 million. The original completion date was 2010 with a budget of $1.5 billion.

  The program will simplify the network to reduce the sharing of critical infrastructure and train paths. This in turn will 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 2012, ten Rail Clearways projects had been completed.

On average, two per cent of all carriages suffer a failure during peak period services per month

For further information on the above projects, refer to the comments on Transport for NSW's website.

Fleet Failures

Electric fleet failures impacting peak period services increased in 2011-12 while total reported faults decreased. Peak period electric fleet failures increased from an average of 33.7 to 37.4 incidents per month. On average two per cent of all carriages will suffer a failure during peak period services per month.

The table below analyses all reported fleet faults for each train type monitored on a 24 hour basis. Many reported faults occur outside peak times or do not directly result in a reported fleet failure.

Train type**	No. of carriages at 30 June 2012	Average age (years)	Average monthly carriage reported faults				
			Trend	Actual 2012	Rate* 2012 %	Rate* 2011 %	Rate* 2010 %
'R, S, L' Sets	496	34.9	↓	83	17	19	19
'K' Sets	160	30.0	↓	33	21	22	19
'V' Sets	224	27.4	↓	69	31	43	36
'C' Sets	56	25.5	↓	12	21	34	32
Tangara - 'T' Sets	444	20.3	↓	106	24	25	48
Millennium - 'M' Sets	141	8.6	~	25	18	18	20
OSCAR - 'H' Sets	192	2.9	↓	32	17	20	21
Waratahs	80	0.5		--	--	na	na
Total electric fleet	1793	22.6	↓	360	20	24	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 for more information.

na Not applicable – as these sets were not in service.

In 2011-12, 20 per cent of all carriages had a reported fault every month on average, a decrease over the previous year.

Seventy-seven per cent of RailCorp's electric fleet is more than 20 years old and 36.6 per cent more than 30 years old

As at 30 June 2012, about 77 per cent of RailCorp's electric fleet is more than 20 years old and 36.6 per cent are at least 30 years old.

From 2010-11 to 2011-12, the weighted average age of all sets has decreased from 23 to 22.6 years. The weighted average age is expected to continue decreasing as more Waratah and Oscar sets are introduced and older sets are decommissioned.

CountryLink average diesel fleet age as at 30 June 2012 is 26.7 years for XPT, 18.1 years for Xplorer, 17.9 years for Endeavour and 5.3 years for the Hunter set.

Maintenance expenditure on the electric fleet for 2011-12 was close to budget. RailCorp's diesel fleet maintenance was under budget by 13 per cent.

Year ended 30 June	2012			2011		
Fleet type	Actual $m	Budget $m	Variance $m	Actual $m	Budget $m	Variance $m
Electric fleet	300.8	303.6	(2.8)	328.2	322.6	5.6
Diesel fleet	54.0	62.1	(8.1)	60.9	61.6	(0.7)

Diesel fleet maintenance was well below budget due to delays with engine and bogies overhauls on the Hunter cars. In addition, the Endeavour/Explorer refurbishment was completed and resulted in lower than budgeted costs.

RailCorp has implemented initiatives to help reduce failures. These have contributed to the decline in the average monthly reported faults.

Infrastructure Performance

Recommendation

Rail Corporation of New South Wales should identify new ways to reduce incidents and delays by 30 June 2013.

The number of incidents and delays caused by infrastructure failures has increased over the past two years

The number of incidents and delays caused by infrastructure failures has increased over the past two years. The average number of monthly peak incidents attributable to infrastructure reached a low of 18.2 in 2009-10, but has been increasing since then, reaching 32.5 in 2011-12. The average number of delays per month during peak travel times has also increased from the previous year by 68.7 per cent.

Year ended 30 June	2012	2011	2010	2009	2008
Number of incidents (monthly peak average)	32.5	28.3	18.2	19.2	22.8
Number of delays (monthly peak average)	211	125.1	96.8	87.7	136.3
Total number of annual incidents (peak and off-peak)	579	576	590	606	627

Source: RailCorp (unaudited).

RailCorp spent $1.1 billion in 2011-12 on maintenance.

Annual Leave Balances

Recommendation

Rail Corporation of New South Wales should review and redress the effectiveness of its policies and procedures for managing excessive annual leave.

Over the last two years, I recommended RailCorp focus on the effectiveness of its plans to reduce excessive annual leave balances.

To date its initiatives have not been effective in reducing these balances.

RailCorp initiatives have not been effective in reducing excessive annual leave balances

The average number of annual leave hours per employee has reduced to 202.5 hours at 30 June 2012 from 203.8 at 30 June 2011. Despite this, 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 1,222 at 30 June 2011 to 1,291 at 30 June 2012. This represents 8.5 per cent (8 per cent at 30 June 2011) of total employees. At 30 June 2012, the number of employees with accrued annual leave balances in excess of 100 days has also increased to 30 employees (25 employees).

Some major initiatives RailCorp has introduced are:

- the provisions of the RailCorp Enterprise Agreement 2010 effective from November 2010 include:
  - a requirement that employees take annual leave within one year of it having been accruing
  - establishing a maximum of 40 days (or 50 days in special circumstances) annual leave accrual
  - the identification of three ways employees can clear excessive annual leave through a formal plan over 12 months, 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 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.

RailCorp advises the announcement of the Fixing the Trains Initiative and the Voluntary Separation Program resulted in employees tending to preserve their annual leave.

At 30 June	2012		2011		2010	
	Number	$m	Number	$m	Number	$m
Average annual leave hours per employee	202.5	na	203.8	na	208.4	na
Employees with excess leave days	1,291	24.3	1,222	22.5	1,056	17.0
>100 days annual leave	30	1.4	25	1.2	16	0.5

na not applicable.

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. Ensuring employees take at least two weeks annual leave per year can strengthen internal controls.

Performance Reporting

RailCorp has published a first set of performance benchmarking results, which cover the years 2007, 2008 and 2009. This benchmarking information compares CityRail's performance with the average of various international rail organisations, which will provide important information on its performance and help identify areas for improvement.

RailCorp has advised benchmarking results for 2010 and 2011 have not yet been released by the benchmarking agency.

The 2009 results show CityRail performed very well in maximising the use of cars during peak periods. It also showed CityRail's fares are the second lowest among the organisations participating in the survey.

Only 28 per cent of drivers' hours were spent driving a train in normal passenger service

RailCorp can make significant improvements across several performance indicators. CityRail performed well below other organisations when it came to train hours versus driver hours. Only 28 per cent of drivers' hours were spent driving a train in normal passenger service.

CityRail's operating costs per passenger kilometre, and maintenance costs per car kilometre were above all other organisations in the survey.

For more information on the benchmarking results, please refer to RailCorp's website www.railcorp.com.au.

Shortage of Signal Engineers for Testing and Commissioning

RailCorp continues to experience a shortage of signal engineers

RailCorp has continued to experience a shortage of signal engineers to maintain existing signals or test and commission new infrastructure assets. RailCorp currently has 82 signalling engineers with 23 unfilled positions. This shortage can lead to delays to fault rectification on existing lines which directly affects RailCorp's on time running.

There were 2,728 signal failures in 2011-12 slightly down from 2,894 in 2010-11. The shortage of signal engineers results in failures not being properly analysed and an increase in failures where no cause found.

At 30 June 2012, RailCorp had only 12 staff dedicated to supporting the commissioning and introduction into service of new signalling works, down from 15 at 30 June 2010. A further two licensed signal engineers should become available in 2012. In addition four RailCorp's staff are scheduled to complete the Signal Engineers exam by December 2012.

Other Information

Ticket Pricing and Independent Pricing and Regulatory Tribunal (IPART) Review of CityRail's fares

The NSW Government estimates not accepting IPART's full fare increase recommendation will cost $132 million over the next four years

The NSW Government increased CityRail's fares by an average of 5.4 per cent on 2 January 2012, after IPART recommended a 10.6 per cent increase. This increase came after the NSW Government had deferred any increase in January 2011, and reduced the price of monthly, quarterly and yearly tickets on 1 July 2011. The Minister for Transport has announced ticket prices will only increase by CPI unless RailCorp can demonstrate improvements to services for customers. The NSW Government estimates not accepting the full fare increase recommended by IPART will cost $132 million over the next four years.

RailCorp's proportion of costs recovered from passengers has been declining for the last seven years and was 20 per cent in 2011-12. This results in increased costs being borne by the NSW Government.

IPART has completed a review of fares for the period January 2013 to December 2015 for CityRail services. IPART issued a draft determination on 2 October 2012 with a final determination due in November 2012. IPART has proposed a maximum average fare increase of 4.4 per cent for each of the next three years. IPART's recommendation is based on its assessment that passengers should pay 28 per cent of the costs of operations and taxpayers 72 per cent.

IPART's recommendation provides Transport for NSW the flexibility to determine fares across different categories when the new Opal card is introduced for use in trains, buses and ferries.

The relationship between these proposed fares and the IPART determined fares is a matter of Government policy and is co-ordinated by Transport for NSW. Further information on the price determination can be found at www.ipart.nsw.gov.au.

Cost of Vandalism and Graffiti

Over the last four years RailCorp spent on average $42.3 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	2012 $m	2011 $m	2010 $m	2009 $m
Cost of vandalism and graffiti	26	40	55	48

Source: RailCorp (unaudited).

RailCorp spent $26.0 million to repair and remove vandalism and graffiti

In 2011-12, RailCorp spent $26.0 million to repair and remove vandalism and graffiti. RailCorp advised the most affected route by vandalism is the Western Line, which also includes the Blue Mountains and the North Shore line.

The reduction in total costs for graffiti and vandalism in 2011-12 was largely due to the successful roll-out of sacrificial window film across more of the fleet and more cost effective 'patch painting' of carriage interiors to combat graffiti. 'Mystery shopper studies' commissioned by Transport for NSW indicate these strategies are an equally effective way to manage the incidence of graffiti and vandalism impacting customers.

Further targeted strategies are being implemented in 2012-13, including a blitz on train exteriors and further prevention measures at stabling locations.

Photo taken mid-2012 at West Ryde Station.

Contractors

RailCorp has 96 fewer contractors at 30 June 2012 compared to 30 June 2011

RailCorp had 96 fewer contractors engaged at 30 June 2012 compared to 30 June 2011. In response to my previous recommendation, RailCorp advises targeted strategies and close monitoring of contractor use by senior executives resulted in a 14.9 per cent reduction in contractors to 549 (645 at 30 June 2011), and a 17.2 per cent fall in the amount spent on contractors to $77.0 million.

