New South Wales Auditor-General's Report
Financial Audit

Volume Nine 2016
Report on Transport

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 Audit 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 Nine of my 2016 report.

Margaret Crawford
Auditor-General
1 December 2016

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Section One

Transport

Executive Summary

This report analyses the results of the financial statement audits of agencies within the Transport cluster for the year ended 30 June 2016.

Financial performance and reporting

Financial reporting

Unqualified audit opinions were issued for all agencies. Only three errors were identified across Transport cluster financial statements.

Passenger revenue and patronage

Public transport revenue increased four per cent while patronage trips increased 12 per cent. Transport for NSW (TfNSW) attributes this to an increase in concession Opal cards. Revenue per passenger journey for rail and buses decreased, but increased for ferries.

Passenger cost recovery

The cost per passenger journey fell in 2015–16 and the overall cost recovery from public transport passengers increased to 21 per cent (20 per cent in 2014–15).

Financial controls

Maintenance backlog

Roads and Maritime Services (RMS) has a maintenance backlog of $3.4 billion at 30 June 2016 ($5.3 billion at 30 June 2015).

Information technology

Weaknesses in information security processes accounted for over 79 per cent (87 per cent) of the information systems issues we identified in 2015–16.

Governance

SAP ERP implementation

TfNSW is replacing multiple legacy systems with one SAP solution across Transport agencies. Project implementation deferrals may impact the total project cost.

Service delivery

Bus on-time running

Private bus operators achieved punctuality targets for the start of trips, but almost never met them for the middle or end of trips. State Transit Authority of New South Wales (STA) did not meet any of its punctuality targets.

Bus crowding

Crowding information is not published for buses in any contract region, despite bus operating contracts requiring this information to be reported to TfNSW.

Road fatalities

Road fatalities increased 28 per cent between July 2015 and June 2016, from 304 to 390 deaths.

Transport cluster

A cluster represents a group of NSW Government agencies formed to enhance the coordination of policy development and service delivery. Each cluster is led by a coordinating Minister and may be supported by portfolio Ministers. TfNSW is the lead agency in the Transport cluster.

Financial performance and reporting

The quality of financial reporting is of a high standard

Unqualified audit opinions were issued on the 2015–16 financial statements of all agencies in the Transport cluster.

Reported misstatements in cluster agencies' financial statements fell 96 per cent since 2011–12 to just three in 2015–16. This reflects the improved quality of financial reporting since NSW Treasury introduced its 'early close procedures' initiative in 2011–12.

Transport agencies' patronage grew at a higher rate than revenue growth

Public transport passenger revenue increased by $50.0 million (four per cent) in 2015–16 due to increased patronage of 72 million trips (12 per cent) across all modes of transport. TfNSW attributes the lower revenue growth rate to an increase in youth, pensioner, student and employee concession Opal cards, and customers taking advantage of free Opal card journeys after the eighth paid journey. Revenue per passenger journey for rail and buses decreased, but improved for ferries.

Rail, bus and ferry costs per passenger journey decreased in 2015–16.

Financial controls

RMS has a maintenance backlog of $3.4 billion

At 30 June 2016, RMS reported a maintenance backlog of $3.4 billion, $1.9 billion lower than the $5.3 billion reported at 30 June 2015. The decrease was due to a refined methodology used to calculate the backlog.

Transport cluster agencies manage $119 billion in property, plant and equipment with a total maintenance backlog of $3.6 billion at 30 June 2016. This represents three per cent of the asset values. Transport cluster maintenance expenditure was $1.9 billion in 2015–16, four per cent higher than in 2014–15.

Weaknesses still exist in access security for financial systems

Weaknesses in information security processes exceeded 79 per cent (87 per cent) of the information systems issues we identified in the 2015–16 audits. Twenty-nine (31 in 2014–15) information system issues were identified on the clusters' major financial systems. The audits focused on information security, system change control and computer operations.

Recommendation (repeat issue)

> Transport cluster agencies should terminate user access on a timely basis and ensure all user reviews are completed so access rights are appropriate.

Governance

Actions to maintain commercial trust

Potential conflicts of interest exist within the Transport cluster. To maintain the confidence of all transport operators, the conflicts should be managed appropriately. Sydney Trains operates signalling priorities for Rail Corporation New South Wales (RailCorp) and could potentially provide rail services that favour it ahead of other operators.

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Recommendation

> The transparency of operation of signalling priorities with operators be improved with the creation of TAHE (Transport Asset Holding Entity) and the operation of the new Rail Operations Centre (ROC) in 2018.

SAP ERP program scope and timeline changed to manage risks and costs

The SAP ERP program was delivered to TfNSW and RMS and is scheduled for delivery to NSW Trains in January 2017. Sydney Trains deferred its implementation to June 2017. The program de-scoped STA to manage business risk and the program budget.

Implementation of the contract and catalogue management functionality for all agencies was deferred to June 2017.

At 30 June 2016, 88 per cent of the $196 million program budget was spent leaving $24.0 million to cover the delivery cost of the remaining SAP ERP implementation across the cluster. The major transport agencies have budgets totalling $122 million. At 30 June 2016, 49 per cent of this was spent.

Recommendation

> Transport agencies should review project budgets and delivery schedules to address any impact of deferred implementation.

Service delivery

Most punctuality Key Performance Indicators (KPIs) were not met by all bus operators

Three KPIs measure punctuality performance for all operators. Financial penalties can not be imposed on private bus operators if they do not meet punctuality targets for the middle or end of trips. There is no financial penalty for STA not meeting its punctuality targets.

Recommendation

> TfNSW should consider including financial penalties for not meeting each punctuality KPI in future contracts with bus operators.

Twelve of the 15 bus contract regions had full buses

Crowding information is not published for buses in any contract region, despite bus operating contracts requiring this information to be reported to TfNSW. No targets on crowding have been set for bus operators in any contract region. TfNSW advises there were no capacity issues for Sydney metropolitan bus service contracts one, five and 15.

Recommendation (repeat issue)

> TfNSW should develop target measures on crowding for bus operators in all contract regions and publish the results.

Road fatalities increased by 28 per cent

Road fatalities increased by 28 per cent in 2015–16. The NSW Centre for Road Safety reported 390 fatalities in 2015–16, compared to 304 in 2014–15. TfNSW advises the increase in fatalities mainly involved speed, fatigue and vehicle occupants not wearing available restraints.

Introduction

This report provides Parliament and other users of Transport cluster agencies' financial statements with audit results, observations, conclusions and recommendations in the following areas:

• Financial Performance and Reporting
• Financial Controls
• Governance
• Service Delivery.

Structure of the Transport cluster

TfNSW is the lead agency in the Transport cluster. It is responsible for the coordination, funding allocation, policy and planning and other delivery functions for transport services.

TfNSW is controlled by the Department of Transport (the Department). It does not control the transport regulator, transport investigator or ports.
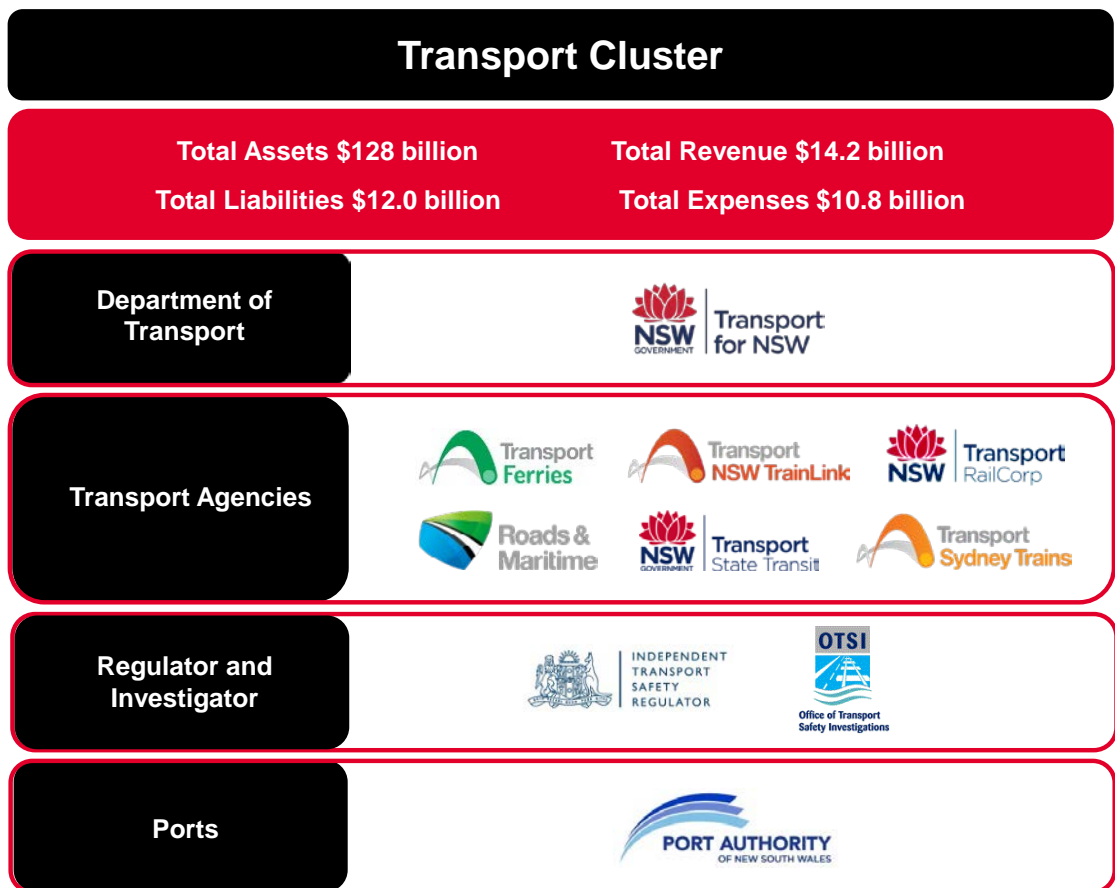
Notes:

1   TfNSW includes Transport Service of New South Wales (Transport Service).

2   RMS includes the WestConnex Delivery Authority.

3   All NSW TrainLink services are provided by the NSW Government through an overarching entity: NSW Trains.

4   Total revenue and expenses exclude gains and losses.

Operational snapshot

New South Wales Public Transport Services

Bus (a)

Passenger journeys:
290 million

Passenger revenue:
$383 million

Operating expenses:
$1.8 billion

Government funding:
$407 million

Net assets:
$275 million

Cost recovery from users:
22 per cent

Ferries (b)

Passenger journeys:
15.4 million

Passenger revenue:
$48.8 million

Operating expenses:
$129 million

Government funding:
$129 million

Net assets:
$136 million

Cost recovery from users:
38 per cent

Rail (c)

Passenger journeys:
363 million

Passenger revenue:
$829 million

Operating expenses:
$4.2 billion

Government funding:
$3.7 billion

Net assets:
$29.7 billion

Cost recovery from users:
20 per cent

Road (d)

Registered vehicles:
6.5 million

Collections:
$3.6 billion

Operating expenses:
$1.2 billion

Government funding:
$5.9 billion

Net assets:
$80.7 billion

a   Bus passenger journeys, passenger revenue and government funding include STA and private bus operators. Operating expenses are made up of bus contract payments by TfNSW to bus operators. Net assets relate to STA only.

b   Operating expenses are ferry contract payments by TfNSW to a private ferry operator and Sydney Ferries' operating expenditure. Net assets relate to Sydney Ferries only.

c   Government funding includes cash equity injections. Operating expenses exclude inter-entity transactions.

d   Collections consists of license and registration fees, stamp duty, motor vehicle weight tax, and fines and other revenue collected by RMS from road users which is predominantly paid to NSW Treasury.

Source: Transport agencies' financial statements (audited) and information from transport agencies (unaudited).

Status of 2015 recommendations

Last year's Auditor–General's Report to Parliament on the Transport cluster included recommendations for cluster agencies to improve financial and performance reporting, financial controls, governance and service delivery. The current status of each recommendation is shown below by agency.

Recommendation	Current status
The cluster lead agency should:	
🔴 Develop target measures on crowding for bus operators in all contract regions.	**Repeat issue.** TfNSW is working to identify how Opal data can be used to intelligently report patronage and provide a holistic overcrowding analysis. Refer to the Service Delivery chapter.
🟡 Ensure Transport cluster agencies focus on addressing repeat issues as soon as possible, in particular those related to user access management over financial systems.	Some issues have not been fully addressed. Refer to the Financial Controls chapter.

Recommendation	Current status
⬤ Ensure risk assessment activities adequately mitigate risks at the Transport cluster level.	Details are in the Governance chapter.
⬤ Respond appropriately to gaps identified through the governance self-assessments.	TfNSW is updating the Transport cluster Access to Information Policy to include Continuous Disclosure elements previously recommended for the cluster. A draft policy statement is currently under consultation. Communicating the policy throughout the Transport cluster and publishing it on corporate websites will occur when the policy is finalised.
⬤ Incorporate performance elements into the pricing of shared services.	Improvements are ongoing. TfNSW confirmed Transport Shared Services' (TSS) performance is closely monitored through internal and external KPIs that measure service delivery performance to clients. The TSS Pricing Strategy includes moving to a more sophisticated model that incorporates transactional pricing.
⬤ Ensure each transport agency implements effective compliance management practices.	Some cluster agencies are more advanced in developing compliance registers, establishing legislative and regulatory committees, and monitoring and reporting compliance and governance. Refer to the Governance chapter.
⬤ In consultation with RMS, develop an appropriate funding model to ensure pavement rebuilding targets are met.	RMS advised additional funding for capital maintenance from 2022–23 to 2025–26 will move RMS closer to a sustainable pavement rebuilding target. Work in this area is ongoing.
⬤ Ensure the Opal system directly provides revenue information to meet the needs of all stakeholders.	Improvements are ongoing. Revenue Management is providing operators with regular revenue reporting, but TfNSW confirmed the operators require revenue and patronage data by station, fareband, Opal card type broken down by peak, off peak and weekends. The Ticketing and Concessions division of TfNSW is working with operators and Transport Performance and Analytics (formerly the Bureau of Transport Statistics) to deliver the data required for reporting.
⬤ Require the Opal service provider to independently confirm the effectiveness of its internal control processes.	TfNSW obtained an independent operating controls assurance report on the Opal system for 2015–16. The report states that in all material respects, the controls were appropriately designed and implemented, and the controls tested provided reasonable assurance the control objectives were achieved and operated effectively. Refer to the Service Delivery chapter.
⬤ Ensure appropriate strategies are implemented to address risks associated with legacy systems during the transition to new systems.	Strategies are in place to ensure legacy systems are maintained. Support agreements, user access controls and system protocols are being monitored while the new systems are implemented.