Duration since contractor's start date	Number of contractors	Cumulative number of contractors	Cumulative percentage (%)
More than six years	4	4	0.7
5 to 6 years	3	7	1.3
4 to 5 years	2	9	1.6
3 to 4 years	27	36	6.6
2 to 3 years	55	91	16.6
1 to 2 years	165	256	46.6
Less than one year	293	549	100.0

Source: RailCorp (unaudited).

At 30 June 2012, 46.6 per cent of contractors had been with RailCorp for more than one year and 168 (224) were paid more than $1,000 a day. Whilst 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.

Information Technology Projects

The table below outlines RailCorp's major information technology projects at 30 June 2012.

Project name	Original completion Date	Forecast completion Date	Months late (early)	Original budget $m	Forecast final cost $m	Variation unfav/(fav) $m
Station Passenger Information Rollout	Jun-10	Jun-12	24	8.7	17.0	8.3
Expansion and Support for the Automatic Ticketing Machine	Jun-13	Dec-12	(6)	21.4	27.4	6.0
Virtual Plan Room-Stage 2 and 3	Apr-10	Mar-13	35	5.8	8.7	2.9
Central Station Emergency Warning and Intercommunication System and Public Address System	Jun-11	Jun-13	24	8.4	8.5	0.1
Common Telemetry Infrastructure Program	Sept-13	Sept-13	--	22.7	19.0	(3.7)
Geographic Information System Version Migration	Dec-09	Sept-12	33	1.0	3.1	2.1
Total of major ICT projects				**68.0**	**83.7**	**15.7**

Source: RailCorp unaudited.

The forecast cost of the Station Passenger Information Rollout project is $8.3 million above its original budget due to increases in scope resulting in a 24 month delay in completing the project.

The termination of the TCard Program by the NSW Government resulted in an additional $6.0 million of costs for the Expansion and Support for the Automatic Ticketing Machine project due to the replacement of 466 electric gate motors. The project completion date was brought forward substantially due to the early delivery of the required parts.

Delays to the Virtual Plan Room-Stage 2 and 3 were the result of issues during the procurement and tender process, and a decision to split Stage 3 into two separate phases.

The Central Station Emergency Warning and Public Address System has been delayed by changes in scope for the project.

The Common Telemetry Infrastructure Program has reduced its budget by approximately $3.7 million due to revised cost estimates.

The Geographic Information System (GIS) project is delayed by 33 months as difficulties in engaging specialist GIS developers have extended the timeframes for testing and defects resolution. In addition, the forecast cost of the project has exceeded the original budget due to the need to establish new development and production application servers.

Independent Commission Against Corruption Investigation (ICAC) - Operation Monto and Chaucer

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

ICAC's last recommendation, a review of the procurement system effectiveness, was completed during 2012.

In September 2009, the ICAC completed Operation Chaucer and provided RailCorp with milestones to be completed by March 2012. The final milestone was completed during 2012.

For more information on the above reports, refer to www.icac.nsw.gov.au.

Recent Transport Restructures

RailCorp is currently working on restructuring its operations after the Minister for Transport's decision to create three additional rail related entities:

- Sydney Trains
- NSW Trains
- Transport Cleaning Service.

Over the last two years there have been 15 significant structural changes designed to improve service delivery and align the organisation to the new operating model. Further restructures will continue to occur as the 'Fixing the Trains' campaign continues.

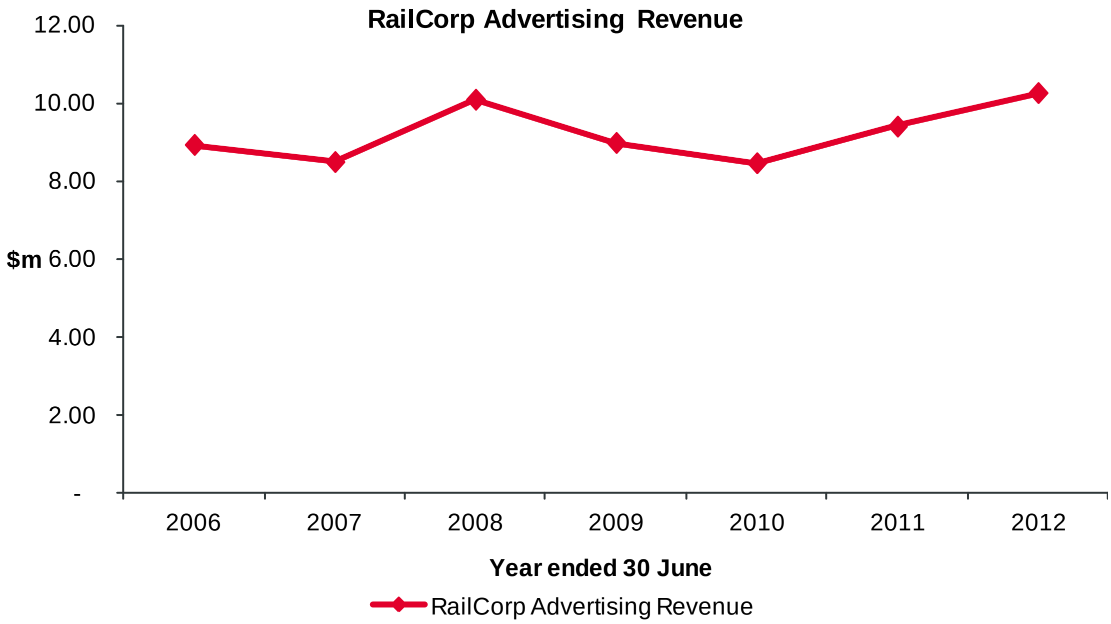
For example, RailCorp had a force of 601 Transit Officers performing primarily security and revenue protection functions. The NSW Government announced a new security model for all modes of transport, which involves transferring security functions to a new and dedicated Police Transport Command within the NSW Police Force.

As a result, RailCorp Transit Officer roles will cease to exist and a dedicated revenue protection and compliance function will be established within RailCorp with a strength of 150 officers. A staged transition has started and will conclude in the Police Transport Command assuming full responsibility for security functions, including patrols of trains, stations, interchanges, buses, ferries, secure taxi ranks and commuter car parks from the 1 January 2014.

Advertising Revenue

Outdoor advertising revenue increased by nine per cent following an 11 per cent increase in the prior year

Outdoor advertising revenue increased by nine per cent to $10.3 million following an 11 per cent increase in the prior year. The increase is due to a continued effort to improve revenue performance following the downturn during the global financial crisis. This is positive for RailCorp and further increases in advertising revenue will reduce the amount of government funding needed to fund passenger journeys.



Source: RailCorp.

RailCorp's advertising revenue consists of the revenue earned from outdoor advertising in the Sydney Metropolitan area and the licence fee for the exclusive distribution of the mX newspaper. RailCorp's assets used for outdoor advertising include rail billboards, advertising shells and cross track.

Financial Information

Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Government reimbursement for services and concessions	1,733,892	1,637,221	1,733,892	1,637,221
Capital and other government contributions	1,397,363	873,610	1,397,363	873,610
Passenger revenue	766,180	703,528	766,180	703,528
Other revenue	347,011	310,664	346,380	310,549
Total revenue	**4,244,446**	**3,525,023**	**4,243,815**	**3,524,908**
Employee related	1,616,367	1,425,771	1,615,792	1,425,612
Depreciation and amortisation	873,216	814,825	873,208	814,824
Other expenses	1,335,829	1,261,940	1,335,783	1,262,015
Total expenses	**3,825,412**	**3,502,536**	**3,824,783**	**3,502,451**
Net result - surplus	**419,034**	**22,487**	**419,032**	**22,457**
Other comprehensive income:				
Net gain/(loss) in forward foreign exchange	994	(2,573)	994	(2,573)
Net gain/(loss) in commodity swaps	(4,481)	4,524	(4,481)	4,524
Net increase in revaluation of assets	694	4,606,315	694	4,606,315
Superannuation actuarial losses	(345,091)	(20,931)	(345,091)	(20,931)
Total other comprehensive income/(expense)	**(347,884)**	**4,587,335**	**(347,884)**	**4,587,335**
Total comprehensive income	**71,150**	**4,609,822**	**71,148**	**4,609,792**

Contributions from the NSW Government for capital works increased by $524 million, including funding for the South West Rail link of $437 million and $92.0 million for the North West Rail link.

The increase in passenger revenue was due to an increase of 3.1 per cent in CityRail patronage and an average 5.4 per cent fare increase from January 2012.

The increase in employee related expenses included staff redundancy costs of $81.3 million. The increase in other expenses was primarily due to maintenance and presentation work including vegetation control and station cleanup costs of $22.7 million.

Other comprehensive income included a $345 million expense from superannuation actuarial losses on defined benefit schemes, an increase of $324 million on the previous year. The increase was caused by a decline in the NSW Government bond rate from 5.3 per cent to 3.1 per cent used in calculate the superannuation liability. A major revaluation was performed on infrastructure assets, land and buildings in the previous financial year, which resulted in the $4.6 billion increment. A major revaluation was not performed this year.

Abridged Statement of Financial Position

At 30 June	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Current assets	304,691	247,907	304,486	247,795
Non-current assets	26,240,981	24,766,501	26,240,960	24,766,484
Total assets	**26,545,672**	**25,014,408**	**26,545,446**	**25,014,279**
Current liabilities	1,336,123	1,384,592	1,335,929	1,384,493
Non-current liabilities	1,424,917	847,630	1,424,917	847,630
Total liabilities	**2,761,040**	**2,232,222**	**2,760,846**	**2,232,123**
Net assets	**23,784,632**	**22,782,186**	**23,784,600**	**22,782,156**

RailCorp received $106 million of cash and $829 million of property, plant and equipment from Transport for NSW during the year. This transfer, together with purchases of property, plant and equipment, were the main reasons for the increase in total assets.

The increase in total liabilities was mainly due to a provision for redundancies of $75.0 million and the increase in superannuation liabilities discussed above.

Corporation Activities

RailCorp is a statutory authority established under the *Transport Administration Act 1988*.

RailCorp provides passenger rail transport to greater Sydney through CityRail and rural passenger services in New South Wales and interstate 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.

Controlled Entity

Trainworks needs to improve its ability to attract visitors to generate enough revenue to operate on a sustainable basis

Rail Corporation of New South Wales's controlled entity, Trainworks Limited, reported a surplus of $1,874 for the year ended 30 June 2012 compared to a surplus of $29,802 for the prior period. It is currently reliant on funding from RailCorp, but its intention is to become sustainable over the next four years.

In 2011-12, RailCorp provided total funding of $955,000 ($369,000) to Trainworks Limited, which earned $619,000 from visitors. RailCorp contributions amounted to 60 per cent of Trainworks' revenue. It needs to improve its ability to attract visitors to generate enough revenue to operate on a sustainable basis.

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.

RailCorp registered Trainworks on 15 December 2010 as a company limited by guarantee, and it began trading from its Thirlmere site on 4 April 2011 operating a rail museum.

For further information on Trainworks refer to www.trainworks.com.au.

State Transit Authority of New South Wales

Audit Opinion

I issued unqualified audit opinions on the State Transit of New South Wales and its controlled entities' 30 June 2012 financial statements.

The following comments are for the consolidated entity, unless otherwise stated.

Operational Snapshot

In 2011-12, State Transit:

- operated 315 routes covering about 98.6 million kilometres, used 2,209 buses, employed 4,006 bus drivers, consumed 37.5 million litres of diesel, 24.5 million cubic metres of compressed natural gas and 10,758 megawatts of electricity
- checked 534,247 passengers for fare evasion and issued 15,742 penalty notices and 4,798 caution notices
- acquired 102 new buses, reducing the average fleet age from 10.9 to 10.5 years
- made a profit after tax of $7.1 million after allowing for total operating expenses for the year of $673 million.

Key Issues

For transport industry analysis refer to the Transport Overview section earlier in this report.

Being Informed of Service Changes

In November 2011, the Bureau of Transport Statistics released its transport customer survey, which surveyed 6,378 customers from the 15 bus contract regions across Metropolitan Sydney.

The Bureau of Transport Statistics reported that:

- being informed of service changes was the aspect of service delivery with highest level of customer dissatisfaction at 34 per cent
- 27 per cent of survey respondents were dissatisfied with the timeliness of bus services.

State Transit is working to address these issues through the Public Transport Information and Priority System, which is operational and was developed as part of Roads and Maritime Services Bus Priority program. It gives priority to buses at traffic signals by altering the sequencing and timing of the signals. The Public Transport Information and Priority System can inform passengers of services through text messages to mobile phones. State Transit also updates passengers on services via radio and recorded telephone messages.

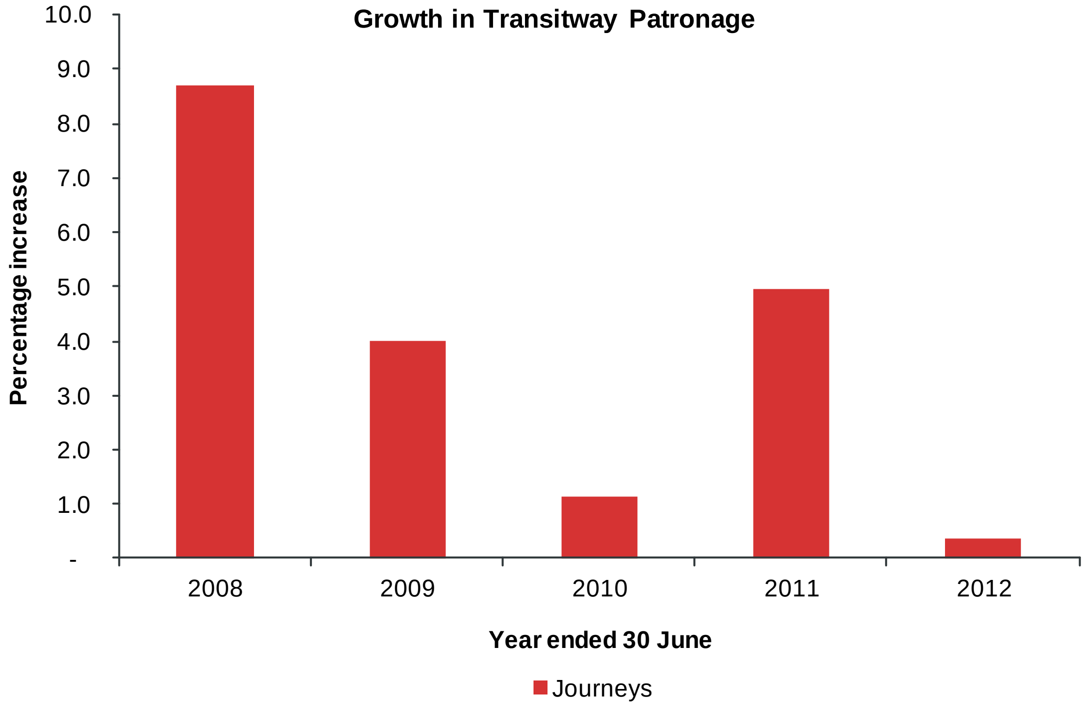
Metropolitan Bus System Contracts

In September 2012, Transport for NSW informed State Transit it will negotiate new performance based contracts with them.

The four Metropolitan Bus System Contracts operated by State Transit were due to expire on 30 June 2012. The contracts included an option to extend to 30 June 2013, which the Department of Transport exercised in October 2011.

Western Sydney Buses

The Liverpool to Parramatta Transitway is public infrastructure, built and owned by the NSW Government. State Transit has operated on the transitway since February 2003 and 20.0 million (18.1 million at 30 June 2011) passengers have used this service since it opened.



Source: State Transit (unaudited).

Since opening, transitway operations have made losses each financial year, with another loss in 2011-12 of $74,000 ($913,000 loss in 2010-11). Western Sydney Buses' net liabilities were $16.8 million at 30 June 2012 ($16.7 million at 30 June 2011). State Transit will continue to operate the services until the Director General of the Department of Transport appoints a new operator.

Crowding on Buses in Sydney

Last year, I recommended State Transit evaluate its bus services to align them with commuter demands especially during peak times.

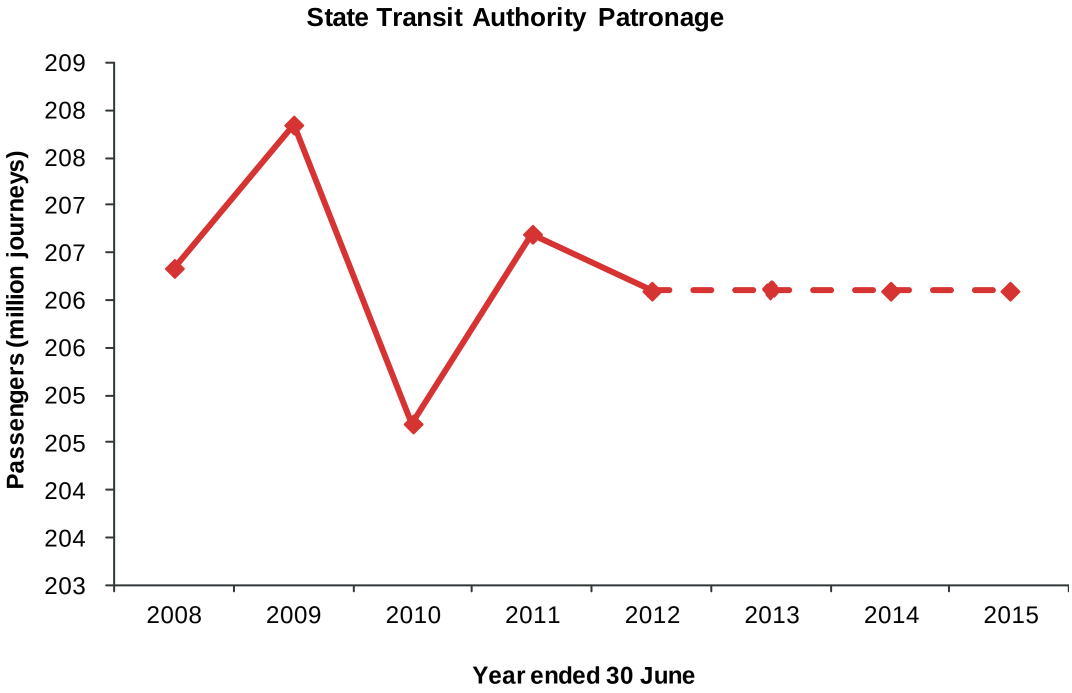
State Transit advises services in each Metropolitan bus region are reviewed annually and it operated 63,000 additional timetabled services in 2011-12 to ease crowding. Transport for NSW determines bus routes and frequency of services.

Performance Information

State Transit has reduced employee overtime, and the average age of its fleet, while patronage has slightly decreased.

Patronage for Sydney buses is expected to be stable over the next three years

Growth in Patronage and Bus Services



Source: Actual passengers from 2011-12 State Transit Authority's Annual Report (unaudited). Projections provided by State Transit (unaudited).

State Transit patronage decreased by 600,000 passenger journeys in 2011-12

State Transit's patronage decreased by 0.5 per cent in 2011-12 (1.0 per cent increase in 2010-11) to 206 million passenger journeys (207 million in 2010-11). State Transit advises the decrease was due to a patronage shift to CityRail services when the station access fee at Green Square and Mascot railway stations was removed.

Sydney Buses carried 191 million passengers (192 million in 2010-11). Newcastle Buses and Ferry Service patronage remained relatively stable at 12.0 million passengers (12.1 million) and patronage on the Liverpool to Parramatta Transitway was 2.8 million (2.8 million). Sydney Buses operates 287 routes in four regions across the Sydney Metropolitan area.