Recommendation	Current status
	Several initiatives and approaches are being undertaken to mitigate the risks associated with legacy systems.
● Publish on-time running results for outer metropolitan bus contract regions.	The results are now published on TfNSW's website.
● Set targets for the level of customer satisfaction for each transport mode to achieve.	Work is ongoing with TfNSW's continuously monitoring customer satisfaction across all transport modes. This is consistent with the NSW Government Priorities.
	The intent is to maintain or improve customer satisfaction across each mode. Refer to the Service Delivery chapter.

RMS should:

● Review procurement processes and align them with others in the cluster.	RMS reviewed its procurement processes as part of the TfNSW rollout of the cluster-wide ERP SAP program. It continues to align its procurement processes by participating in cluster working groups

Sydney Trains should:

● Independently test signalling protocols with results published and sent to all rail operators.	Sydney Trains advised this will be addressed through creation of a new agency, TAHE and construction of new ROC. Refer to the Governance chapter.
● Pay invoices on time.	**Repeat issue.** All agencies, except Sydney Trains met the target for paying supplier invoices on time.
	Sydney Trains monitors payment performance monthly. Payment performance was 87 per cent in 2015–16 (target 90 per cent). Sydney Trains is working with TSS to pay suppliers on time.

The Transport cluster agencies should:

● Consider the effectiveness of policies and management practices to reduce annual leave balances to comply with targets set by the Treasurer.	**Repeat issue.** Employees continue to have excessive annual leaves. Refer to the Financial Controls chapter.
● Consider the cost benefit of using contractors rather than permanent staff for ongoing roles.	Agencies advise the policies, procedures and guidelines they have in place ensure the cost benefit of using contractors instead of permanent staff for ongoing roles are considered at all times. However, the number of contractors continued to increase in 2015–16. Refer to the Financial Controls chapter.

Recommendation	Current status
🟡 Ensure asset revaluation outcomes are processed in the fixed asset register before the early close deadline.	RailCorp and Sydney Ferries only partially processed the revaluation outcomes before the early close deadline. Refer to the Financial Performance and Reporting chapter.
🟡 STA should continue working with TfNSW to improve on-time running performance in all metropolitan bus contract regions to meet on-time running targets.	STA continues to work with TfNSW to deliver significant on-time running improvements through various initiatives. Refer to the Service Delivery chapter.

2015 recommendation status					
🟢 Fully addressed		🟡 Partially addressed		🔴 Not addressed	

Financial Performance and Reporting

Financial performance and reporting are important elements of good governance. Confidence in public sector decision making and transparency is enhanced when financial reporting is accurate, timely and clear. Effective financial management and reporting by agencies helps key stakeholders, such as the NSW Government, make effective decisions and achieve desired outcomes efficiently.

This chapter outlines audit observations, conclusions and/or recommendations for the financial performance and reporting of Transport cluster agencies for 2015–16.

Financial reporting

Observation	Conclusion or recommendation
The quality of financial reporting is of a high standard and has improved since NSW Treasury introduced its 'early close procedures' initiative in 2011–12.	Unqualified audit opinions were issued on the 2015–16 financial statements of all Transport cluster agencies. Reportable misstatements fell 96 per cent since 2011–12 to just three in 2015–16.
RailCorp did not complete asset revaluation and update the fixed assets register for its 75,000 infrastructure assets by the early close deadline.	While all revaluation matters were satisfactorily resolved before finalising the 30 June 2016 financial statements, completing the revaluation process by 31 March would enable earlier review, identification and resolution of matters.
One significant matter was reported for TfNSW in 2015–16 relating to the impairment of leased buses.	Management is considering impairment implications for all bus fleet assets.

Financial performance

Observation	Conclusion or recommendation
NSW Trains and the Office of Transport Safety Investigations (OTSI) had negative equity positions at 30 June 2016. This cast doubt on their ability to continue as going concerns.	**Recommendation:** NSW Trains and OTSI should continue to focus on strategies to improve financial sustainability and less reliance on the NSW Government funding.
Transport agencies' patronage grew at a higher rate than revenue growth. Public transport passenger revenue increased four per cent in 2015–16 while patronage increased 12 per cent across all modes.	Revenue is still growing at a lower rate than patronage. TfNSW attributes this to increased use of youth, pensioner, student and employee concession Opal cards and significantly more free Opal trips.
The cost per passenger journey for all modes of transport decreased in 2015–16. Revenue per passenger journey for rail and buses decreased, but improved for ferries.	The overall cost recovery from users of public transport was 21 per cent in 2015–16 (20 per cent in 2014–15).
There was a significant investment in transport assets in 2015–16.	Agencies spent $7.9 billion on assets in 2015–16, including $3.0 billion on rail systems and $3.6 billion on road and maritime systems.

Quality of financial reporting

Unqualified audit opinions were issued for all agencies' financial statements

Unqualified audit opinions were issued on the 2015–16 financial statements of all agencies in the Transport cluster.

A financial audit is designed to identify matters considered important to report to those charged with governance of the agencies, the portfolio Minister, Treasurer and agency head.

In the 2015–16, we reported one significant matter relating to the impairment of leased buses. TfNSW recognised an impairment loss of $179 million against the carrying value of the bus fleet leased from STA.

We recommended management assess whether this impairment has implications for the value of the bus fleet leased from private operators during 2016–17. TfNSW will work closely with NSW Treasury to consider the impairment implications for all bus fleet assets.

The quality of financial reporting is of a high standard

Reported misstatements in Transport cluster agencies' financial statements fell 96 per cent since 2011–12 to just three in 2015–16. This reflects the improved quality of financial reporting since NSW Treasury introduced its 'early close procedures' initiative in 2011–12. Only three reportable misstatements in a cluster with $10.8 billion in expenditure, $14.2 billion in revenue, $128 billion in assets and $12.0 billion in liabilities is a good outcome.

Early close procedures help agencies meet earlier reporting deadlines and improve the quality and accuracy of financial reporting by bringing forward traditional year-end activities. These include the valuation of assets and the resolution of financial reporting issues.

The table below summarises the past five years' audit results for Transport cluster agencies highlighting total reportable misstatements detected during the audit process.

Reported misstatements					
Year ended 30 June	2016	2015	2014	2013	2012
Agency					
Department	--	1	1	4	5
TfNSW	--	--	--	1	10
RailCorp	--	2	1	3	10
Sydney Trains	--	1	1	N/A	N/A
NSW Trains	--	1	--	N/A	N/A
RMS	1	1	--	1	19
STA	--	--	--	1	5
ITSR*	--	--	1	6	6
OTSI	1	--	--	2	4
Sydney Ferries	--	--	1	4	5
Transport Service	--	--	2	2	3
Port Authority	1	--	N/A	N/A	N/A
Total misstatements	**3**	**6**	**7**	**24**	**67**

N/A   Indicates the agency did not exist in that year.

Notes:

1   Number of misstatements reported in the Department consolidation has been adjusted to exclude misstatements reported against the individual agencies.

2   The reported misstatements in 2016 were below $5 million and were not corrected.

*   Independent Transport and Safety Regulator (ITSR).

Source: Audit Office of New South Wales.

Timeliness of financial reporting

Cluster agencies' financial statements were submitted on time

All Transport cluster agencies submitted the financial statements on time and the Audit Office completed all the financial audits by the statutory deadlines. NSW Treasury extended TfNSW's deadline to 11 August 2016 for submitting the 2015–16 financial statements. This gave TfNSW time to resolve the issue relating to the impairment of its finance leased buses.

Timely and accurate financial reporting is essential for effective decision making, timely management of public funds and enhancing public accountability.

Agencies substantially completed early close procedures

With the exception of the matters referred to below, agencies substantially complied with NSW Treasury's early close procedures. All agencies submitted proforma financial statements on time. Most reconciled key account balances, and performed monthly accruals and management reviews as required. Most agencies had also actioned our prior year management letter recommendations.

Asset revaluation processes can improve

Although most agencies complied with Treasury's early close procedures, opportunities exist for improvements to asset revaluation processes.

RailCorp did not complete the revaluation of its 75,000 infrastructure assets or update the fixed asset register by the early close deadline. This was a similar outcome to its 2014–15 buildings revaluation process.

The valuer's report for Sydney Ferries was only finalised after submission of the early close financial statements.

While all revaluation matters were satisfactorily resolved before finalising the 30 June 2016 financial statements, completing the revaluation process by 31 March would enable earlier review, identification and resolution of matters.

Some agencies can still improve their early close procedures

TfNSW and Transport Service did not submit required work papers supporting the financial statements within the early close deadline. As the year-end reporting timetable is expected to shorten in future years, these entities should develop solutions to enable earlier reporting.

Opportunities for agency improvements include:

* compiling adequate working papers to support revaluations of property, plant and equipment to enable audit work to be conducted before year-end
* ensuring sufficient documentation is prepared to support management's accounting treatments, judgements and assumptions.

Financial sustainability

NSW Trains and OTSI may not be viable as stand-alone entities

Recommendation

NSW Trains and OTSI should continue to focus on strategies to improve financial sustainability and less reliance on the NSW Government funding.

NSW Trains and OTSI required letters of financial support so they could prepare financial statements on a going concern basis. Management of these entities should explore strategies to make them financial sustainable and no reliance on letters of financial support.

NSW Trains and OTSI had negative equity positions of $75.7 million and $307,000 respectively at 30 June 2016. Uncertainty over their ability to operate with positive cash flows in the short term cast significant doubt on whether they were going concerns, the basis on which the financial statements were prepared.

Passenger revenue and patronage

Transport agencies' patronage grew at a higher rate than revenue growth

Public transport passenger revenue increased by $50.0 million (four per cent) in 2015–16, while patronage increased by 72 million trips (12 per cent) across all modes of transport.

TfNSW advises the introduction of Opal enables individual public transport trips to be counted more accurately and consistently. This is in contrast to legacy paper tickets which applied different methodologies to assign patronage to modes and services. Patronage data in 2014–15 and 2015-16 includes data derived from both Opal and paper tickets. The take up rate for Opal increased considerably across this period. Representation of school students also varies across years as a result of the transition from paper tickets to Opal cards.

The continuing rise in patronage increases pressure on public transport crowding, punctuality and capacity.

Rail is the most used mode of public transport. It earned 65 per cent of total passenger revenue and accounted for 54 per cent of total public transport patronage in 2015–16. Revenue per passenger journey for rail and buses decreased, but improved for ferries.

Passenger revenue and patronage by transport mode follows.

	Passenger revenue		Movement	Patronage		Movement
Year ended 30 June	2016	2015		2016	2015	
Mode of public transport	$m	$m	%	million trips	million trips	%
Rail	829	816	1.6	363	328	10.7
Buses*	383	354	8.2	290	257	12.8
Ferries**	49	45	8.9	15	15	--
Light rail	12	8	50.0	10	6	66.7
Total passenger revenue and patronage from public transport	**1,273**	**1,223**	**4.1**	**678**	**606**	**11.9**

*   Passenger revenue for STA and private bus operators.

**   Passenger revenue did not include Newcastle Ferries.

Source: Financial statements (audited) and information from TfNSW (unaudited).

Opal cards with negative balances continue to increase

The number of Opal cards with negative balances increased to 363,000 (negative $1.3 million) at 30 June 2016. This represents less than 0.1 per cent of total Opal annual revenue. The Opal website states that as long as a passenger's card has the minimum value when they tap on they will be able to tap off and the card will go into a negative balance. However, the passenger will need to top-up the card to tap on again.

Unregistered Opal cards with negative balances cannot be recovered unless the passenger tops-up the card. Negative balances may not be recovered if customers purchase additional cards and discard the negative balance cards.

Opal reader breakdowns have decreased by 68 per cent

Opal reader breakdowns decreased from 14,800 in 2014–15 to 4,700 in 2015–16 across all transport modes. Buses have the most Opal Readers (93 per cent), which account for the highest percentage of the faults. TfNSW is working on reducing Opal Reader failures.

TfNSW was unable to estimate the value of lost revenue from Opal reader breakdowns, because of variables such as mode and fares.

Free trips have almost doubled since last year

During 2015–16, the Opal fare structure offered customers unlimited free trips after the first eight paid journeys in a week. The structure also had a $15 cap ($2.50 cap on Sunday) for total daily travels.

Nearly 145 million free trips, valued at $323 million, were provided by transport operators. Twenty-seven per cent of Opal trips were free, including more than half of those taken on ferries. The table below shows free trips taken by mode of transport in 2015–16 and 2014–15.

Free trips by mode			
	Number		**Total Opal trips**
Year ended 30 June	**2016**	**2015**	**2016**
Mode of public transport	**'000**	**'000**	**%**
Rail	80,006	45,381	26.8
Light Rail	2,681	879	33.3
Bus	56,413	25,440	25.9
Ferry	5,828	2,750	52.2
Total	**144,928**	**74,450**	**27.1**

Source: TfNSW (unaudited).

For more information on Opal card please refer to https://www.opal.com.au/en/about-opal/.

In May 2016, the Independent Pricing and Regulatory Tribunal (IPART) released a report with recommendations to improve fare integration and the financial sustainability of the Opal public transport network.

The NSW Government adopted IPART's key recommendations which include:

- introducing a $2 'transfer discount' for Adult Opal card customers ($1 for concessions) every time they change modes of transport during a single journey
- changing the Opal Travel Reward to provide a 50 per cent discount on all journeys after eight paid journeys in a week.

The changes were introduced in September 2016. The NSW Government also announced there would be no increases to Opal card fares until July 2017.

Cost recovery from public transport users

Cost recovery has improved

In 2015–16, the overall cost recovery from public transport users was 21 per cent (20 per cent in 2014–15). This is calculated based on revenue from customers and the cost to Government of providing services. Cost recoveries for different modes of transport are shown below.

Cost recovery						
	Rail		**Buses****		**Ferries**	
Year ended 30 June	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Cost of services per passenger journey ($)	11.7	13.5	6.0	6.5	8.4	8.6
Passenger revenue per passenger journey ($)	2.3	2.5	1.3	1.4	3.2	3.0
Net cost per passenger journey ($)*	9.4	11.0	4.7	5.1	5.2	5.6
Cost recovery from users (%)	19.7	18.5	21.7	21.5	38.1	34.9

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

** Passenger journey for buses does not include children under the School Student Transport Scheme.

Source: Financial statements (audited) and information from TfNSW (unaudited).

The cost per passenger journey fell on all three modes of transport, as did revenue per passenger journey except for ferries. As a result, the net cost per passenger journey decreased for all three modes compared to the prior year.

Analysis of financial information

Department of Transport consolidation

The Department is a not-for-profit NSW Government entity which controls all transport agencies in the Transport cluster, except ITSR, OTSI and Port Authority of New South Wales. The controlled entities are consolidated in the financial statements of the Department.

The Department's abridged consolidated financial statements are shown below. Additional financial information on agencies in the Transport cluster appears in Appendix One.

Abridged income statement				
Year ended 30 June	**2016** **$m**	**2015** **$m**	**Increase / (decrease)** **$m**	**Increase / (decrease)** **%**
Employee related expenses	2,884	2870	14	0.5
Depreciation and amortisation	3,007	2839	168	5.9
Grants and subsidies	638	552	86	15.6
Finance costs	327	331	(4)	(1.2)
Other expenses	3790	3891	(101)	(2.6)
Total expenses	**10,646**	**10,483**	**163**	**1.6**
Government contributions	11,426	11,854	(428)	(3.6)
Sale of goods and services	1,996	2,020	(24)	(1.2)
Investment income	157	160	(3)	(1.9)
Other revenue	417	492	(75)	(15.2)
Total revenue	**13,996**	**14,526**	**(530)**	**(3.6)**
Other losses	(416)	(423)	7	1.7
Net result	**2,934**	**3,620**	**(686)**	**(19)**
Total other comprehensive income	784	4,017	(3,233)	(80.5)
Total comprehensive income	**3,718**	**7,637**	**(3,919)**	**(51.3)**

Source: Department of Transport Financial statements (audited).

Government contributions for operating expenditure and capital investment decreased

Government contributions for operating expenditure and capital investment totalled $11.4 billion, down slightly from $11.9 billion in 2014–15. From 1 July 2015, RailCorp received $1.8 billion cash from NSW Treasury as an equity injection to pay TfNSW to construct rail assets on its behalf. Previously, the assets were transferred to RailCorp as non-cash grant revenue.

Other losses of $416 million largely represent fair value adjustments and losses on asset disposals during the year. Total other comprehensive income mainly represents increases in the value of rail system assets of $1.0 billion, offset by a $384 million adjustment to defined benefit superannuation schemes.

Depreciation and amortisation increased 5.9 per cent mainly as a result of increases in the carrying values of road and rail infrastructure assets.

Payments of grants and subsidies increased 16 per cent mainly due to the transfer of roads and bridges from RMS to local councils.

Abridged statement of financial position				
At 30 June	2016	2015	Increase / (decrease)	Increase / (decrease)
	$m	$m	$m	%
Current assets	3,668	2,467	1,201	48.7
Non-current assets	123,338	117,179	6,159	5.3
Total assets	**127,006**	**119,646**	**7,360**	**6.2**
Current liabilities	4,483	4,081	402	9.9
Non-current liabilities	7,359	7,320	39	0.5
Total liabilities	**11,842**	**11,401**	**441**	**3.9**
Net assets	**115,164**	**108,245**	**6,919**	**6.4**

Source: Department of Transport Financial statements (audited).

There was a significant investment in assets in 2016

At 30 June 2016, non-current assets included $119 billion of property, plant and equipment. Agencies purchased $7.9 billion of assets in 2015–16, which included $3.0 billion for rail systems and $3.6 billion for roads and maritime systems. Asset revaluations added $1.1 billion to asset values.

The increase in current assets in 2015–16 was mainly due to $699 million of funding received in June 2016 for the Restart NSW plan and $241 million of land and buildings held for sale.

The increase in current liabilities was due to a $307 million drawdown of borrowings by RailCorp to fund capital expenditure and one off capital structure payments to Sydney Trains and NSW Trains.

Financial Controls

Appropriate financial controls help ensure the efficient and effective use of resources and the implementation and administration of policies. They are essential for quality and timely decision making to achieve desired outcomes.

This chapter outlines audit observations, conclusions and/or recommendations related to financial controls of agencies in the Transport cluster for 2015–16.

Financial controls	
Observation	**Conclusion or recommendation**
A change in the methodology used to determine whether an asset meets defined service level standards has significantly reduced RMS' estimate of its maintenance backlog.	RMS' maintenance backlog of $3.4 billion is significantly lower than the $5.3 billion reported in 2015. Transport agencies' manage $119 billion in property, plant and equipment. Total backlog maintenance of $3.6 billion at 30 June 2016 represents three per cent of the asset values.
Weaknesses in information security processes accounted for over 79 per cent (87 per cent in 2014–15) of the issues identified in our audits of major financial systems during 2015–16 audits.	**Recommendation:** Transport cluster agencies should terminate user access on a timely basis and ensure all user reviews are completed so access rights are appropriate.
At 30 June 2016, 6,945 or 27 per cent (7,180 or 28 per cent at 30 June 2015) of transport employees had annual leave balances exceeding 30 days, worth $22.6 million.	**Recommendation:** Transport entities should continue reviewing the effectiveness of approaches to managing excessive annual leave in 2016–17.
The number of contractors increased by 254 to 2,231 contractors at 30 June 2016 (1,977 at 30 June 2015) being used costing $256 million. Eight contractors were each paid more than $400,000 in 2015–16, eleven were engaged for more than six years, including one for over 14 years.	Agencies advise the policies, procedures and guidelines they have in place ensure the cost benefit of using contractors instead of permanent staff for ongoing roles are considered at all times. However, the number of contractors continued to increase in 2015–16.

Maintenance

RMS has a maintenance backlog of $3.4 billion

The estimated cost of bringing RMS assets up to defined service levels through maintenance interventions was $3.4 billion at 30 June 2016. This was significantly lower than the $5.3 billion reported at 30 June 2015.

RMS refined the methodology used to determine asset condition and maintenance interventions needed to meet service levels, address risk and minimise whole of life costs across different assets. This resulted in the revised estimate for backlog maintenance at 30 June 2016.

A maintenance backlog is the estimated cost to bring infrastructure, buildings and other structures to a defined standard, measured at a particular point in time. It is an important asset management indicator.

RMS's assessments of asset condition now use three key elements:

- customer focused level of service – determining how asset condition will impact on customer performance standards and safety

- consistent risk based approach across asset groups (pavement, bridges) – determining whether rectification work needs to be prioritised and ensure continued satisfactory service and repair of critical deficiencies that impact structural performance
- minimisation of whole of life costs – considering preventative interventions to ensure assets remain in acceptable condition.

Sydney Trains had a maintenance backlog of $242 million at 30 June 2016 ($250 million at 30 June 2015) and advises that at this level the backlog has no impact on safety or service levels.

Postponing preventative maintenance can lead to more costly and extensive maintenance. As the cost and complexity of maintenance increases, less can be done with available funding, further increasing backlog maintenance.

TfNSW advises that deferring non-critical asset maintenance makes more funds available to spend on higher priority assets that deliver better customer service outcomes.

Transport agencies' manage $119 billion in property, plant and equipment. Total backlog maintenance of $3.6 billion at 30 June 2016 represents three per cent of the value of property, plant and equipment.

The Transport cluster's maintenance expenditure increased by $74.9 million in 2015–16

Maintenance expenditure increased by $74.9 million (four per cent) in 2015–16, from $1.8 billion to $1.9 billion. This represents less than two per cent of the value of the cluster's property, plant and equipment assets. Most of the increase was in Sydney Trains.

During 2015–16, agencies spent $97 million more on maintenance than initially planned. This is attributed to emergency repairs, unplanned maintenance and completing work ahead of time.

Information technology controls

Our information system audits on major financial systems identified 29 issues (31 in 2014–15) in Transport cluster agencies in 2015–16. The audits focus on information security, system change control and computer operations.

Weaknesses still exist in access security for financial systems

Recommendation (repeat issue)

Transport Cluster agencies should terminate user access on a timely basis and ensure all user reviews are completed so access rights are appropriate.

Over 79 per cent (87 per cent in 2014–15) of the issues identified were related to information security. Thirty-three per cent of these were unresolved issues identified in 2014–15.

Forty-eight per cent of the information security issues related to the SAP systems. The issues, which include weak user administration processes and password controls, increase the risk of unauthorised access to these critical financial systems compromising the integrity and security of data.

Information technology (IT) processes and controls support the integrity of the financial data used in preparing the financial statements. The processes and controls reduce the risk of unauthorised access, security attacks, data breaches and identity theft. The graph below categorises each IT issue we identified and shows the frequency.

IT Issues Reported by Category
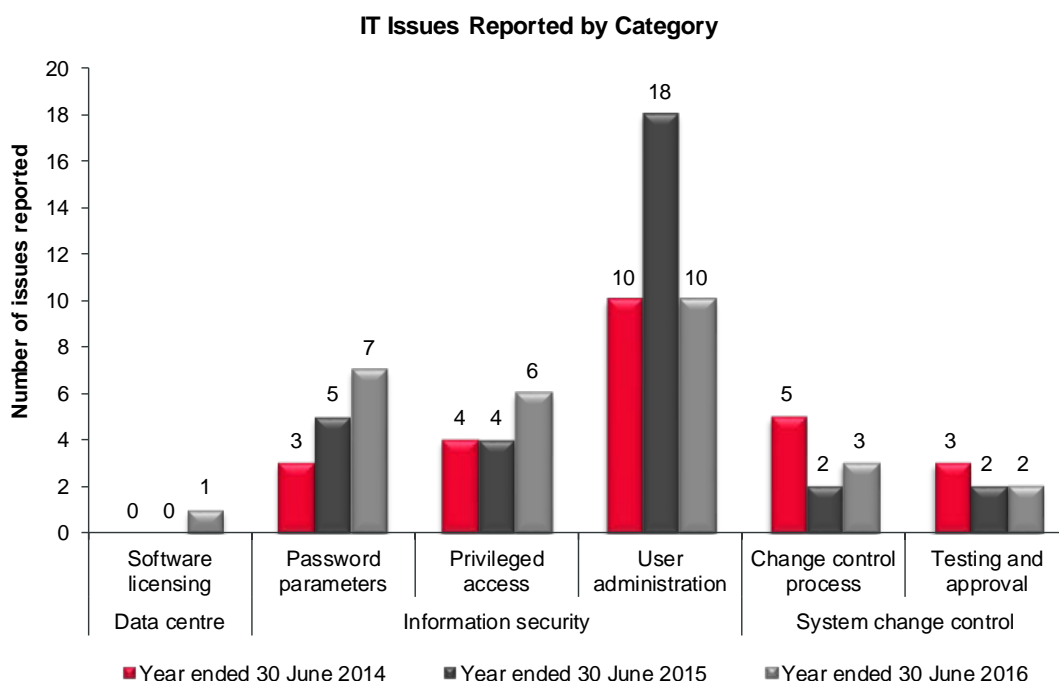
Note: In 2014, one issue for the security policies category and one for other security issues were noted. No issues for these categories were noted in 2015 and 2016.

Source: Information Technology audit findings and recommendations identified for the Transport cluster.

TfNSW advised implementation of SAP ERP program across the cluster will substantially improve the security of financial systems.

Excessive annual leave

Twenty-seven per cent of employees had excessive annual leave at 30 June 2016

> **Recommendation (repeat issue)**
>
> **Transport entities should continue reviewing the effectiveness of approaches to managing excessive annual leave in 2016–17.**

At 30 June 2016, 6,945 or 27 per cent (7,180 or 28 per cent at 30 June 2015) of transport employees had annual leave balances exceeding 30 days. The value of excessive leave at 30 June 2016 was $22.6 million.

Excess annual leave entitlements can adversely affect an organisation in the following ways:

• the associated liability generally increases over time as salary increases

• fraud may remain undetected

• work health and safety issues may arise.

The Treasurer requested all Secretaries and Chief Executives to reduce excessive annual leave balances to 30 days by 30 June 2015.

Sydney Trains and NSW Trains have Enterprise Agreements that allow employees to accumulate up to 40 days annual leave, or 50 days annual leave for shift workers. These agencies account for 64 per cent of the employees exceeding 30 days and 67 per cent of the related liability at 30 June 2016.

Treasury Circular TC16/03 'Managing Accrued Recreation Leave Balances' requires agencies to manage accrued employee recreation leave balances to a maximum of 30 days or less on an ongoing basis, within the constraints of relevant industrial instruments and legislation.

RMS, ITSR and OTSI all reduced the excess leave liability in 2015–16.

All entities advise they have policies to manage excessive annual leave and most report that leave plans were developed for employees with excessive leave. Other strategies include shutting down non-operational staff for two weeks over Christmas, allowing leave to be cashed in and directing staff to take excessive leave.

Engagement of contractors

The number of contract employees continued to increase in 2015–16

Since 2011–12, the number of contractors continued to rise. At 30 June 2016, 2,231 (1,977 at 30 June 2015) contractors were engaged by Transport cluster agencies costing $256 million.

Eight contractors were each paid more than $400,000 in 2015–16, eleven were engaged for more than six years, including one contractor for more than 14 years.

Contractors are usually paid at a higher rate than permanent employees. If a role is anticipated to be a long term role, engaging a permanent employee may be more suitable than a contractor.

Transport cluster agencies advise that permanent or fixed term employment is the preferred option. However, capital projects may need to use resources other than permanent employees to suit the needs of the projects. The agencies also advise that the policies, procedures and guidelines in place ensure the cost benefits of using contractors rather than permanent staff for ongoing roles are considered at all times.

Governance

Governance refers to the high-level frameworks, processes and behaviours established to ensure an entity performs by meeting its intended purpose, conforms to legislative and other requirements, and meets probity, accountability and transparency expectations.

Good governance promotes public confidence in Government and its agencies. Well governed agencies help improve service delivery and the efficient use of resources.

This chapter outlines audit observations, conclusions and/or recommendations for the governance of agencies in the Transport cluster for 2015–16.