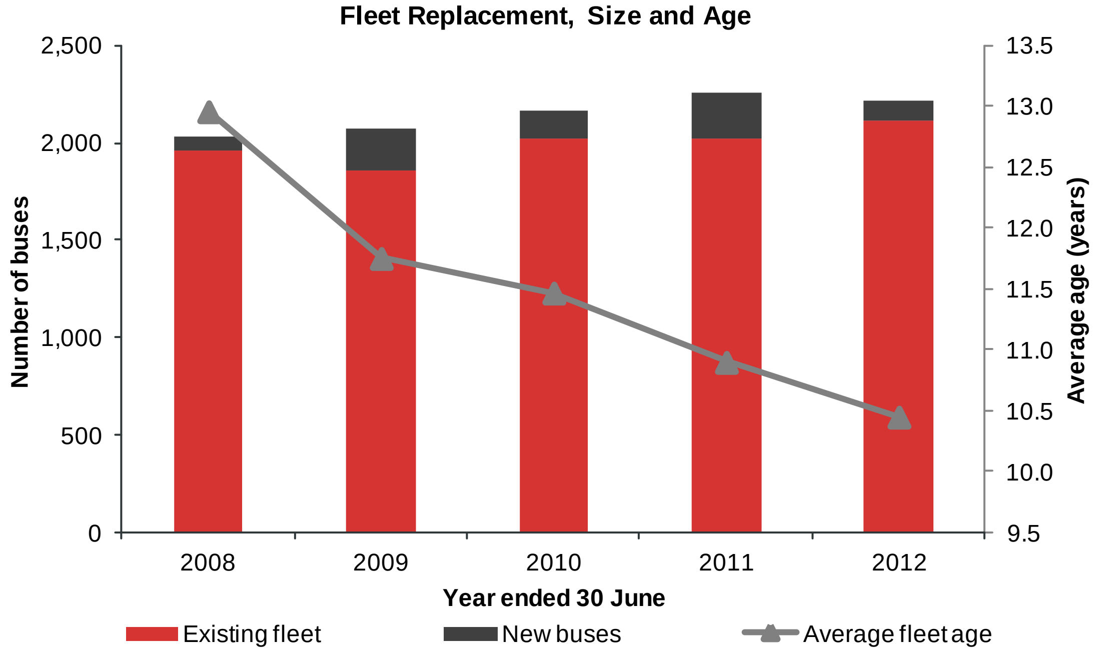
In 2011-12, State Transit operated 5,599,000 services (5,536,000 in 2010-11), an increase of 1.1 per cent.

Kilometres travelled is a measure of the extent of services delivered. During 2011-12, State Transit's buses travelled 98.6 million kilometres (97 million kilometres). Sydney Buses accounted for approximately 90 per cent of this travel with all four Sydney etropolitan regions totalling 88.2 million kilometres (87 million kilometres).

Bus Fleet

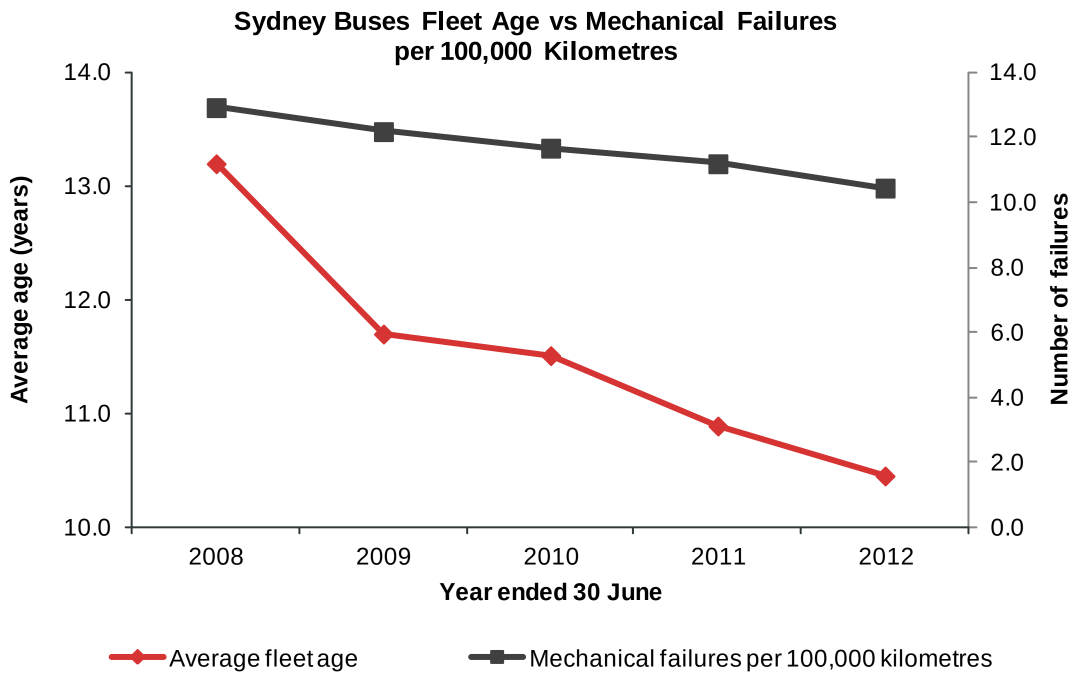
At 30 June 2012, State Transit's bus fleet totalled 2,209 buses (2,252 at 30 June 2011). State Transit acquired 102 new buses during the year (235 in 2010-11) and 131 new buses (104) are planned for 2012-13, including two buses not received in 2011-12. Under the Metropolitan Bus System Contracts, the average age of the fleet is to remain below 12 years. The purchase of new buses and retirement of older ones during the year reduced the average age of the fleet from 10.9 years to 10.5 years.

Mechanical failures are falling as the average age of buses decreases



Source: 2011-12 State Transit Annual Report (unaudited).

As older buses are retired and replaced, the incidence of mechanical failures decreases.



Source: State Transit Authority of New South Wales (unaudited).

MyZone Fares

State Transit implemented the MyZone ticketing system in April 2010. The number of ticket resellers decreased slightly from 1,524 in 2010-11 to 1,488 in 2011-12 as a result of natural attrition of resellers.

Overtime

Overtime payments in 2011-12 totalled $42.3 million ($47.9 million in 2010-11), were 12.1 per cent (14.9 per cent) of base salaries and wages, and averaged $8,459 ($8,266). Over 87 per cent (approximately 88 per cent) of employees received an overtime payment during the year.

For 38 (81) employees, overtime paid was more than 50 per cent of their annual salary, with the highest payment to a single employee being $34,425 ($50,013).

State Transit advises that under its award all Sunday work is paid as overtime and bus operators work a six day roster. Improved rostering practices have resulted in a significant decrease in the overtime paid to employees in the bus operations and maintenance department.

State Transit monitors bus driver hours worked to ensure all bus operators are working within the workplace health and safety guidelines.

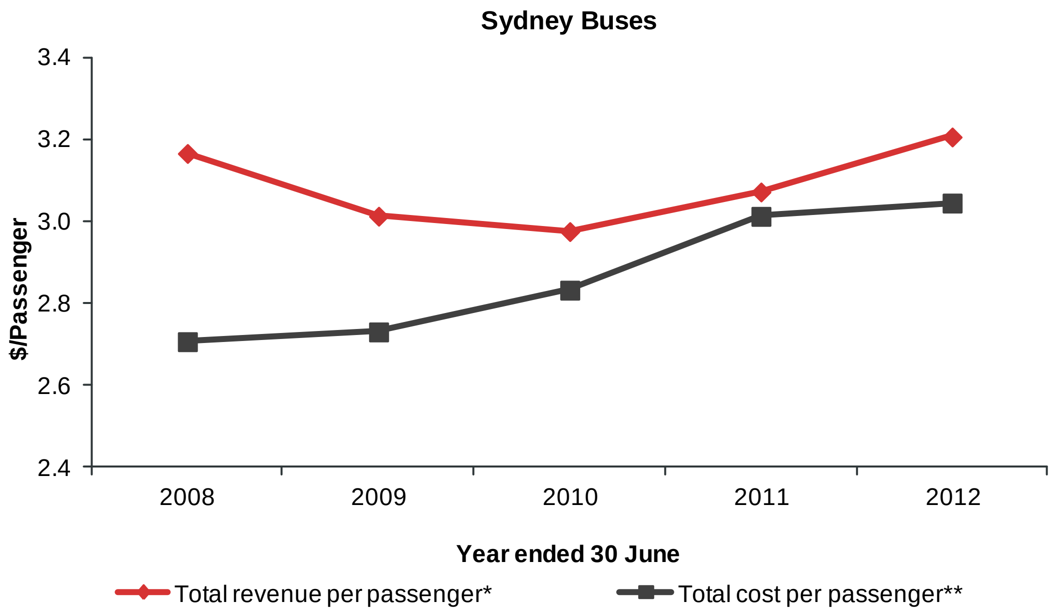
Status of Key Transport Projects

The status of State Transit's key transport capital project at 30 June 2012 is shown below.

Project name	Original target date	Forecast completion date	Months delay	Original budget $'000	Revised budget $'000
233 rigid buses	30 June 2013	30 June 2013	--	105,481	105,481

The 233 new buses ordered are all replacement buses. During 2011-12, 102 buses were delivered and 131 buses are due in 2012-13. State Transit advises all buses will be delivered within the contract schedule.

Revenue versus Cost (Per Passenger)



Source: 2011-12 State Transit Authority's management accounts (unaudited).

* Revenue includes payments received under provisions of the Metropolitan and Outer Metropolitan Bus System Contracts.

** Actuarial gains/(losses) of defined benefit superannuation schemes are excluded from total cost per passenger to remove volatility.

Total revenue per passenger has marginally increased from $3.07 to $3.21. This is primarily due to recovery of the costs of providing new services and interest income on the additional lease for the 102 buses delivered in 2011-12. Under the Metropolitan Bus System Contracts, State Transit receives revenue to operate the services. Part of the revenue represents the recovery of fixed costs, which remains constant in real terms over the term of the contract.

The total cost per passenger has increased to $3.05 ($3.01), primarily due to increased employee benefit expenses and finance costs.

On-time Running

Last year, I recommended State Transit consider using GPS technology to measure on-time running performance on each route. State Transit advises a number of initiatives are being introduced aimed at improving on-time running and reporting. All State Transit buses have been fitted with the Public Transport Information and Priority System, which uses satellites to identify late running buses and communicate with the Roads and Maritime Services' traffic management system (via GPS) to obtain priority at traffic lights.

On-time running performance was 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 is monitored. In early 2012, Transport for NSW implemented a different regime to measure on-time running of bus services under the Metropolitan Bus System Contracts. This is now measured between 6 am and 10 am on three separate days every month across 11 locations in State Transit's operating areas. In 2011-12, none of the four regions met the State's target of 95 per cent on-time running. State Transit advises planned and unplanned traffic events significantly impacted all road transport, including buses, which are not within State Transit's control. These events included traffic accidents, special events, wet weather conditions and road works.