Governance	
Observation	**Conclusion or recommendation**
Sydney Trains operates signalling priorities for RailCorp and could potentially provide rail services that favour it ahead of other operators.	To maintain the confidence of all transport operators, the conflicts need to be managed appropriately. **Recommendation:** The transparency of operation of signalling priorities with operators be improved with the creation of TAHE and the operation of the new Rail Operations Centre in 2018.
In 2014–15 we recommended that the Transport cluster Strategy Committee should ensure its risk assessment activities adequately mitigate risks at the Transport cluster level.	TfNSW advises the implementation of this recommendation is ongoing. Thirty-one risks associated with delivering the strategic priorities/objectives have been identified. The Committee has identified key mitigations which it reviews regularly.
Agencies within the cluster have their own risk profile and risk management framework. Risk management is performed at an agency and directorate level. The maturity of risk management varies across agencies and divisions.	We assessed the risk management maturity of four transport agencies. Risk management was generally 'consistently designed' in three agencies and 'consistently implemented' at the other. More work is occurring to embed enterprise-wide risk management frameworks so risk management is consistently implemented.
TfNSW is replacing multiple legacy financial, human resource, payroll and procurement systems across cluster agencies with one SAP solution. The replacement program started under the SAP ERP program. TfNSW is responsible for delivering the systems.	At 30 June 2016, 88 per cent of the $196 million program budget was spent leaving $24.0 million to cover the cost of the remaining SAP ERP implementation. The major transport agencies have budgets totalling $122 million and 49 per cent was spent by 30 June 2016. **Recommendation:** Transport agencies should review project budgets and delivery schedules to address any impact of deferred implementation.
A new Transport Asset Holding Entity (TAHE) was announced in the 2015–16 State Budget Statements. We understand RailCorp will be converted/transition to TAHE.	The transfer of public transport assets to TAHE is expected to occur over the next few years. TAHE may eventually be a for-profit agency expected to provide a commercial return to its shareholders.

Control of the Transport cluster

TfNSW is the lead agency in the Transport cluster. It is responsible for the coordination, allocation of funding, policy and planning, and other delivery functions for transport in New South Wales.

The Secretary of TfNSW can issue directions to most transport agencies under the *Transport Administration Act 1988*. The Secretary through TfNSW and the Department controls most agencies in the Transport cluster for accounting and administrative purposes.

The Secretary issued directions during the year, including:

• directing RMS and Transport Service to remove $1.4 billion in employee liabilities (relating to former RMS award staff) from the financial statements, following the Crown Entity's assumption of these liabilities from 1 July 2015
• directing the transfer of $86.8 million in construction works in progress for the Metro City South West project from RailCorp to TfNSW, following a government decision for these assets to remain under the control of TfNSW
• directing RailCorp to pay monthly invoices from TfNSW, totalling approximately $1.6 billion, for rail related projects managed by TfNSW.

TfNSW does not control ITSR, OTSI or the Port Authority.

Governance framework

Actions to maintain commercial trust

Potential conflicts of interest exist within the Transport cluster. To maintain the confidence of all transport operators, potential conflicts need to be managed appropriately.

Sydney Trains operates signalling priorities for RailCorp and could potentially provide rail services that favour it ahead of other operators.

> **Recommendation**
>
> **The transparency of operation of signalling priorities with operators be improved with the creation of TAHE and the operation of the new Rail Operations Centre in 2018.**

RailCorp, which will transition to TAHE, operates signalling priorities through Sydney Trains' personnel. Sydney Trains advises if rail network disruptions occur, train controllers are required to implement contingency plans that benefit most passengers and minimise inconvenience. It also advises that defined rules and protocols are agreed and accepted by all operators.

Transport is moving to a new ownership and operating model with the introduction of TAHE. Management believes the creation of TAHE will address potential conflicts of interest as it is likely to have a separate board and management to Sydney Trains. TAHE will be a for-profit trading enterprise with dividend targets agreed with NSW Treasury. Strong revenue flows from private and public rail operators is likely to be a key requisite for the payment of dividends. Under this arrangement, it is likely private and public rail operators will expect an equitable share of TAHE controlled resources, including access to railway infrastructure.

Management advised they are investing in a new Rail Operations Centre (ROC) which will minimise delays and ensure when incidents do occur on the rail network, customers receive better and faster information. The ROC will modernise how Sydney's rail network is controlled by incorporating many different systems into a single location and changing the approach to managing trains.

Additionally, Sydney Trains advises that sufficient internal controls are in place to manage potential conflicts of interest. For example, RailCorp and Sydney Trains each have a Rail

Services Contract with TfNSW, which sets out performance expectations and requirements for each agency. If a conflict is identified, the Secretary acts as the arbiter.

Risk management

Thirty-one risks have been identified

In 2014–15, year we recommended the Transport cluster Strategy Committee ensure its risk assessment activities adequately mitigate risks at the Transport cluster level. TfNSW advises the implementation of this recommendation is ongoing. Thirty-one risks associated with the delivery of the strategic priorities/objectives have been identified. The Committee has identified key mitigations, which it regularly reviews.

Risk management processes can be improved

Agencies within the cluster have their own risk profile and risk management framework. Risk management is performed at an agency and directorate level. Within the cluster the maturity of risk management varies across agencies and divisions.

We assessed the risk management maturity (which has five levels of maturity) of four transport agencies using the Audit Office's Risk Management Maturity Toolkit covering the following key areas of risk management:

- strategy and governance
- monitoring and review
- process
- systems and intelligence
- culture.

Risk management was generally 'consistently designed' (third level) in three agencies and 'consistently implemented' (second highest level) at one agency. More work is occurring to embed enterprise-wide risk management frameworks so that risk management is consistently implemented.

Our assessment found:

- each agency had an overarching risk register
- risk registers are in place at the branch/directorate level
- each agency had a key governance committee with risk management responsibilities outlined in the charter
- risk registers were regularly updated and monitored by the Audit and Risk Committees
- there was regular reporting
- agencies were generally aware of improvements needed to their risk management maturity and are implementing actions to improve maturity.

Areas for potential improvement include:

- more consistent application of risk management within the directorates of some agencies
- consideration of common or more fully integrated enterprise risk management systems
- ensuring staff own their risks.

Effective risk management can improve decision making and lead to improved efficiencies and cost savings. By embedding risk management directly into processes, agencies can derive additional value from risk management programs. The more mature an agency's risk management, the stronger its culture in balancing the tension between value creation and protection.

Treasury Policy Paper TPP 15–03: 'Internal Audit and Risk Management Policy for the NSW Public Sector' requires an agency to establish and maintain an appropriate risk management framework and related processes.

A mature risk management process should:
- foster an embedded risk aware culture
- align strategic and business decision making processes with risk management activities
- improve resilience in dealing with adversity
- increase agility in pursuing new opportunities.

Agencies will need to evaluate the costs and benefits of risk management capability if they are to achieve a desirable balance between risk and reward. Some agencies may need more sophisticated risk management processes than others to suit the size and complexity of their activities.

Ethics

Compliance management

Compliance management processes improved

All Transport cluster agencies identified laws and regulations applicable to their organisation. The full implementation of a detailed legislative compliance register is still a work in progress for some agencies. At TfNSW the draft implementation plan for the compliance framework and register was prepared for approval. The full compliance register and compliance governance processes are a work in progress at NSW Trains. RMS continued to implement its compliance management framework during the year.

OTSI and ITSR do not have legislative compliance registers.

Complete detailed compliance registers that are regularly monitored are important to ensure agencies are operating within the law. This is important to lower the risks of fines or damage to reputation if laws are not complied with.

Effective compliance management requires agencies to:
- identify all applicable laws, regulations and government directions
- maintain a centralised up-to-date compliance register
- assign responsibility for each requirement
- monitor and report on compliance.

Fraud cases reported and investigated

Most reported cases of suspected fraud occurred in Sydney Trains

In 2015–16, 228 (255 in 2014–15) suspected frauds were reported in agencies across the Transport cluster. Of these, 156 (103) were investigated. Most suspected frauds (169) were reported in Sydney Trains. Of these, 113 were investigated. Not all reported matters require investigation.

Fraud statistics for the Transport cluster over the last three years are detailed below.

Fraud statistics						
Year ended 30 June	2016		2015		2014	
Entity	Cases investigated	Cases reported	Cases investigated	Cases reported	Cases investigated	Cases reported
Sydney Trains	113	169	62	184	88	128
NSW Trains	1	1	4	14	14	14
RailCorp	--	--	--	--	25	31
STA	4	4	12	14	20	20
Sydney Ferries	--	--	--	--	--	--
RMS	34	46	19	30	23	31
TfNSW*	4	8	6	13	15	18
Port Authority	--	--	--	--	N/A	N/A
ITSR	--	--	--	--	--	--
OTSI	--	--	--	--	--	--
Total	156	228	103	255	185	242

*   TfNSW also includes the Department and the Transport Service of New South Wales.

N/A   Port Authority was first reported in Financial Year 2015.

Source: TfNSW (unaudited).

The cases reported in Sydney Trains include all reports of corruption, misconduct, non-compliance and requests for advice.

RMS advises the increase in its reported frauds is partly due to efforts to educate staff about fraud and corruption and encourage reporting. Some reported frauds also related to external frauds committed by third party insurance scheme participants. The control environment in this area was strengthened in response to Independent Commission Against Corruption (ICAC) recommendations.

Each transport agency is independently accountable for implementing programs and initiatives to combat fraud and the misuse of public resources.

All major transport agencies have corruption control frameworks and; internal units to investigate reported frauds and report findings to the respective Audit and Risk Committees. These units work with the business units to provide fraud and corruption training.

The Audit Office's Fraud Control Improvement Kit, released in February 2015, recognises the importance of the cultural elements to fraud control and how leaders play an important role in ensuring the right culture is present in agencies. The approach to fraud control should be positive and proactive, not a 'tick and flick' exercise.

The Kit is designed to help agencies meet the challenge of implementing an effective fraud control framework. It provides guidance on the key elements of the framework and contains practical resources to help agencies implement, review and monitor the framework's effectiveness.

Conflict of interest management

Conflicts of interest occur when public officials and employees are in a position to be influenced, or appear to be influenced, by private interests when doing their job. Conflicts of interests are not wrong in themselves, but how they are managed is critical.

The perception that a conflict of interest has influenced an outcome can undermine public confidence in the integrity of an agency and an individual. Unresolved or badly managed conflicts can lead to corruption or abuse of public office, or this perception.

Cluster agencies reported over 1,500 staff completed the annual declaration of interest return in November 2015. Most were nil returns. Some staff did not complete returns generally because they were on leave.

Managing conflicts of interest is particularly important in the Transport cluster which spends billions of dollars on the procurement of new infrastructure.

TfNSW has developed a cluster wide conflicts of interest policy that covers personal interests, secondary employment, and gifts and benefits for cluster staff and contingent workers. The policy is publicly available on its website at:
http://www.transport.nsw.gov.au/sites/default/files/b2b/aboutus/conflicts-of-interest-policy.pdf.

OTSI and ITSR are not covered by this policy but have processes in place to manage conflicts of interest.

The Code of Ethics and Conduct for NSW Government sector employees outlines declaration requirements for senior executive staff, who are required to declare private financial, business, personal and other interests annually. These interests could potentially influence, or be perceived to influence, decisions made or advice given by senior executive staff. TfNSW has included this requirement in its policy.

TfNSW's policy does not require staff, other than senior service staff, to complete annual declarations. Conflicts are required to be reported as they occur. While there is a centralised policy, each agency maintains a conflict of interest register. TfNSW does not monitor or review individual agency compliance with the policy.

All cluster agencies are maintaining gifts and benefits registers

TfNSW's conflict of interest policy also covers gifts and benefits. Under the policy STA and RMS staff and contingent workers must not accept gifts or benefits in any circumstance.

TfNSW, Sydney Trains, NSW Trains and RailCorp have a maximum monetary value. Gifts and benefits can be accepted if lower than this value and they do not compromise the individual, the agency or cause an actual, potential or perceived conflict of interest. Staff and contingent workers who are directly involved in procurement are prohibited from accepting a gift or benefit from a supplier, or potential supplier.

Each agency has a register of gifts and benefits offered and/or received. TfNSW's register includes an online portal for staff to make declarations. It went live in February 2016. STA's register requires gifts received, that are unable to be returned, to be given to charity.

SAP ERP implementation

SAP ERP program scope and timeline changed to manage risks and costs

> ### Recommendation
>
> **Transport agencies should review project budgets and delivery schedules to address any impact of deferred implementation.**

Current SAP ERP status

The table below shows the SAP ERP implementation status for all Transport agencies at 27 October 2016.

SAP implementation across Transport agencies			
Agency	**Legacy system**	**New system**	**Status**
TfNSW	SAP	SAP ERP	Implemented in July 2015
RMS	SAP	SAP ERP	Implemented in July 2016
Sydney Trains	Ellipse	SAP ERP	Implementation originally planned for January 2017 Implementation deferred to June 2017
NSW Trains	Ellipse	SAP ERP	Implementation planned for January 2017
STA	Ellipse, Payroll and Emphasys	Ellipse ERP	De-scoped from SAP ERP program in January 2016 New ERP business case approved in September 2016 New Ellipse implementation planned for July 2018
All agencies (except STA)	SAP/Ellipse	SAP ERP	Contract and Catalogue Management function - implementation deferred to June 2017

Note: TfNSW is replacing multiple legacy financial, human resource, payroll and procurement systems across all Transport agencies with one SAP solution. This replacement program started under the SAP ERP program and TfNSW is responsible for delivering the systems. The program completion date is postponed from 2015 to 2017 to align with the Sydney Trains' Enterprise Asset and Management go-live date.

STA was removed from the SAP ERP program in January 2016 to manage business risk and the program budget, despite being part of the original business case in 2011. STA will enhance its existing Ellipse system instead. A capital budget of $12 million was approved for the STA financial system solution. STA finance and procurement solution will be delivered by July 2017 and human resource and payroll functionality delivered July 2018.

Challenges for the SAP ERP program

The total budget for the SAP ERP program is $196 million, including a $45.0 million contingency. Most of the contingency was fully allocated in 2015 with the balance used in 2016. At 30 June 2016, 88 per cent ($172 million) of the budget had been used on the design of the whole of cluster solution. This leaves $24.0 million to cover the delivery costs of the remaining SAP ERP implementations. This includes bringing existing SAP functionalities to Sydney Trains and NSW Trains and deploying the Contract and Catalogue Management function.

The major transport agencies, as noted below, have budgets for costs relating to agency integration, localisation and deployment, totalling $122 million. The funding allocation for agency costs was approved in December 2014, as follows:

Agency	Total budget ($m*)
TfNSW	21
Sydney Trains and NSW Trains	61
RMS	40**
Total	**122**

* STA budget of $5.3 million is excluded from total due to the STA SAP ERP program being de-scoped.

** RMS funded its own costs, with the remaining agencies being approved and funded from TfNSW.

These agencies spent 49 per cent ($59.6 million) of the budgets. RMS had the highest spend of $33.3 million in 2015–16. TfNSW and Sydney Trains had spent $15.4 million and $10.9 million, respectively, to 30 June 2016. The graph below shows the actual spend and remaining budget for TfNSW, RMS and Trains. Management advised no costs were incurred by the remaining cluster agencies.

Individual Agency Cost and Budget

Million dollars to 30 June 2016

■ Actual costs   ■ Remaining budget
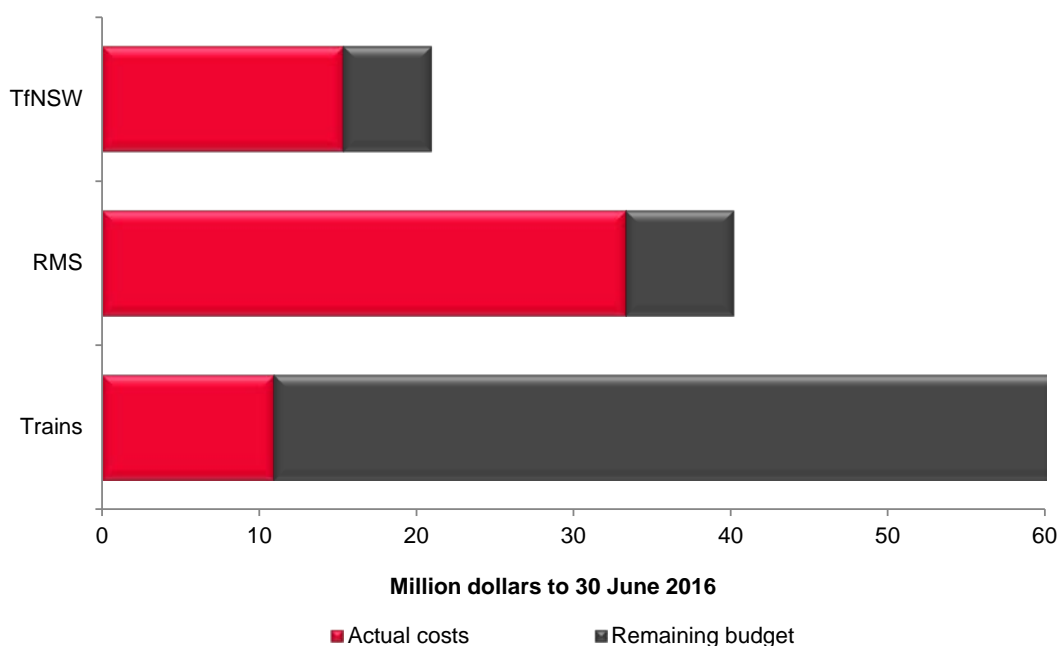
Source: TfNSW (unaudited).

The chart below shows agency borne costs and SAP ERP program costs against the remaining budget for the life of the project.

Total SAP ERP Cost and Budget

Million dollars to 30 June 2016

■ Actual costs   ■ Remaining budget
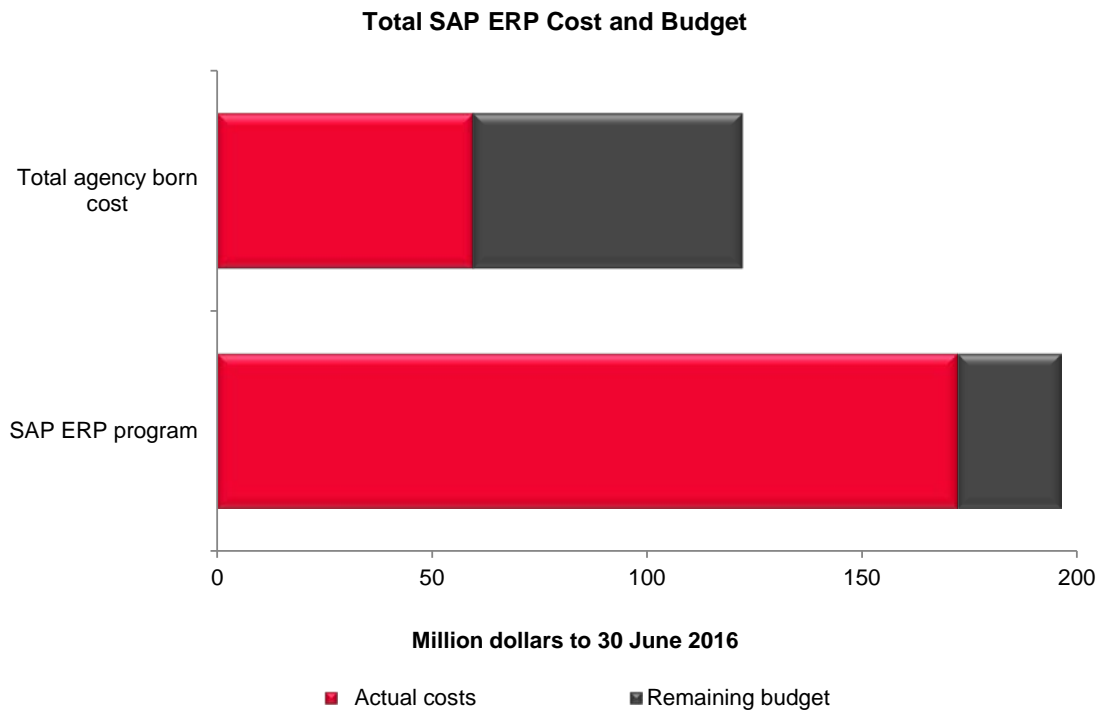
Source: TfNSW (unaudited).

Focus of Trains deployment

The timetables, resource constraints and complexity challenges of deploying SAP ERP into Trains has required close cooperation between the SAP ERP and SAP Enterprise Asset Management programs (EAM). The SAP ERP program accepted Sydney Trains' decision to defer implementation to Sydney Trains and split the transition to NSW Trains. The decision was made to mitigate business risks. The transition for Trains agencies is more complex because the legacy Ellipse system is very different to the new SAP solution.

The Contract and Catalogue Management functionality for all agencies was deferred from implementation, and is now scheduled for June 2017.

The deferral means some agencies will not realise the full benefits and efficiencies from the new procurement function and integrated SAP ERP system until June 2017.

Given the complexity of the work and budget constraints, agencies need to ensure they have appropriately forecasted budgets and timelines to achieve the planned schedule.

The SAP ERP program's quality is at risk

The Project Management Triangle, a model of the constraints of project management, is shown below.
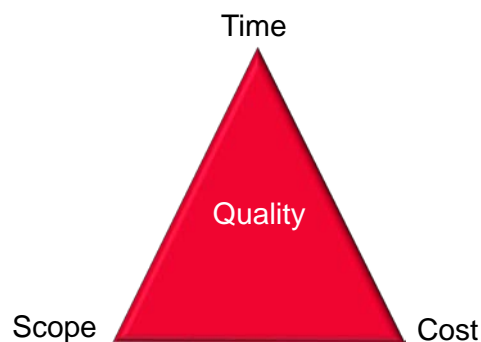
Good project management to deliver a quality system depends on balancing three key constraints: time, scope and cost. Increasing one constraint without affecting another, changes the quality of the system. The current implementation status shows the SAP ERP program has varied the scope, extended the timelines and limited the program budget.

111 change requests were approved since the program's inception in January 2013 to October 2016, costing $82.0 million. SAP ERP program was allocated $58 million or 71 per cent of the cost. The remaining $24.0 million was borne by the agencies budget.

In 2015, 31 change requests were approved costing agencies $11.0 million and ERP program $27.0 million. 18 per cent of this cost was on two change requests.

A further 19 change requests worth $12.7 million were approved in 2016, with one change costing the agencies over $5.0 million.

SAP ERP program management advised that further changes to the system will not be accepted. Limiting the project scope when legitimate changes are needed could impair quality and result in a system that does not fully meet agencies' needs.
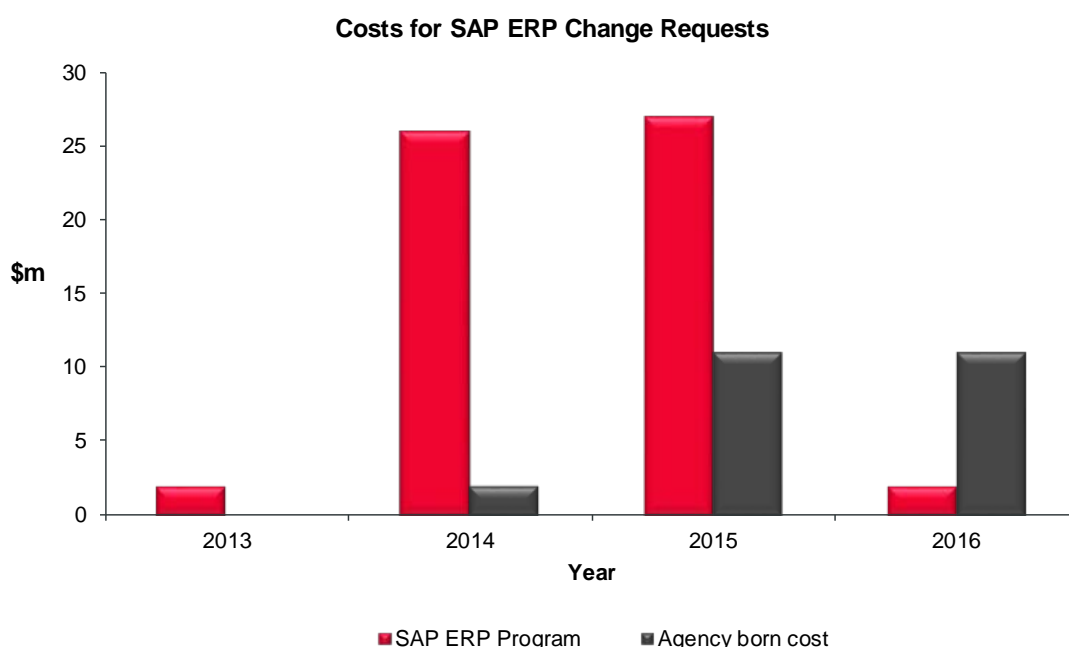
The chart below details the timing and value of scope changes for the life of the program:

Costs for SAP ERP Change Requests

Source: TfNSW (unaudited).

Our review of the new SAP system for TfNSW and RMS found the quality of documentation needed improvement. We found documentation for changes in the scope of data migration and system test results was incomplete. This increases the risk that the system may not meet business requirements. It also impairs transparency and accountability for decisions affecting the data, system, future users and agencies involved. Management revised processes to improve documentation in future implementations.

SAP ERP program management has risk management strategies to maintain project quality. Twenty-nine open risks were being managed in early October 2016, with the top risks being:

• maintaining alignment remains on track between ERP and EAM programs implementation schedules

• maintaining effective schedule and financial contingency within the ERP program

• effectively manage NSW Trains' resources during the transition

• documenting delivery models, governance and roles and responsibilities.

Transport Asset Holding Entity

RailCorp will convert/transition to TAHE

TAHE was announced in the 2015–16 State Budget Statements. TAHE will be a dedicated asset manager to help streamline the delivery of public transport asset management.

RailCorp will progressively transition to TAHE. The transfer of public transport assets to RailCorp/TAHE is expected to occur over the next few years. TAHE may eventually be a for-profit agency and expected to provide a commercial return to its shareholders.

RailCorp has an Acting Chief Executive and a Chief Financial Officer. These officers perform the same permanent role in Sydney Trains. Most RailCorp functions are performed by Sydney Trains staff. Management believes the creation of TAHE will address potential conflicts of interest as it is likely to have a separate board and management to Sydney Trains.

Service Delivery

This chapter outlines key findings, observations or recommendations about service delivery in the Transport cluster agencies for the 2015–16 financial year.

Service delivery	
Observation	**Conclusion or recommendation**
Last year's Auditor–General's Report to Parliament recommended the Opal service provider to independently confirm the effectiveness of its internal control processes.	In 2015–16, TfNSW obtained independent controls assurance on the Opal system. The report stated that in all material respects, the controls tested provided reasonable assurance the control objectives were achieved and operated effectively in 2015–16.
The functionality and reporting within the Opal system was updated in April 2016 to segregate fare information between the operators.	TfNSW provides regular revenue reporting to each operator and is working with Cubic Transportation Systems (Australia) Pty Limited to deliver the reporting we recommended last year.
Average punctuality is above target for Sydney Trains, Ferries and Light Rail, but below target for NSW Trains intercity services. Most KPIs on punctuality are not met by all bus operators.	Meeting punctuality targets is a continuing challenge for NSW Trains' intercity services. Poor punctuality, especially during peak hours, impacts overcrowding and customer satisfaction with timeliness and comfort. STA continued working with TfNSW on delivering improved punctuality.
NSW Trains regional passenger services achieved punctuality targets for the first time in 13 years.	Regional services' punctuality improved one per cent on 2014–15 to meet the target in 2015–16.
Financial penalties can not be imposed on private bus operators if they do not meet punctuality targets for the middle or end of trips. There is no financial penalty imposed on STA for not meeting its punctuality targets.	**Recommendation:** TfNSW should consider including financial penalties for not meeting punctuality KPIs in future contracts with bus operators.
Crowding information is not published for buses in any contract region, despite bus operating contracts requiring this information to be reported to TfNSW. Targets on crowding have not been set for bus operators in any contract region.	**Recommendation:** TfNSW should develop target measures on crowding for bus operators in all contract regions and publish the results.
Customers on ferries continued to be most satisfied, followed by those on light rail. Sydney Trains and NSW Trains had fewer complaints in 2015–16.	Between November 2012 and May 2016, customer satisfaction with all public transport modes improved.
Major transport projects are expected to be complete on schedule.	WestConnex, Sydney Metro Northwest, Woolgoolga to Ballina - Pacific Highway upgrade and NorthConnex are expected to be completed on time.
Road fatalities increased by 28 per cent between July 2015 and June 2016, from 304 to 390 deaths.	Increasing fatalities involves speed, fatigue and vehicle occupants not wearing available restraints.
Journey time reliability fell from 88 per cent in 2014–15 to 86 per cent in 2015–16.	RMS is implementing measures to reduce congestion across the Sydney roads network, including, WestConnex, NorthConnex and Sydney road congestion capital program.

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Opal card

Opal system controls are operating effectively

In 2015–16, TfNSW obtained an independent controls assurance on the Opal system. This addressed a recommendation in last year's Auditor–General's Report. The report stated that in all material respects, the controls tested provided reasonable assurance the control objectives were achieved and operated effectively in 2015–16. TfNSW engaged an international accounting firm to undertake the controls assurance work. It will implement its recommendations to improve controls.

The Opal card contractor, Cubic Transportation Systems (Australia) (CTSA) is responsible for developing, delivering, operating and maintaining the Opal electronic ticketing system. The contract is for 14 years and ends 30 September 2024.