State Transit works with Transport for NSW and Roads and Maritime Services to expand bus priority measures to enhance the reliability of bus services on major corridors.

Other Information

Compliance Review Program

In 2011-12, I reviewed State Transit's compliance with Treasury Policy and Guidelines Paper TPP 09-05 'Internal Audit and Risk Management Policy for the NSW Public Sector'. My review indicated State Transit had complied with the policy and no exceptions were noted. The policy aims to establish effective internal audit functions, audit and risk committees and enterprise risk management processes for statutory bodies.

Human Resources

Workforce Ageing

Recommendation

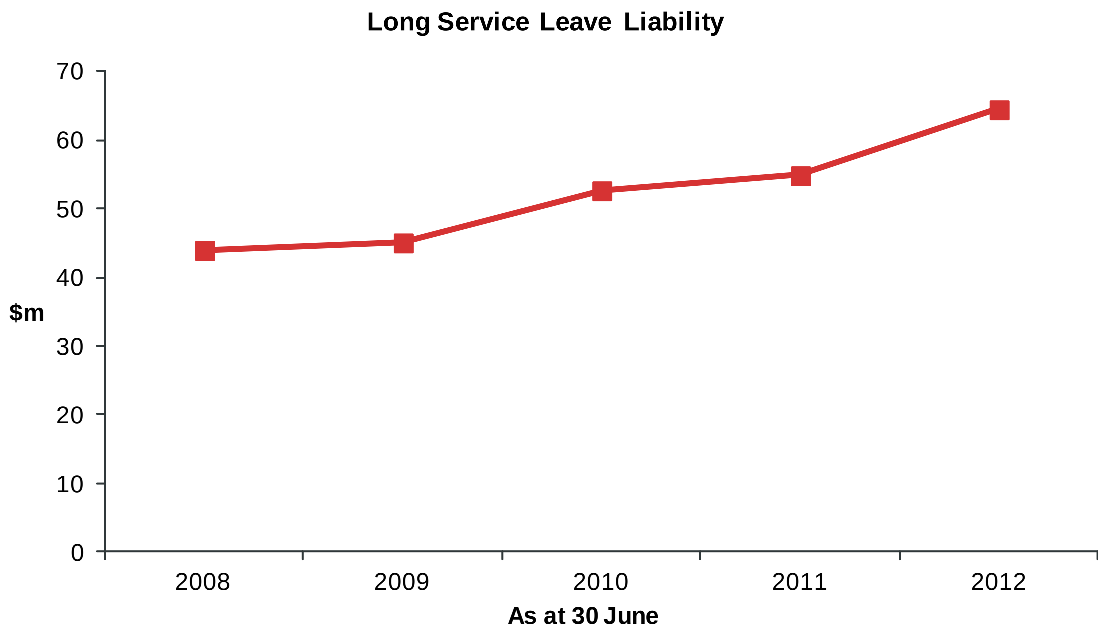
State Transit should continue to develop and implement effective strategies to manage its ageing workforce.

Over 30 per cent (29 per cent at 30 June 2011) of State Transit's employees are over 55 years of age and 48.1 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.

In response to this risk, State Transit advises it is succession planning through apprenticeships, cadetships and graduate programs. Bus operators make up 80 per cent of State Transit's workforce and it has an ongoing bus operator recruitment program based on business needs.

Long Service Leave Liability

State Transit's liability for long service leave entitlements at 30 June 2012 amounted to $64.5 million ($54.9 million). This liability has increased by 46.6 per cent over the last four years.



The increase in the liability between 30 June 2011 and 30 June 2012 is attributed to growth in employee hours and wage rates, and a fall in the discount rate used to calculate the liability.

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.

State Transit advises operational cash flows generated by the Metropolitan Bus System Contracts are sufficient to fund its rising long service leave liability obligations.

Annual Leave Balances

State Transit has actively managed employees with excessive annual leave balances in recent years. The number of employees with balances exceeding 40 days was 328 at 30 June 2012 (363 at 30 June 2011). Employees in this category represented 6.3 per cent (6.9 per cent) of total employees.

Excess leave entitlements can adversely affect an organisation because the liability generally increases over time as salary rates increase, which can impact cash flow requirements. The health and welfare of staff can also be adversely affected if staff do not take sufficient leave.

State Transit advises initiatives are in place to effectively manage excessive annual leave. Quarterly reminder letters are sent to employees with excessive balances and accumulating leave balances are closely monitored.

Use of Contract Staff

Previously, I recommended State Transit continue to periodically review the roles and responsibilities of all its contractors.

In 2011-12, State Transit paid $1.3 million ($1.6 million in 2010-11) to a total of 28 contractors (51). At 30 June 2012, there were only three contractors, one of whom had been engaged for more than 12 months. Restructuring the functions of State Transit resulted in vacant positions being filled and reduced the need to rely on contractors.

Prepay services have resulted in faster boarding times

PrePay Services

State Transit advises the increase in PrePay services resulted in faster boarding times, fewer delays for customers in peak periods and an annual reduction of 2.8 million on-board cash transactions. State Transit does not expect to expand its Prepay services until the new Electronic Ticketing System is rolled out.

Following the 2010-11 expansion of its Prepay network the number of Prepay only routes has stabilised at about 46 routes, making up 16 per cent of Sydney Bus services.

Total revenue from prepaid ticket sales to resellers in 2011-12 exceeded $243 million, an increase of eight per cent on the previous year. The increase was due to the ongoing shift of customers towards purchasing prepaid tickets.

The NSW Government has expanded the successful Metrobus network

Metrobus Network

The Metrobus is a high-frequency, cashless service aimed at increasing capacity along busy corridors. The services are proving very popular with over 31 million passengers to 30 June 2012 (16 million passengers to 30 June 2011) having travelled on them since they were introduced.

The network has 13 routes across Sydney. State Transit operates eight of the routes and the remainder are operated by private bus companies.

Free CBD Shuttle Bus

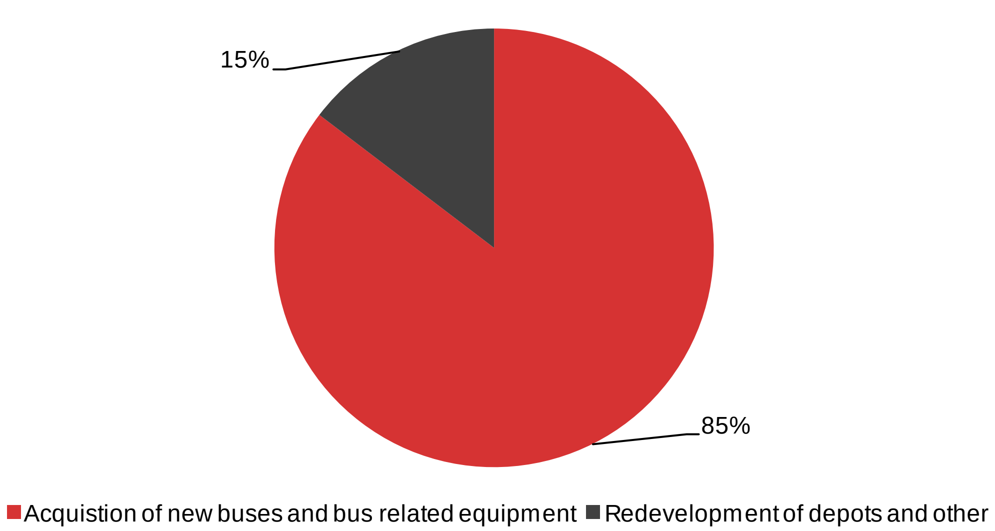
Since its launch in December 2008, over seven million passengers to 30 June 2012 (over five million passengers to 30 June 2011) have travelled on the service. The shuttle service carries around 41,000 passengers each week and operates across 32 bus stops located around the Sydney CBD.

The free shuttle services in Newcastle and Kogarah are also operated by State Transit under a contract with the Department of Transport.

Capital Expenditure Program

State Transit's capital expenditure program decreased by 54.8 per cent from $145 million in 2010-11 to $65.6 million in 2011-12. 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.

Capital Expenditure Program 2011-12



Source: Capital expenditure data from 2011-12 State Transit Authority Annual Report (unaudited).

Network Planning

There was significant change in the network planning framework in the Transport cluster during 2011-12. State Transit transferred all bus network planning responsibilities to Transport for NSW after it was established in November 2011.