The management of Opal data is outsourced to CTSA, a private operator. CTSA provides automated fare collection services and revenue management services for TfNSW. TfNSW is responsible for the accuracy, completeness and security of Opal data, including customer data security, daily transactions accuracy, customer balances, cash balances, financial data and reporting to transport operators.

Electronic ticketing system data and reporting

TfNSW improved functionality and reporting in the Opal system

The functionality and reporting in the Opal system was updated in April 2016 to segregate fare information between Sydney Trains, NSW Trains, Light Rail Services and Airport Rail Link. Fares were initially only reported in total by the Opal system. Segregated passenger fare information was extracted from the Opal system by TfNSW based on defined fare rules. The system update in April 2016 automated the fare allocation process.

TfNSW is providing regular revenue reporting to each operator, but it confirmed the operators require more information and TfNSW is working on delivering this.

Punctuality

Ensuring on-time running of public transport is a NSW Government State Priority. Public transport services in Sydney are crucial in getting customers to their destinations. Although Sydney is undergoing significant infrastructure construction, public transport services must continue to be punctual. The Government is improving integration across public transport services, updating timetables and providing clear information to get people to their destinations on time.

Rail

A train service is punctual if it stops at all stations as specified in the timetable and arrives at its destination no later than the time shown in the timetable plus an on-time tolerance. The tolerance is five minutes for suburban services, six minutes for intercity services and 10 minutes for regional services.

The punctuality target is 92 per cent for suburban and intercity services and 78 per cent for regional services. The targets apply to trains arriving at Central during the morning peak (6am to 10am) and departing Central during the afternoon peak (3pm to 7pm).

Regional passenger services achieved punctuality targets for the first time in 13 years

Suburban, intercity and regional services punctuality improved in 2015–16, with regional services recording a one per cent improvement on 2014–15 and achieving its punctuality targets for the first time in 13 years.

Performance results and targets for rail services are shown in the table below.

Rail punctuality			
	Target	Actual	
Year ended 30 June	2016	2016	2015
Percentage punctuality	%	%	%
Sydney Trains Suburban	92.0	94.2	93.9
NSW Trains Intercity	92.0	89.3	87.4
NSW Trains Regional	78.0	78.6	77.4

Source: Sydney Trains and NSW Trains (unaudited).

Sydney Trains' average punctuality was above target in 2015–16

Sydney Trains achieved an average punctuality performance of 94 per cent. This compares well to the target and is slightly higher than its punctuality performance in 2014–15.

NSW Trains' intercity services punctuality was below target in 2015–16

Meeting punctuality targets is a continuing challenge for NSW Trains' intercity services. Poor punctuality, especially during peak hours, is likely to result in overcrowding and a decline in customer satisfaction with timeliness and comfort.

Intercity services achieved an average punctuality performance of 89 per cent (87 per cent in 2014–15), which was below the target. NSW Trains regional services achieved an average of 79 per cent punctuality (77 per cent) which was higher than the target.

The key factors impacting punctuality included poor levels of reliability from the ageing intercity fleet and network incidents.

Afternoon peak intercity services only met the punctuality target on 92 days in the year

Morning peak intercity services achieved an average punctuality performance of 93 per cent, which was above the target. Afternoon peak intercity services only achieved an average punctuality performance of 86 per cent. In 2015–16, suburban and intercity services did not achieve the punctuality target on many days. Afternoon peak intercity services did not achieve the punctuality target on 161 days (64 per cent) out of 253 weekdays in 2015–16 compared to only 79 days (31 per cent) of afternoon peak suburban services, as shown below.

Peak Suburban and Intercity Services Performance

Source: TfNSW (unaudited).

The chart below shows combined peak punctuality performance for the last two years for the 15 suburban and intercity services as a variation from the target.

Peak Punctuality Performance by Train Line (Variation to Target)

Source: TfNSW (unaudited).

Seven suburban and intercity rail lines did not achieve the punctuality target in 2015–16 and four rail line's performances fell compared to 2014–15. The biggest improvement was on the Southern Highlands line, increasing from 66 to 74 per cent, but still well below the target.

Buses

Most punctuality KPIs were not met by all bus operators

Three KPIs measure punctuality performance for all operators. They are to meet 95 per cent of the punctuality target at the start, middle and end of the trip.

Financial penalties can be imposed on private bus operators if they do not meet punctuality targets at the start of the trip, but not if the middle or end of the trip targets are not met. No financial penalties can be imposed on STA. Private bus operators met punctuality targets for the start of the trip, but almost never met them for the middle or end of the trip. STA did not meet any punctuality targets during the year.

Recommendation

TfNSW should consider including financial penalties for not meeting each punctuality KPI in future contracts with bus operators.

STA is not meeting punctuality targets

STA has not met the punctuality target in any of its four metropolitan contracts for the last four years. Refer to Appendix Two for information on bus contracts. The largest fall in punctuality was five per cent for Contract Six.

Punctuality data is collected from limited manual surveys each month across three to five days in the morning peak at major interchanges. Large variations can occur from the impact of traffic events.

STA is working with TfNSW on punctuality initiatives. In 2015, they established an On-Time Running Working Group to work collaboratively on delivering improved punctuality.

The chart below shows STA's punctuality performance for its four metropolitan contract regions compared to the target.

STA Contracts - Punctuality (Variation to Target)

Source: TfNSW (unaudited).

Private bus operators' punctuality is above target

All metropolitan contract regions managed by private bus operators met punctuality targets for the start of the trip in 2015–16. Contract Region Two improved the most, achieving an average punctuality performance of 98 per cent, compared to 96 per cent in 2014–15. Contract Region Three was the most punctual with an average of 99 per cent, up from 97 per cent in 2014–15.

The chart below shows punctuality performance for the start of the trip by private bus operators for the last three years for metropolitan contract regions as a variation from target.

Private Bus Operators Metropolitan Contracts - Punctuality (Variation to Target)
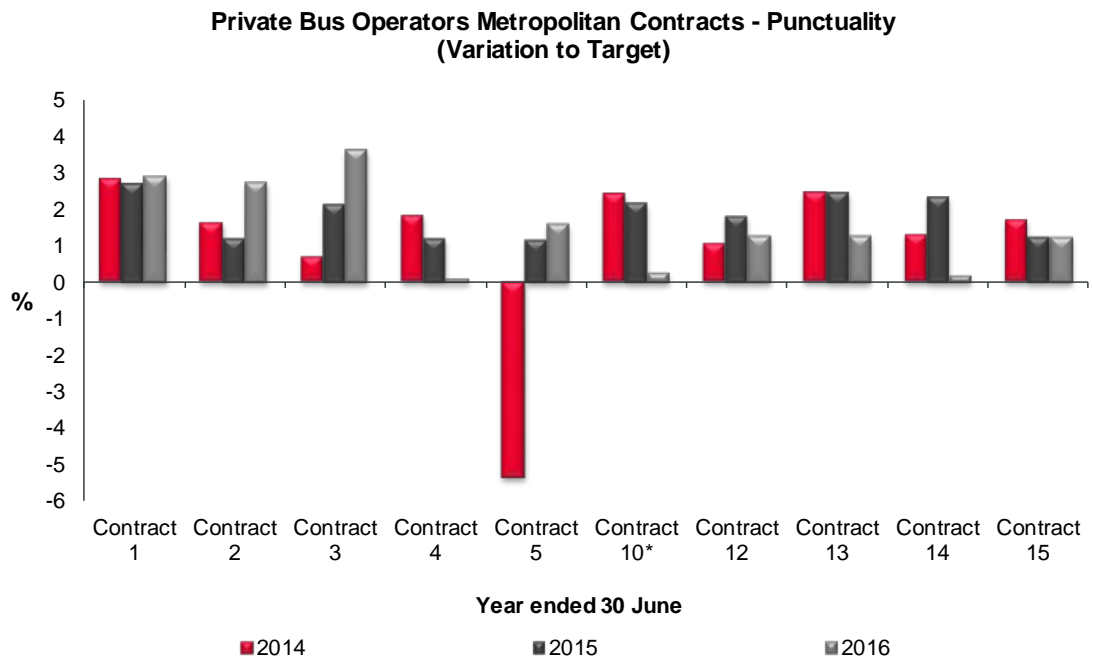
Source: TfNSW (unaudited).

*   Contract 11 routes were included in the new Contract 10 when it commenced on 1 January 2013.

TfNSW publishes average punctuality performance for metropolitan bus contract regions for a sample of start points based on observational surveys during the morning peak on selected weekdays.

There are 14 contract regions in the Sydney metropolitan area and ten contract regions in the outer metropolitan area. STA provides services in four metropolitan contract regions, operating as Sydney Buses, and one in outer metropolitan contract region operating as Newcastle Buses. All other contract regions are serviced by private operators.

Ferries

A ferry service is considered to be punctual if it departs from the service origin wharf within five minutes of the timetable. The target for all services is 98.5 per cent.

Ferries' punctuality performance was above target for the past four years

Punctuality performance for ferry services in all service areas has been above target for the past four years.

Average performance in all areas was above 99 per cent in 2015–16, higher than in the past three years. Manly and Parramatta River service areas were the most punctual in 2015–16.

Light rail

Light rail services are considered punctual if they run within a two minute deviation of the planned frequency. The target for all services is 90 per cent.

Light rail punctuality is above target

Inner West Light Rail line services' average punctuality performance was above target at 93 per cent in 2015–16. This line provides services across two fare zones, between Central and Dulwich Hill.

The CBD and South East Light Rail is a new light rail network for Sydney, currently under construction. The new line will extend from Circular Quay along George Street to Central Station and through Surry Hills to Moore Park. It will then proceed to Kensington and Kingsford via Anzac Parade and Randwick via Alison Road and High Street. Construction is scheduled for completion in late 2018 and services will commence in 2019.

Fleet ageing and reliability

Rail

Rail fleet incidents and average monthly carriage failures fell in 2015–16

Average monthly peak rail incidents fell eight per cent from 61.2 in 2014–15 to 56.4 in 2015–16, while 24 hour incidents dropped 25 per cent from 733 to 550. Technical and non-technical initiatives that contributed to this included:

• targeted reliability growth plans for each fleet, identifying the systems and components with repeat failures and initiatives to eliminate or reduce them
• regular auditing of maintenance practices, reporting and focusing on goals and repeat bookings through lessons learnt
• establishing a fleet performance team comprising dedicated depot based reliability engineers focusing on systemic reliability issues
• embedding new depot structures and new positions.

Average monthly carriage failures fell 20 per cent, from 174 carriages in 2014–15 to 140 carriages in 2015–16. The percentage of carriage failures to total carriages in operation remained consistent at nine per cent from 2014 to 2016.

The chart below analyses the actual and targeted reported average monthly electric fleet failures over the last three years.

Average Monthly Carriage Failure
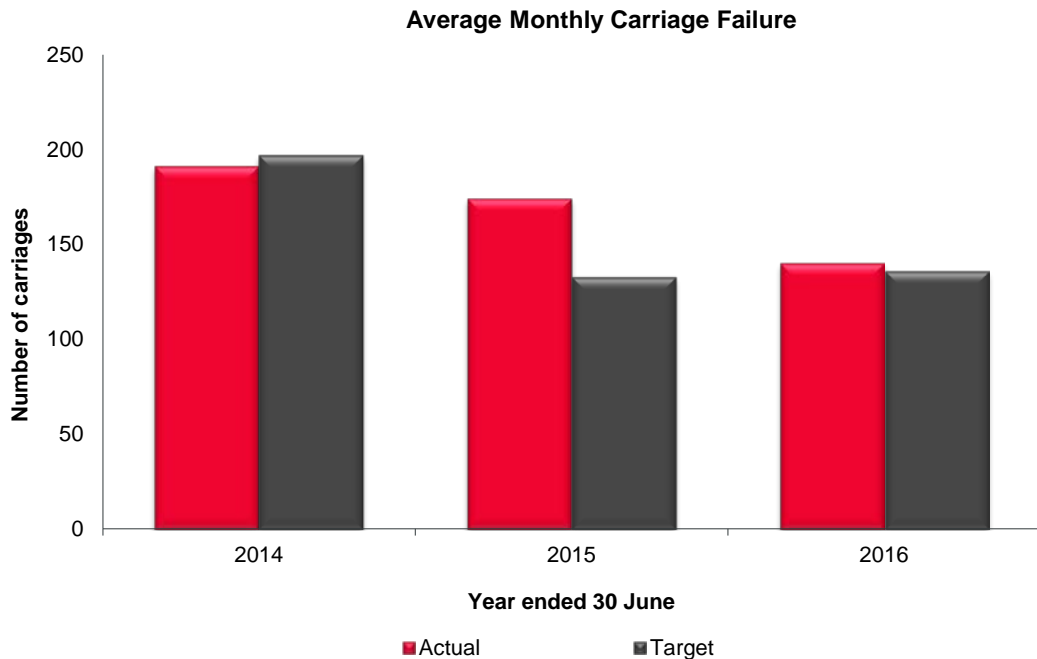
Note: Reported faults data includes incidents of graffiti and vandalism in gross numbers.
Source: Sydney Trains (unaudited).

The average age of the electric fleet remained the same as in 2014–15 at 18 years. Fifty-two per cent of the fleet is over 20 years old (52 per cent in 2014–15) and 23 per cent (20 per cent) are over 30 years old.

The New Intercity Fleet project will provide over 500 additional carriages to the existing fleet.

Buses

All bus contracts have an average fleet age less than 12 years

The Sydney Metropolitan Bus Service Contract states that the bus fleet average age is not to exceed 12 years. Older buses increase the risk of bus fleet failures and accidents, and impacts customer satisfaction. TfNSW advises all bus operators comply with their contracts.

Since 2014–15 the definition of bus mechanical failures changed and operators are only required to report 'major' and 'major-grounded' defects, rather than total mechanical failures.

In 2015–16, there were 19 reports of major defects (nine in 2014–15), which include fuel and engine oil leaks, brake related issues, inoperative headlights, chassis related issues and faulty passenger door operations. There was one reported major-grounded defect (none in 2014–15) due to inoperative turn signals.

In 2015–16, total bus numbers increased by six to 3,890 and the average age increased from 9.5 to 10 years.

The Northern Beaches B-Line program will provide a new fleet of 38 double deck buses and modern bus stops with real-time service information, from late 2017.

Ferries

The number of ferry breakdowns fell in 2015–16

Despite an average vessel age of 26.5 years, the number of ferry breakdowns fell from 285 in 2014–15 to 275 in 2015–16. Most vessels are over 20 years old.

The table below shows engine hours, ferry breakdowns and mechanical failures per one thousand engine hours.

Ferry breakdowns		
Year ended 30 June	2016	2015
Engine hours	100,206	99,611
Breakdowns	275	285
Mechanical failures per 1,000 engine hours	86	90

Source: TfNSW (unaudited).

Whilst engine hours remained relatively constant in 2015–16, mechanical failures fell four per cent per 1,000 engine hours.

The NSW Government is investing in six new ferries for the Sydney inner harbour, operating between Cockatoo Island and Watsons Bay.

Public transport capacity

Rail

Passenger crowding increased during peak rail service times

The number of services above the crowding benchmark increased from four per cent in September 2014 to six per cent in September 2015. This was on the back of strong patronage growth.

The average load during the morning peak increased on 11 of 12 lines surveyed (increased on nine in 2014). The Western line had the largest increase in average load from 113 per cent to 134 per cent. Despite the increase, the number of train services during morning peak remained the same at 16 for the Western line. The Inner West line had the highest average load of 141 per cent.

An afternoon peak survey showed the Blue Mountains line had the largest increase in average load from 59 per cent to 89 per cent. The Inner West line's average load decreased from 109 per cent to 97 per cent. Of the 12 lines surveyed during the afternoon peak, four lines had lower average loads than 2014.

Sydney Trains uses a crowding benchmark - a percentage of peak suburban services with a load greater than 135 per cent of seating capacity. A load above the benchmark is the point beyond which customers experience crowding and service dwell times (duration of stops at stations) can impact on-time-running. Crowding is measured through load surveys which use visual observation to estimate the proportion of people seated and standing in each carriage. Transport Performance and Analytics within TfNSW conducts the surveys twice a year, in March and September.

Opal data may help continuous estimation of passenger loads in future

TfNSW advises the data collected through load surveys supports operational planning. It is developing a model and metrics to continuously estimate passenger loads for all train services throughout the year to replace the train load surveys.

The model will use Opal data and assign customers to train services using Sydney Trains' punctuality data (train locations) and daily working timetables. The model will provide comprehensive and frequent information on customer loading across the network and encompass all services rather than the current sample of services and time periods.

Buses

Customers can now use mobile applications to check capacity

Since September 2016, bus customers can use the TripView application (app) to see how full a bus is before it arrives. This gives them the option to board or wait for the next service. The

app uses Opal data to give customers' smartphones live information about seating availability when planning trips.

TfNSW is working to identify how Opal data can be used to intelligently report patronage and provide a holistic overcrowding analysis to help it plan and execute transport strategies and assess bus operators' performances.

> **Recommendation (repeat issue)**
>
> **TfNSW should develop target measures on crowding for bus operators in all regions and publish the results.**

Crowding information is not published for buses in any contract region, despite bus operating contracts requiring this information to be reported to TfNSW. There are no target measures on crowding for bus operators in all contract regions.

Crowding information (bus full on route) is self-reported monthly by all bus operators, Service Planning and Development in TfNSW can review the passenger numbers from Opal data and assess the accuracy of the operator's self-reported data.

Twelve of the 15 bus contracts regions had full buses

TfNSW advises there were no capacity issues for Sydney metropolitan bus service contracts one, five and 15. Contract two, South Western Sydney, is in a rapid growth area with services operating to capacity. The T80 Parramatta to Liverpool T-way service continues to operate at capacity in contract region three. Two double deck buses will be introduced in February 2017 to help with capacity issues. Contract region four operates local and school services and some city bound services from the Hills District.

TfNSW introduced additional services on City routes which are resulting in fewer crowding issues. Services M90, M91 and M92 in contract regions ten and 13 continue to operate at capacity at various points along the routes. Six double deck buses will be introduced in January 2017 to help manage capacity limitations.

Ferries

TfNSW is aware of instances where ferry services are at capacity and passengers on wharves have to wait for the following service. This is reported informally by Harbour City Ferries through customer complaints and manual surveys.

Customer satisfaction

Customer satisfaction continues to improve for all modes of public transport

A NSW Premier's priority is to improve government services by improving customer satisfaction with key government services every year.

Between November 2012 and May 2016, the Transport Customer Satisfaction Index (TCSI) showed overall customer satisfaction with all public transport modes improved ten percentage points on a patronage-weighted basis (from 79 per cent to 89 per cent).

The TCSI measures the proportion of transport users partly satisfied to very satisfied with the overall service they received. The target is for each public transport mode to achieve a minimum satisfaction benchmark of at least 85 per cent of customers satisfied and to maintain or exceed scores that already exceeded 85 per cent.

Between November 2012 and May 2016 customer satisfaction for all modes of transport increased: Trains by nine per cent to 88 per cent; buses by ten per cent to 89 per cent; ferries by three per cent to 97 per cent; and Light Rail by five per cent to 96 per cent.

Customer Satisfaction is also regularly monitored by the Customer Service Commissioner.

The TCSI measures customer satisfaction with nine separate key drivers of service delivery. The single attribute with the highest dissatisfaction score across all transport modes is the frequency of the services. Dissatisfaction ranged from eight to 16 per cent.

The top three service attributes with the highest customer satisfaction and customer dissatisfaction from the May 2016 customer survey are shown below.

Service attributes		
Mode	Service attributes with the highest satisfaction	Service attributes with the highest dissatisfaction
Train	Ease of accessing the train station	Frequency of this train service
	Ease of getting on/off this train	Time to connect to other transport services
	Feeling safe at the train station	Comfort at the train stop (shelter and seating)
Bus	Feeling safe while on this bus	Availability of information about service delays
	Ease of getting on and off this bus	Availability of next stop information on this bus
	This bus being driven safely	Frequency of this bus service
Ferry	This ferry being driven safely	Frequency of this ferry service
	Feeling safe while on this ferry	Choice of tickets that meet my travel needs
	Feeling safe at the ferry wharf	Ease of purchasing my ticket
Light rail	Cleanliness of this light rail service	Seat availability on this light rail service
	Feeling safe while on this light rail service	Frequency of this light rail service
	Presentation of light rail staff	Personal space on this light rail service

Source: Customer Satisfaction Index May 2016 (unaudited).

Ferry customers continue to be the most satisfied, followed by light rail customers

During 2015–16, ferry customers continued to be the most satisfied, closely followed by light rail customers. All modes of transport, except NSW Trains, achieved equal or higher customer satisfaction since May 2015.

The results of customer satisfaction surveys are shown below.

Customer satisfaction survey results			
	May 2016	November 2015	May 2015
Mode	Partially to very satisfied	Partially to very satisfied	Partially to very satisfied
Rail	88	90	88
Sydney Trains	88	90	88
NSW Trains	84	88	86
Light Rail	96	92	92
Bus	89	88	88
Ferry	97	97	97

Source: TfNSW (unaudited).

Complaints

Sydney Trains' and NSW Trains' complaints continued to fall in 2015–16

Complaints received for Sydney Trains and NSW Trains dropped 12 per cent to 28,260 during 2015–16. Sydney Trains customer satisfaction improved from 79 per cent to 88 per cent in three and a half years. Sydney Trains Complaints fell from 20,934 in 2014–15 to 19,076 in 2015–16, a decline of nine per cent

Compliments rose from 2,255 to 3,030, an increase of 34 per cent.

Most complaints received by Sydney Trains in 2015–16 related to timeliness, in particular with the punctuality of the trains and replacement bus services. However, that number fell from 3,956 to 3,853. Most complaints received by NSW Trains related to punctuality, staff, service and information issues.

Total complaints received during the year, and per 100,000 passengers are shown below.

Total complaints received				
Year ended 30 June	2016	2015	2016	2015
Mode	Number of complaints	Number of complaints	Complaints per 100,000 passengers	Complaints per 100,000 passengers
Rail	28,260	32,291	7.8	9.8
Light rail	612	640	6.3	10.4
Bus	57,196	59,710	19.7	23.2
Ferry	368	334	2.4	2.3

Source: TfNSW (unaudited).

Complaints on light rail services fell four per cent to 612, a 39 per cent decrease per 100,000 passengers. Passengers travelling on the light rail network increased by 67 per cent to 10 million in 2015–16.

Complaints from bus passengers decreased four per cent to 57,196, a 15 per cent decrease per 100,000 passengers.

Complaints from ferry passengers increased ten per cent to 368, a slight increase in complaints per 100,000 passengers. Most of the increase in complaints related to poor customer services. Despite this, ferries still had the lowest percentage of complaints to total passenger numbers.

Project management

Transport cluster manages over 50 per cent of Tier 1 projects

Infrastructure NSW issued the Infrastructure Investor Assurance Framework (the framework) in 2016. The framework is designed to ensure the State's capital projects are effectively developed and delivered on time, on budget and in accordance with the Government's objectives. The framework has four Tiers with different levels of reporting and minimum mandatory gateway reviews. Tier 1 – High Profile/High Risk Projects attract the highest level of reporting and assurance. At 31 May 2016, the Transport cluster managed 28 of 50 Tier 1 projects reported and monitored under the framework. The Transport cluster accounted for over 50 per cent of the total 236 projects registered under the framework at 31 May 2016.

The 2015–16 capital budget for the Transport cluster was $8.2 billion ($7.2 billion in 2014–15) with $4.0 billion allocated to major road projects and $2.9 billion to minor works and capital maintenance.

The WestConnex project budget was revised upwards by $1.4 billion

Major revisions to transport project budgets and/or completion dates since 2014–15 are summarised below.

Significant budget or completion date revision					
Projects	**Original completion year**	**Forecast completion year**	**2015 revised budget ($)**	**Latest revised budget ($)**	**Reasons**
WestConnex	2023	2023	15.4 billion	16.8 billion	The $1.4 billion increase from 2015 is primarily associated with change of the scope of work that was approved by Cabinet in October 2015.
Sydney Metro City and South West	2024	2024	9.6 billion to 11.0 billion	11.5 billion to 12.5 billion	The budget was revised in light of announcement of new additional metro stations.
New Intercity Fleet	2024	2022	3.9 billion	3.9 billion	The project is prioritised for completion and will be delivered earlier than planned.
SAP ERP	2015	2017	196 million	196 million	The completion date is postponed to align with Sydney Trains' Enterprise Asset Management go-live date. Further details are in the Governance chapter.

Source: TfNSW (unaudited).

The SAP ERP project is forecast for completion in June 2017, which is 18 months later than the original completion date of December 2015.

Major transport projects are expected to be completed on schedule

WestConnex

WestConnex is the largest integrated transport solution in Australia. It includes public transport and critical road infrastructure and will be delivered in three stages:

• Stage one: M4 widening
• Stage two: double road capacity along the M5 East corridor and underground tunnels running between St Peters and Kingsgrove
• Stage three: M4 to M5 link.

Although this project is expected to be completed on schedule in mid-2023, there were two budget revisions since 2014. The project budget was increased to $15.4 billion in May 2015 and a further increase of $1.4 billion in October 2015 due to changes to the scope of work. The changes include extension of stage three to Anzac Bridge, Victoria Road and the future Western Harbour Tunnel and Beaches Link, for $1.2 billion.

Sydney Metro Northwest

Sydney Metro Northwest, formerly the North West Rail Link, is the first stage of Sydney Metro and will be the first fully-automated metro rail system in Australia. Sydney Metro Northwest will deliver eight new railway stations, 4,000 commuter car parking spaces to Sydney's growing North West and a 'turn up and go' services with a train every four minutes in the peak.

The project is expected to complete within the original budget of $8.3 billion and on schedule for 2019 completion.

Sydney Metro City and Southwest is the second stage. The project is expected to complete within the range of $11.5 billion to $12.5 billion and on schedule for 2024 completion.

Woolgoolga to Ballina - Pacific Highway upgrade

The Woolgoolga to Ballina project is part of Pacific Highway upgrade project. The Pacific Highway upgrade is one of the largest road infrastructure projects in NSW. It will provide a four lane divided road from Hexham to Queensland. The Woolgoolga to Ballina project involves upgrading about 155 kilometres of highway. The project starts approximately six kilometres north of Woolgoolga (north of Coffs Harbour) and ends approximately six kilometres south of Ballina. Major construction work started in June 2015, and it is expected to open to public in December 2019. The estimated total cost of the project is around $4.4 billion.

The project is expected to be delivered on time and on budget.

NorthConnex

NorthConnex will provide twin motorway tunnels around nine kilometres in length. It will link the M1 Pacific Motorway at Wahroonga to the Hills M2 Motorway at West Pennant Hills and remove around 5,000 trucks from Pennant Hills Road. It will be the longest road tunnel project in Australia. Major construction work started in June 2015, and is expected to complete in December 2019.

The estimated total cost of the project is $3.0 billion with $992 million funded by the NSW and Australian Governments and the rest by the private sector.

The project is expected to be delivered on time and on budget.

Safety performance

Rail and bus passenger injuries decreased

Rail passenger injuries fell 12 per cent in 2015–16, from 1,282 to 1,133, and bus passenger injuries fell 8 per cent from 586 to 537.

Ferry passenger injuries were stable, with six passenger injuries reported in 2015–16.

Passenger safety performance measures the number of passenger injuries and fatalities that occurred as a result of the service operations. Non-passenger related injuries and fatalities do occur, but can be outside the operators' control.

The number of passenger injuries per 100,000 passenger journeys by mode of transport over the last five years is shown in the graph below.

Number of Passenger Injuries
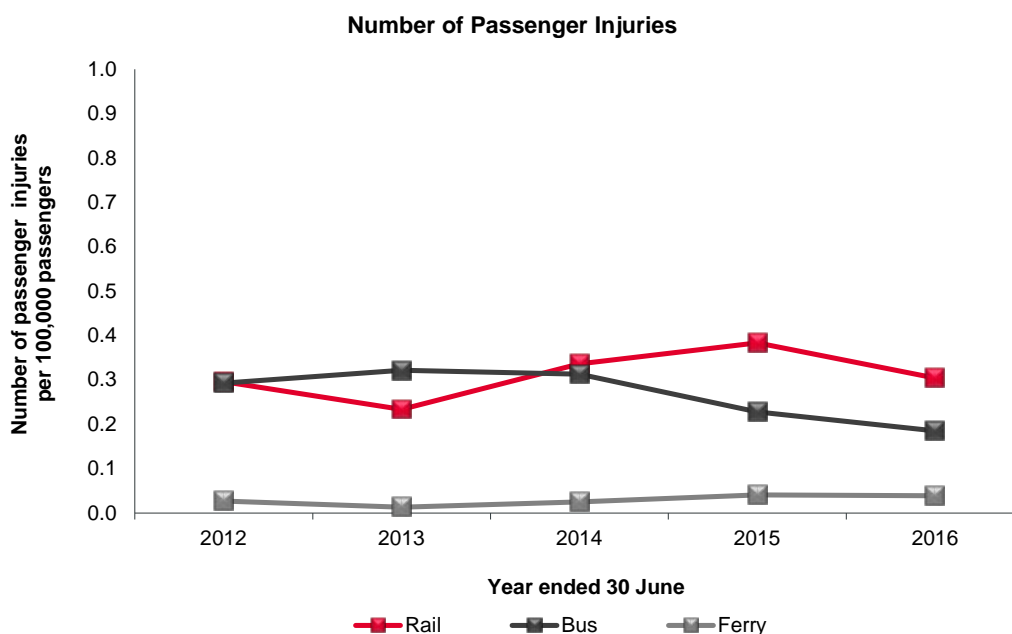
Source: TfNSW (unaudited).