Financial Information

Abridged Statement of Comprehensive Income

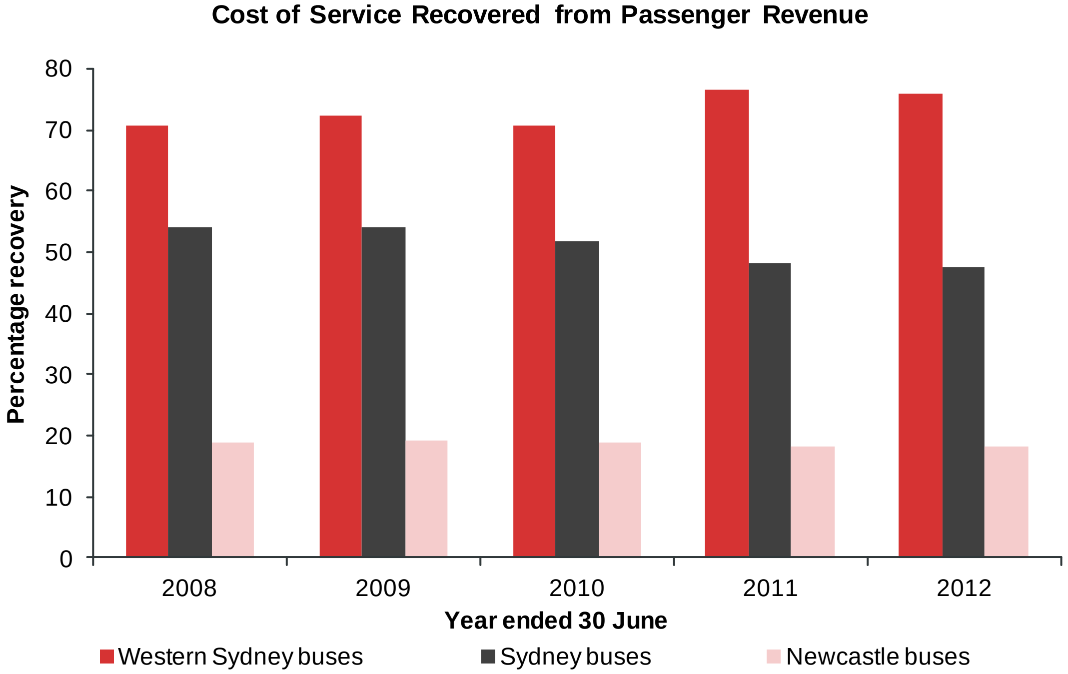
Year ended 30 June	Consolidated		State Transit	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Operational revenue	631,557	610,116	631,557	610,116
Other income	52,073	45,279	52,073	45,279
Operating revenue	**683,630**	**655,395**	**683,630**	**655,395**
Employee benefits expense	404,788	388,956	492,875	423,169
Fleet running expenses	103,019	96,459	103,019	96,459
Depreciation and amortisation	29,933	29,224	29,933	29,224
Finance costs	24,550	20,896	24,550	20,896
General operating expenses	111,193	110,532	84,229	81,512
Operating expenses	**673,483**	**646,067**	**734,606**	**651,260**
Profit/(loss) before tax	**10,147**	**9,328**	**(50,976)**	**4,135**
Income tax (expense)/benefit	**(3,057)**	**(2,478)**	**15,280**	**(921)**
Profit/(loss) after tax	**7,090**	**6,850**	**(35,696)**	**3,214**
Other comprehensive income				
Net increase in revaluation of assets	31,842	1,696	31,842	1,696
Superannuation actuarial losses	(61,124)	(5,193)	--	--
Income tax (expense)/benefit on items of other comprehensive income	8,786	1,049	(9,552)	(508)
Total other comprehensive income/(expense)	**(20,496)**	**(2,448)**	**22,290**	**1,188**
Total comprehensive income/(expense)	**(13,406)**	**4,402**	**(13,406)**	**4,402**

Operational revenue increased primarily due to the increase in income from escalated bus contract payments, while finance lease income received for new buses during the year increased other income.

Employee benefits increased largely due to higher labour costs arising from an increase in pay rates for bus operators and an increase in the long service leave expense. Employee benefits expense for State Transit also increased by $61.1 million for superannuation actuarial losses because of a fall in the discount rate used to calculate the liability. Increases in compulsory third party and general insurance premiums were the main reasons for the increase in general operating expenses.

Cost Recovery

In 2011-12, all passenger farebox revenue collected by State Transit covered approximately 46.4 per cent (46.2 per cent in 2010-11) of the cost of services provided, a slight increase on last year. The recovery rate for Western Sydney Buses, Sydney Buses and Newcastle Buses follows.



Source: Information derived from State Transit's management accounts as at 30 June 2012 (unaudited).

Note: Cost of operations includes interest and excludes superannuation losses.

The lower recovery rate of 18.3 per cent in 2011-12 for Newcastle buses was due to lower patronage levels compared to Sydney services. Western Sydney buses have the highest recovery rate of 75.9 per cent partly due to growth in patronage and the lower operating costs for a bus service that runs on a dedicated transitway.

Abridged Statement of Financial Position

At 30 June	Consolidated		State Transit	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Current assets	66,321	60,687	66,321	60,687
Non-current assets	947,487	889,485	947,487	889,485
Total assets	**1,013,808**	**950,172**	**1,013,808**	**950,172**
Current liabilities	184,411	183,875	184,407	183,875
Non-current liabilities	598,045	523,337	598,049	523,337
Total liabilities	**782,456**	**707,212**	**782,456**	**707,212**
Net assets	**231,352**	**242,960**	**231,352**	**242,960**

The increase in non-current assets was primarily attributable to the acquisition of buses and bus related equipment, and the redevelopment of the Tempe depot.

The increase in non-current liabilities is mainly due to the increase in superannuation liabilities because of a fall in the discount rate used to calculate the liability.

State Transit Activities

State Transit is a statutory body incorporated under the *Transport Administration Act 1988*. It operates bus services in Sydney and bus and ferry services in Newcastle. For further information on State Transit, refer to www.statetransit.info.

Controlled Entities

The following controlled entities have not been reported separately as they are considered immaterial to the consolidated entity.

Entity Name	Website
State Transit Authority Division	*
Western Sydney Buses Division	*

* This entity does not have a website.

Sydney Ferries

Audit Opinion

I issued an unqualified audit opinion on Sydney Ferries' 30 June 2012 financial statements.

Operational Snapshot

In 2011-12 Sydney Ferries operated ferry passenger services from 28 vessels across six classes supplemented by three charter vessels. The average age of vessels owned by Sydney Ferries was approximately 22 years at 30 June 2012. Sydney Ferries' made a surplus of $9.8 million in 2011-12.

Sydney Ferries continued to improve on its key performance indicators of on time running and vessel reliability during 2011-12.

Operational area	Operational outcome
Routes in service	8
Scheduled services	173,329
Estimated patronage (million)	14.8
On time running (%)	98.8
Vessel reliability (%)	96.7

Source: Sydney Ferries (unaudited).

Key Issues

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

The NSW Government awarded a franchising contract to Harbour City Ferries to operate ferry services from 28 July 2012

Franchising of Sydney Ferries

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

On 3 May 2012, the NSW Government awarded the contract to private operator, Harbour City Ferries. It commenced operations on 28 July 2012.

The NSW Government will continue to own the fleet and Balmain shipyard, and maintain control over fares and service levels. These assets were leased to the operator. The lease requires the assets to be returned to Sydney Ferries after seven years, in the same condition as they were leased.

Almost 99 per cent of ferry services ran on time in 2011-12

Performance Information

Sydney Ferries had improvements in all operational performance indicators over the past three years.

Year ended 30 June	Target		Actual			
	2012	Trend	2012	2011	2010	2009
Operational performance						
Services that run on time (%) (a)	98.5	↑	98.8	98.5	98.1	98.1
Number of customer complaints (b)	6.0	~	3.3	4.7	4.4	6.2
Number of significant incidents (c)	--	~	--	1.0	--	1.0
Number of passenger injuries (d)	16.0	~	4.0	17.0	15.0	12.0
Number of sick days taken per employee	7.0	↓	8.6	10.2	10.9	10.4

Source: Sydney Ferries (unaudited).

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

a Proportion of 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 Complaints per 100,000 passenger journeys.

c Incidents resulting in loss of life, life-threatening injury or injury to multiple persons, and/or damages over $100,000.

d Passenger injury that occurs in connection with ferry operations requiring medical attention.

Sydney Ferries' services achieved an on-time running rate of 98.8 per cent (98.5 per cent in 2010-11), exceeding its target of 98.5 per cent.

Management advises the results have improved due to the new timetable implemented in October 2010, which increased the service routes on the Parramatta River and Inner Harbour, to meet the growing demands.

Customer complaints for Sydney Ferries were within its 2012 target and decreased from the previous year.

Patronage

Sydney Ferries passenger journeys have been increasing steadily. Patronage growth was 1.8 per cent (1.1 per cent in 2010-11), with 14.8 million customers onboard. Patronage of 1.7 million was recorded for the month of January 2012 as a result of additional scheduled services on the Manly route to meet growing demand during the summer period.

In October 2011, additional services were scheduled, including the restoration of twice hourly week-day off peak services to Mosman and Neutral Bay. This led to an increase in passenger numbers in the Inner Harbour area.

Year ended 30 June	Target		Passenger journeys and growth			
	2012	Trend	2012	2011	2010	2009
Number of passenger journeys (million)	--	↑	14.8	14.5	14.3	14.3
Patronage growth (%)	1.0	↑	1.8	1.1	0.2	2.5

Source: Sydney Ferries (unaudited).

Year ended 30 June	Passenger journeys by area				
	Trend	2012	2011	2010	2009
Inner Harbour (million)	↑	7.2	6.8	6.8	6.4
Parramatta River (million)	↑	1.8	1.6	1.5	1.5
Manly Ferry (million)	~	5.8	6.1	6.0	6.4

Source: Sydney Ferries (unaudited).

Key: ↑Trend upwards, ~ No trend.

Vessel Reliability

Vessel reliability at Sydney Ferries increased despite the age and complexity of the fleet. The proportion of vessel days without breakdown was 96.7 per cent, an increase of 0.2 per cent from 2010-11. The availability of the Sydney Ferries' fleet also increased from 85.9 per cent to 86.8 per cent in 2011-12.

Year ended 30 June	Vessel reliability (%)	Vessel availability (%)
2012	96.7	86.8
2011	96.5	85.9
2010	96.4	86.0
2009	95.0	80.8

Source: Sydney Ferries (unaudited).

Other Information

Safety

Year ended 30 June	Safety performance				
	Trend	2012	2011	2010	2009
Collisions and groundings (a)	↓	--	3	6	10
Passenger injuries (b)	--	4	17	15	12
Lost time injury frequency rate (c)	↓	29	31	32	60

Source: Sydney Ferries (unaudited).

Key: ↓Trend downwards, ~ No trend.

a Reportable incidents to Roads and Maritime Services.

b Passenger injury that occurs in connection with ferry operations requiring medical attention.

c Number of lost-time injury hours per million hours worked.

Over the past few years Sydney Ferries implemented safety initiatives for its staff and passengers. Sydney Ferries won the Large Employer of the Year award at the NSW State Training Awards in 2011-12.

Human Resources

Additional operational staff were employed to ensure the new franchise operator, Harbour City Ferries, had adequate qualified staff after transition, to replace existing staff who had declined the employment offer. The number of full-time equivalent staff at 30 June 2012 was 654, an increase of 56 on 30 June 2011.

Year ended 30 June	Staff numbers		
Division	2012	2011	2010
Operations	539	477	483
Engineering	91	89	83
Corporate office	11	13	17
Finance and corporate services	8	11	13
Transport shared services	5	8	--
Total	**654**	**598**	**596**

Financial Information

Abridged Statement of Comprehensive Income

Year ended 30 June	2012 $'000	2011 $'000
Operating revenue	134,517	125,187
Other	28,361	981
Operating revenue	**162,878**	**126,168**
Employee related expenses	90,525	64,417
Operations and maintenance expenses	40,445	39,758
Depreciation, amortisation and impairment	21,411	18,480
Other expenses	676	845
Operating expenses	**153,057**	**123,500**
Net result - surplus	**9,821**	**2,668**
Other comprehensive income		
Superannuation actuarial gains/(losses)	(9,466)	127
Total other comprehensive income/(expense)	**(9,466)**	**127**
Total comprehensive income	**355**	**2,795**

The increase in other revenue was predominantly the $26.8 million receipt from the Department of Transport for the transfer payment and voluntary redundancy program arising from the franchising arrangement.

Employee related expenses have increased due to additional staff employed in 2011-12 and expenses associated with the franchising arrangement, including voluntary redundancies and transfer payments. This was partially offset by a decrease in overtime hours of 10.4 per cent, due to additional operational staff employed.

The significant increase in superannuation losses is due to the fall in the discount rate used in actuarial calculations.

Abridged Statement of Financial Position

At 30 June	2012 $'000	2011 $'000
Current assets	78,910	13,987
Non-current assets	71,549	106,580
Total assets	**150,459**	**120,567**
Current liabilities	65,711	30,730
Non-current liabilities	106	5,550
Total liabilities	**65,817**	**36,280**
Net assets	**84,642**	**84,287**

The increase in current assets is mainly due to:

- the $26.8 million receivable from the Department of Transport for the transfer payment and voluntary redundancy program arising from the franchising arrangement
- the reclassification of $34.4 million non-current assets to current assets held for sale due to the franchising contract, as outlined below:

Assets classified as held for sale	**2012 $'000**
Intangible assets	4,405
Plant and equipment	4,795
Wharf leasehold improvements	16,521
Work in progress	562
Inventory	8,067
Total	**34,350**

The increase in current liabilities is mainly due to the $26.8 million provision for the staff transfer payment and voluntary redundancy program arising from the franchising.

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 operated 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.transport.nsw.gov.au/content/sydney-ferries.

Sydney Metro

Audit Opinion

I issued an unqualified audit opinion on Sydney Metro’s 30 June 2012 financial statements.

Operational Snapshot

The NSW Government terminated all metro projects in February 2010 and Sydney Metro continues to wind down its activities and deal with legacy issues, such as property related claims. It incurred $224,000 in reimbursements for claims from affected property and leasehold owners during 2011-12.

To 30 June 2012, the cost of Sydney Metro projects was $428 million ($428 million in 2011-12).

Other Information

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

Cost Reimbursement for Property Acquisition Related Claims

At 30 June 2012, 81 claims totalling $12.7 million had been finalised since the decision to terminate all metro projects. Sydney Metro raised a provision of $30,000 to cover one outstanding claim and has received a further two claims, which are expected to be resolved during 2012-13.

Affected property and leasehold owners have up until early 2013 to lodge a claim. Sydney Metro believes it is unlikely further claims which have a prospect of success will be lodged.

Financial Information

Abridged Statements of Comprehensive Income

Year ended 30 June	2012 $’000	2011 $’000
Interest income	9,851	10,669
Other revenue	--	8,873
Total revenue	**9,851**	**19,542**
Operating costs (including personnel services)	174	12,220
Cost reimbursement claims	224	10,810
Other expenses	--	286
Total expenses	**398**	**23,316**
Net result-surplus/(deficit)	**9,453**	**(3,774)**
Total comprehensive income/(expense)	**9,453**	**(3,774)**

Other revenue in 2010-11 largely related to recoupment of personnel services costs for seconded employees for the Barangaroo Pedestrian Link and other Department of Transport projects. The personnel were transferred to the Department of Transport in 2010-11 reducing operating costs and other revenue in 2011-12.

Cost reimbursement claims fell significantly in 2011-12 as most claims were finalised in the prior year.

Abridged Statements of Financial Position

At 30 June	2012 $'000	2011 $'000
Current assets	4,885	206,682
Total assets	**4,885**	**206,682**
Current liabilities	107	2,489
Total liabilities	**107**	**2,489**
Net assets	**4,778**	**204,193**

Sydney Metro transferred investments of $209 million to Transport for NSW under a vesting order dated 28 June 2012 made under the *Transport Administration Act 1988*.

From 30 June 2010, Sydney Metro held investment balances of more than $200 million. During that time Sydney Metro made payments totalling only $32.1 million.

Current liabilities decreased mainly due to:

- reduced payables and accruals resulting from the continued wind down of Sydney Metro activities
- the transfer of all employees and associated employee benefit provisions to the Department of Transport in the prior year.

Entity Activities

Sydney Metro 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 NSW Government cancelled all metro projects in February 2010 and since then Sydney Metro has been responsible for managing residual assets and liabilities and claims arising from the decision to terminate the metro projects.

The Director General of the Department manages and controls Sydney Metro following amendments to the *Transport Administration Act 1988* on 1 July 2010.

For further information on Sydney Metro, refer to www.transport.nsw.gov.au

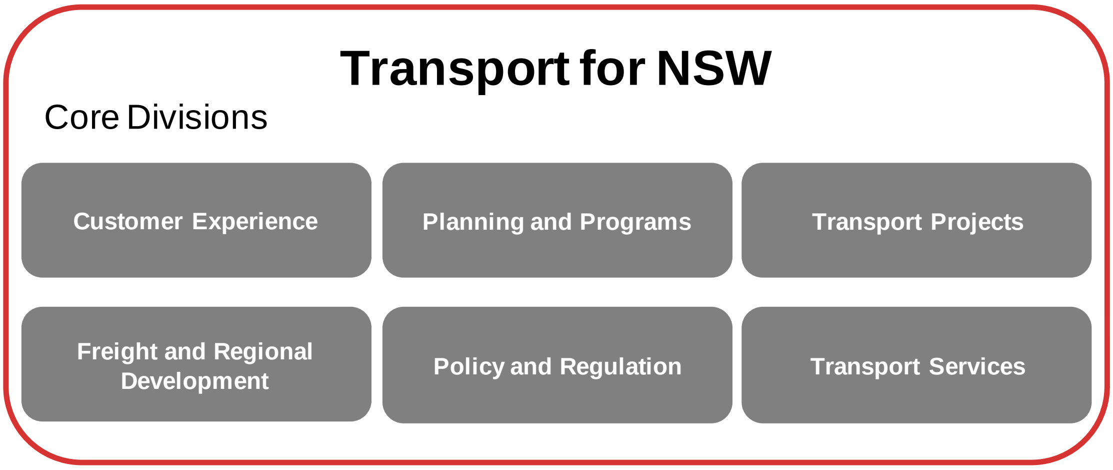
Transport for NSW

Audit Opinion

I issued an unqualified audit opinion on Transport for NSW's 30 June 2012 financial statements.

Operational Snapshot

Transport for NSW was established as an integrated transport authority to improve the delivery of transport in New South Wales. It is the focus for decision making and planning policy in transport.



Key Issues

Corporate Services Reform

Recommendation

There is no service level agreement between Transport for NSW and the other transport agencies for corporate services

Transport for NSW and the other transport agencies should implement service level agreements by 30 June 2013 for the delivery of corporate services.

Transport for NSW advises the transfer and operations of human resources and other corporate services was addressed through the Transport Corporate and Shared Services Reform program. This dealt with structures, including roles, responsibilities and accountabilities, as well as resourcing/budgets and capabilities.

Transport for NSW is still implementing a shared services function to provide back office services to transport agencies. Service level agreements between Transport for NSW and the other transport agencies are not yet in place.

The Department of Premier and Cabinet's guidelines include corporate services reform as a key platform for building long-term improvement in the NSW public sector. Service level agreements are an integral part of this reform, clarifying responsibilities and setting performance standards.

Refer to the Transport Overview in this volume for other recommendations to improve the administration of transport.

Other Information

Transport Administrative Restructure

The *Transport Legislation Amendment Act 2011* established Transport for NSW on 1 November 2011. Transport for NSW assumed the roles and functions of the Department of Transport, including the planning, procurement, delivery and coordination of transport services and infrastructure in New South Wales.

It is managed and controlled by the Director General of the Department of Transport. It has power to issue directions to the other transport agencies (RailCorp, Roads and Maritime Services, State Transit Authority, and Sydney Ferries) in relation to their operations.

Other aspects of the transport restructure involved the transfer of functions and assets to Transport for NSW, and in some cases the abolition of agencies. Details are included in the following table:

Entity Name	Transfer date	Entity abolished	Net assets transferred in/(out) $'000
Department of Transport	1 Nov 2011	Not applicable	202,057
Transport Construction Authority	31 March 2012	30 March 2012	1,004,083
Sydney Metro	28 June 2012	Not applicable	208,868
RailCorp	29 June 2012	Not applicable	(934,704)
Department of Planning and Infrastructure	30 June 2012	Not applicable	5,644
Public Transport Ticketing Corporation	30 June 2012	1 July 2012	(133,063)
Country Rail Infrastructure Authority	1 July 2012	1 July 2012	1,819,733

The transfer from Sydney Metro comprised investments held in the NSW Treasury Corporation's Hour-Glass investment facilities. Sydney Metro had held investment balances in excess of $200 million since June 2010. Payments made by Sydney Metro during that time totalled only $32.1 million. These funds could have been more effectively utilised within the transport portfolio, for example, by the repayment of borrowings.

The net liabilities of Public Transport Ticketing Corporation on 30 June 2012 were transferred to Transport for NSW.

Sydney Ferries Contract

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

On 3 May 2012, Transport for NSW awarded a seven year contract to a private operator, Harbour City Ferries. This followed a tender process from which Sydney Ferries was excluded. As operator, Harbour City Ferries is responsible for the use, management and maintenance of the ferry fleet as outlined in the contract. It commenced operation on 28 July 2012.

The NSW Government will retain ownership of the ferry vessels and Balmain shipyard. Transport for NSW will control fares and service levels. It paid Sydney Ferries $26.8 million for redundancy and restructure costs.

Metropolitan Bus System Contracts

In 2010, I released a performance audit report on how well the then Department of Transport managed the performance of Metropolitan Bus System Contracts. The report recommended the department further improve performance and drive costs down by including performance objectives in the bus contracts, benchmarking bus operator's performance, strengthening controls on operator self-reporting to ensure the accuracy of performance information and publicly reporting operator performance.

The report recommended that the contracts should include performance objectives focussed on passenger comfort and safety, over-crowding, and cancelled services.