Note: Rail data is only incidents where there were injuries. Bus and ferry data reports all incidents.

Sydney Trains' and NSW Trains' reported injuries fell in 2015–16 in response to initiatives to improve rail safety. These included campaigns to raise passenger awareness of safety risks, additional signage at key locations, better planning during wet weather and pre-departure announcements. The ongoing Station Refresh programs and continued focus on customer interaction to ensure they safely move around railway properties helped reduce injuries too. Sydney Trains' reported injuries declined for the third consecutive year.

STA is implementing a Passenger Falls program to reduce passenger falls. This includes research into passenger behaviour. STA is working collaboratively with relevant stakeholders, including the launch of the "Be Bus Aware" campaign, which aims to spread bus safety information to all road users across NSW.

The *Rail Safety National Law Act 2012* requires rail transport operators to submit occurrence notifications on rail safety incidents to the Office of the National Rail Safety Regulator (ONSR). The Independent Transport Safety Regulator (ITSR) conducts compliance inspections and investigations for ONSR. ITSR has the capacity to provide independent safety advice to the NSW Government. ONSR prepares an annual rail industry safety performance report, which is available on its website: http://www.onrsr.com.au/resource-centre-document-finder/rail-safety-report

ITSR's service measures over the last three years are summarised below.

Service measures			
Year ended 30 June	**2016**	**2015**	**2014**
	Actual	**Actual**	**Actual**
Compliance activities completed	166	188	149
Statutory notices issued	93	100	140

Source: ITSR (unaudited).

Compliance activities completed fell 12 per cent in 2015–16. ITSR has a targeted inspection program with rail operators on rail safety issues. It consolidated its activities within a national operations work plan. In 2015–16, statutory notices issued fell seven per cent.

The Office of Transport Safety Investigations (OTSI) investigates safety incidents involving bus, ferry and/or rail transport to identify reasons why incidents occurred and provides recommendations. In May 2016, it released a rail safety investigation report of the Hawksbury river rail bridge. It recommended major repairs to Pile No. 2 at Pier 2 be carried out as soon as practically possible to address deterioration of the concrete at the top of the pile. For more details refer to the report published on OTSI's website.
(http://www.otsi.nsw.gov.au/rail/HRB_Report_Final.pdf)

A summary of its service measures over the last three years is shown below.

| Service measures			
Year ended 30 June	**2016**	**2015**	**2014**
	Actual	**Actual**	**Actual**
Notifiable incidents reported	678	640	618
Notifiable rail incidents reported to ATSB	103	110	96
Incident investigations conducted	20	13	16
Confidential safety information and reporting scheme investigations conducted	18	10	12

Source: OTSI (unaudited).

Since January 2013, notifications of rail incidents are reported to the Australian Transport Safety Bureau (ATSB). Notifiable incidents increased in 2015–16 due to the introduction of the Bus Incident Management (BIM) database by TfNSW. This prompts reporters to contact OTSI to investigate serious accidents and systemic safety issues. The investigative workload is dictated by the number, nature and complexity of occurrences and the resources available.

Road Safety Performance Outcomes

Road fatalities increased by 28 per cent

Road fatalities increased by 28 per cent between July 2015 and June 2016. The NSW Centre for Road Safety reported 390 fatalities in 2015–16, compared to 304 in 2014–15. TfNSW advised this increase in fatalities mainly involved speed, fatigue and vehicle occupants not wearing available restraints.

Trend in Road Fatality Rates
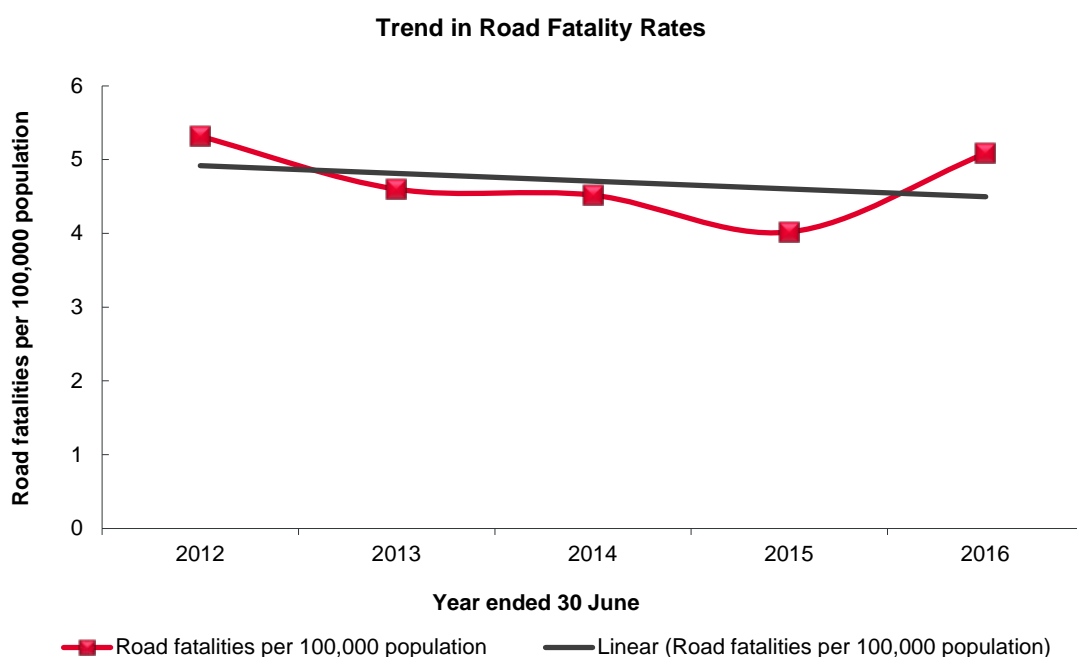
Source: NSW Centre for Road Safety (unaudited).

NSW State Priority includes a primary road safety target expressed in fatalities per 100,000 population. It aims to reduce road fatalities by at least 30 per cent from 2011 levels by 2021. In 2015–16, the rate was 5.1 fatalities per 100,000, higher than the target of 4.3 for the year.

Statistics on fatalities and injuries from road traffic crashes are shown in the table below.

Fatalities and injuries					
Year ended 30 June	2016 Actual	2015 Actual	2014 Actual	2013 Actual	2012 Actual
Road fatalities per 100,000 population	5.1	4.0	4.5	4.6	5.3
Total fatalities	390	304	337	341	386
Total injuries*	19,327	23,505	25,834	25,988	28,226

* Total injuries for 2011–12 to 2014–15 were revised following the inclusion of additional injuries identified from the data linkage project for persons who were previously not flagged as injuries in the Police crash report. Injuries data for 2015–16 are preliminary and incomplete for reporting.

Source: NSW Centre for Road Safety (unaudited).

Total injuries decreased by 18 per cent from 2014–15, is partly attributed to the changes in police reporting procedures for non-casualty crashes introduced in the last quarter of 2014.

Managing road congestion

Journey time reliability

Journey time reliability fell almost two per cent in 2015–16

Journey time reliability fell from 88 per cent in 2014–15 to 86 per cent in 2015–16. This measure aligns with the NSW State Priority of 90 per cent of peak travel on key road routes being on time.

TfNSW attributes the decrease in reliability to multiple factors, including:

- record levels of infrastructure development including WestConnex and CBD Light rail resulted in some short-term network disruptions
- closure of some roads results in movement of traffic to other arterial roads, including redirection of key bus routes
- large numbers of arterial roads are already at capacity. Minor volume growth or disruptions can lead to major delays on routes and linked arterial roads.

Journey time reliability measures the proportion of days during the reporting period where the daily average travel times rose above a threshold (a five-minute variation on a typical thirty-minute journey). The measurement is conducted during the combined AM and PM peak periods and on 89 Sydney metropolitan area roads.

TfNSW adopted the journey time reliability as a measure after it undertook a Customer Value Proposition Research (the Research) in 2015. The Research identified consistency of travel time having a high importance and strong impact on customer satisfaction.

Managing road congestion

RMS initiated measures to address road congestion in 2015–16

RMS has implemented measures to reduce congestion across the Sydney roads network. Some major initiatives to manage congestion and improve travel times include WestConnex, NorthConnex and Sydney road congestion capital program. Further details are included under the project management section in this chapter.

The Sydney road congestion capital program is a ten year major capital works plan being developed for many projects aimed at alleviating congestion in Sydney. The program is expected to complete in June 2025. The original program budget was $3.0 billion, but increased to $3.5 billion in 2016 for new projects.

Ride quality and pavement durability

RMS ride quality exceeded the target

Overall ride quality has steadily improved over the past five years. Urban and rural ride quality improved in 2015–16, with the overall quality exceeding the 93 per cent target.

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

Road condition						
Year ended 30 June	**2016 Target * %**	**2016 Actual %**	**2015 Actual %**	**2014 Actual %**	**2013 Actual %**	**2012 Actual %**
Ride quality**						
Good - urban	92.4	94.3	92.2	92.6	89.9	89.6
Good - rural	94.3	94.3	94.2	93.7	93.6	93.5
Good - overall	93.2	94.3	93.0	92.9	91.3	91.1
Pavement durability***						
Good	n/a	n/a	n/a	78.3	78.2	78.1

*   Targets are set by RMS.

**   Ride quality measures the longitudinal profile and undulations of the road surface using vehicle mounted laser technology.

***   Pavement durability measures surface cracking, which let water in, can soften the underlying road pavement and lead to premature deterioration. Cracking is measured at highway speed by automated technology using the RMS road crack vehicle.

Source: RMS (unaudited).

RMS advised diamond grinding of old concrete roads with high roughness and high traffic has improved ride quality for urban roads.

Ride quality measures the 'roughness' of travel over road surfaces (including national highways) and is used as a primary indicator of road condition. Smoother roads provide a more comfortable ride, reduce damage to roads by heavy vehicles, cause less damage to vehicles, save fuel, are safer and reduce accidents.

The pavement durability measure has not been reported since 2014 as RMS is reviewing how it will measure cracking in the future. The technology offered by the Australian Road Research Board Group uses different laser scanning technology, which produces different results.

RMS is working on a future 'pavement health index' (PHI) to create a combined performance indicator that incorporates several pavement condition measures. The PHI provides a general assessment of pavement condition as a function of roughness, rutting, texture, skid resistance, remaining pavement structural life and remaining pavement surface life. A higher PHI indicates better pavement condition. RMS expects to start reporting PHI from 2016–17.

Section Two

Appendices

Appendix One – Financial Information

	Total assets		Total liabilities		Total revenue		Total expense		Net result	
	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Cluster lead entity										
Department of Transport	--	1	--	1	1	2	1	2	--	--
Transport for NSW	7,452	5,909	3,129	2,402	13,333	12,004	12,381	11,540	952	464
Transport service providers										
NSW Trains	259	325	335	241	707	685	780	787	(73)	(102)
RailCorp	31,894	29,376	2,919	2,564	280	2,440	1,126	1,209	(846)	1,231
Roads and Maritime Services	82,946	79,882	2,237	3,755	7,007	6,110	3,856	3,941	3,151	2,169
State Transit Authority	892	903	617	607	673	661	702	641	(29)	20
Sydney Ferries	141	140	6	6	26	15	23	16	3	(1)
Sydney Trains	4,266	4,445	3,510	3,223	3,139	3,157	3,363	3,371	(224)	(214)
Other agencies										
Independent Transport Safety Regulator	11	10	2	2	15	17	14	13	1	4
Office of Transport Safety Investigations	--	--	--	--	3	2	3	2	--	--
Port Authority of New South Wales	574	562	166	153	144	132	137	131	7	1
Transport Service of New South Wales	557	1,853	557	1,853	1,851	1,803	1,810	1,796	41	7

Appendix Two – Bus Contracts

Contract number	Area serviced
1	Blacktown, Penrith, Richmond and Windsor
2	Liverpool, Glenfield, Ingleburn, Bringelly and Hoxton Park
3	Fairfield, Cabramatta, Liverpool and Wetherill Park
4	Blacktown, Rouse Hill, Castle Hill, Dural and Parramatta
5	Lakemba, Mortdale, Punchbowl and Roselands
6	Sydney Olympic Park, Burwood, Ashfield, Leichhardt, Campsie and Rockdale
7	North Sydney, Chatswood, Macquarie Park, Epping, Ryde and Parramatta
8	Palm Beach, Brookvale, Manly, Mosman and North Sydney
9	Bondi Junction, Randwick, Maroubra, Botany, Mascot and Surry Hills
10*	Hurstville, Miranda, Menai, Bankstown, Caringbah, Cronulla and Kurnell
12	Berowra, Hornsby, Gordon and Chatswood
13	Parramatta, Burwood, Bankstown and Liverpool
14	Chatswood, Belrose, Terrey Hills and St Ives
15	Campbelltown, Narellan and Camden

*   Contract 11 routes were included in the new Contract 10 when it commenced on 1 January 2013.

Appendix Three – Cluster Information

Agency	Website
Cluster lead entity	
Department	*
TfNSW	www.transport.nsw.gov.au
Transport service providers	
NSW Trains	www.nswtrainlink.info
RailCorp	www.transport.nsw.gov.au/railcorp
RMS	www.rms.nsw.gov.au
STA	www.statetransit.info
Sydney Ferries	www.transport.nsw.gov.au/content/sydney-ferries
Sydney Trains	www.sydneytrains.info
Other agencies	
ITSR	www.transportregulator.nsw.gov.au
OTSI	www.otsi.nsw.gov.au
Port Authority	www.portauthoritynsw.com.au
Transport Service	*

* This entity has no website.

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Our vision

Making a difference through audit excellence.

Our mission

To help parliament hold government
accountable for its use of public resources.

Our values

Purpose – we have an impact, are
accountable, and work as a team.

People – we trust and respect others
and have a balanced approach to work.

Professionalism – we are recognised
for our independence and integrity
and the value we deliver.