Transport for NSW advises the new contracts include key performance indicators and performance criteria to address my recommendations. The key objectives of the new contracts are to drive service improvements and to provide value for money.

State Transit's current Metropolitan Bus System Contracts, due to expire on 30 June 2012, were extended for a period of up to 12 months to facilitate the negotiation of new contracts. In September 2012, Transport for NSW confirmed to State Transit that it will negotiate a new set of performance based contracts with them.

The first four contracts under the new competitive tendering process for private operators were announced in November 2012. The contracts are for five years, with a three year right of renewal. The new operators will progressively take over operating under their new contracts from April 2013. The next tender process will comprise four different private bus contracts and is planned for tender in the first half of 2013.

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

Rural and regional bus services are provided to all regions outside of Sydney, excluding the Central Coast, Newcastle, the Blue Mountains and Wollongong, which are serviced under the Outer Metropolitan Bus System Contracts. The rural and regional bus contracts are managed by Transport for NSW and include key performance indicators and performance criteria. These contracts will progressively start to expire from 2015 following a seven year term.

Transport Concessions for University Students

Last year, I recommended Transport for NSW urgently complete developing processes that ensure transport concession cards are retrieved from ineligible students.

I first raised issues about transport concessions in 2007. Progress to resolve issues has been extremely slow. While action has occurred each year the issues remain unresolved.

In 2011-12, Transport for NSW completed an initial examination of data on the issue of student concessions and commenced an audit of selected tertiary education institutions. This sample audit will highlight any administrative and governance changes required to improve the administration of NSW tertiary student transport concessions. The audit is specifically investigating whether institutions have the appropriate systems and processes in place to retrieve concession cards from ineligible students.

The results of the audit are expected by the end of 2012.

Private Vehicle Conveyance Scheme

I had previously recommended an independent review of the Private Vehicle Conveyance Scheme be finalised as soon as possible and accepted recommendations implemented in a timely manner.

Last year, I was advised the independent review report had been received and improvements to the administration of the subsidy were being made.

Transport for NSW advises enhancements to the administration of the subsidy are still underway, including Private Vehicle Conveyance Scheme software tools. Online Private Vehicle Conveyance Scheme applications will initially be optional, but strongly encouraged. Transport for NSW planned to launch the online system in time for school Term Three (Semester Two) this year. Delays have occurred due to the need for testing to be completed, business processes to be developed, and stakeholder consultation to be completed. Bulk review tools will provide data on the scale of audits required and inform business process design and change management strategy.

The Private Vehicle Conveyance 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. Private Vehicle Conveyance Scheme subsidies in 2011-12 were $21.1 million ($20.1 million in 2010-11).

Taxi Industry Regulation

Transport for NSW is responsible for regulating the taxi industry in New South Wales, including:

- issuing taxi driver authorities, taxi operator accreditations and taxi vehicle licences
- authorising the operation of taxi networks
- enforcing taxi vehicle and taxi meter standards.

Transport for NSW is using Roads and Maritime Services to investigate taxi complaints, issue taxi licences and ensure the accreditation of operators.

At October 2012, there were 7,017 taxi licences issued in New South Wales, 5,663 in Sydney.

Complaints against taxi drivers and operators can be made confidentially by the public in a number of ways, including the taxi complaints hotline, the transport info line or direct to Transport for NSW. All complaints against taxi drivers or operators are recorded in the Customer Feedback Management System.

The table below shows the number of complaints and compliments received in 2010-11 and 2011-12.

More than 11,000 complaints against taxi drivers and operators were received during 2011-12

Year ended 30 June	2012	2011
Complaints	11,380	10,129
Compliments	430	503

Source: Data obtained from Transport for NSW (unaudited).

Transport for NSW advises the increase in complaints is due to greater public awareness of the transport info line and taxi complaints hotline. The taxi complaints hotline stickers are on all taxis. Ninety per cent of all complaints received are due to driver misbehaviour and fare disputes.

Parking Space Levy

Transport for NSW and the Department of Transport were holding $97.9 million raised from the parking space levy at 30 June 2012 ($29.6 million at 30 June 2011). Expenditure from the levy during 2011-12 was only $36.5 million compared with $74.8 million in 2010-11.

The table below shows transactions for the parking space levy.

Year ended 30 June	2012* $'000	2011** $'000
Opening balance	29,611	5,151
Receipts	104,832	99,215
Expenditure	36,523	74,755
Closing balance	**97,920**	**29,611**

Source: Data obtained from Transport for NSW (unaudited).

* 2012 data is Department of Transport and Transport for NSW combined.

** 2011 data is for Department of Transport.

The revenue from the parking space levy was the primary source of funds to deliver the Commuter Car Park and Interchange Program (now the Transport Access Program). The levy has been used to fund 30 new commuter car parking facilities over the last four years.

Transport for NSW is currently finalising a Long Term Transport Master Plan due to be released in late 2012. The current balance and future receipts of the parking space levy will be used to support investments identified in the master plan.

The parking space levy, which commenced on 1 July 1992, is payable on any non-residential parking space used or set aside for a motor vehicle in the districts of Sydney's CBD, North Sydney, Milsons Point, Bondi Junction, Chatswood, Parramatta and St Leonards.

The levy is a NSW Government strategy to discourage car use in these districts and by using the revenue to encourage the use of public transport and improve the air quality.

Employment of Contractors

This year, I again reviewed the extent of contract staff. A summary of the results of my review follows.

Although the recommendations made in my reports in previous years have been addressed, the restructure within the transport portfolio has resulted in a significant increase in the number of contractors engaged by the Department of Transport and Transport for NSW.

While contractors may have benefits for Transport for NSW, 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.

Information relating to contractors working in the Department of Transport and Transport for NSW combined is shown below:

At 30 June	2012*	2011**
No. of contractors	277	186
Total cost of contractors for the year ($'000)	24,944	9,056
Term of longest serving contractor (years)	6	6
Highest contractor cost for the year ($'000)	529	395

Source: Data obtained from Transport for NSW (unaudited).

* 2012 data is Department of Transport, Transport for NSW and Transport Service combined.

** 2011 data is for Department of Transport.

Financial Information

Abridged Statement of Comprehensive Income

Period ended 30 June	2012 $'000
Employee related expenses	164,255
Depreciation and amortisation	34,678
Grants and subsidies	5,515,935
Finance costs	43,498
Other	1,216,040
Total expenses	**6,974,406**
Government contributions	6,747,596
Sale of goods and services	329,637
Investment revenue	8,044
Other	139,991
Total revenue	**7,225,268**
Net result-surplus	**250,862**
Total comprehensive income	**250,862**

Transport funding is received by Transport for NSW and distributed to other operating entities via grants and subsidies. The grants and subsidies paid included $2.9 billion to Roads and Maritime Services (including the former Roads and Traffic Authority), $2.3 billion to RailCorp, and $214 million for other controlled entities.

Other expenses includes $537 million paid to State Transit and private bus operators for services provided under the metropolitan and outer metropolitan bus contracts, and $251 million for services provided under the rural and regional bus contracts.

Sale of goods and services includes $324 million recouped from other transport agencies, principally Rail Corporation, for expenditure incurred by Transport for NSW in delivering major infrastructure projects.

Abridged Statement of Financial Position

At 30 June	2012 $'000
Current assets	684,856
Non-current assets	1,564,722
Total assets	**2,249,578**
Current liabilities	595,138
Non-current liabilities	1,050,693
Total liabilities	**1,645,831**
Net assets	**603,747**

Non-current assets and non-current liabilities include buses acquired under a financing arrangement. These buses are used by State Transit and private bus operators to provide services under the regional bus contracts. At 30 June 2012, approximately 2,200 buses were financed through this arrangement.

Current assets include receivables of $345 million owed by other transport agencies, including $227 million from RailCorp and $88.8 million from the Department of Transport.

Non-current assets mainly comprise $1.3 billion of property, plant and equipment.

Current liabilities include payables of $93.5 million owing to other transport agencies, mainly $46.6 million to RailCorp and $26.8 million to Sydney Ferries.

Liabilities also include $958 million in finance lease liabilities, comprising $449 million to the State Transit and $509 million to private bus operators.

Authority Activities

Transport for NSW was established on 1 November 2011 to take over the roles and functions previously carried on by the Department of Transport.

Transport for NSW has the following general functions:

- transport planning and policy
- transport public funding
- transport infrastructure
- capital works programs and budgets
- contracting for the delivery of transport services
- transport services coordination
- incident management
- transport information
- provision and deployment of staff and services
- ticketing for transport services
- precinct land planning
- procurement.

Transport for NSW (through the Director General of the Department of Transport) may give directions to the following transport entities: Rail Corporation, Roads and Maritime Services, State Transit Authority and Sydney Ferries.

For further information on Transport for NSW, refer to www.transport.nsw.gov.au.

ACN 156 211 906 Pty Ltd

On 12 March 2012, Transport for NSW established ACN 156 211 906 Pty Ltd, a proprietary limited company. Transport for NSW paid $20.0 million to acquire the issued share capital of the company. These proceeds were then used to buy out the shareholders and bond holders of Metro Transport Sydney Pty Limited and its wholly owned subsidiaries. The transaction costs associated with establishing ACN 156 211 906 Pty Ltd were $266,000.

Metro Transport Sydney Pty Limited owns and operates the light rail network and the monorail in Sydney. These activities have continued after the acquisition by Transport for NSW.

During the year, a contract was awarded to John Holland for the major design and construction of the inner west light rail network extension. This project will result in nine new light rail stations, and is expected to be completed during 2013-14 at a total cost of $176 million.

On 22 June 2012, the Minister for Transport announced the closure of the monorail in 2013. The monorail infrastructure, including the track, workshop and a number of stations, will be removed from the streets of Sydney and Darling Harbour to make way for the development of the new exhibition, convention and entertainment precinct at Darling Harbour.

For further information on the Light Rail network and the monorail, refer to www.transport.nsw.gov.au and www.metrotransport.com.au.

Appendix

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
Minister for Transport		
Independent Transport Safety Regulator	www.transportregulator.nsw.gov.au	30 June 2012
Independent Transport Safety Regulator Division	www.transportregulator.nsw.gov.au	30 June 2012
Transport Construction Authority	www.transport.nsw.gov.au	30 March 2012

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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.

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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.

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