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

**Volume Six 2015**

Transport

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## The role of the Auditor-General

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

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

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

Following a financial audit the 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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GPO Box 12  
Sydney NSW 2001

The Legislative Assembly  
Parliament House  
Sydney NSW 2000

The Legislative Council  
Parliament House  
Sydney NSW 2000

Pursuant to the *Public Finance and Audit Act 1983*,  
I present Volume Six of my 2015 report.

A handwritten signature in black ink, reading 'A. T. Whitfield'.

**A T Whitfield PSM**

Acting Auditor-General  
19 November 2015

# Contents

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<b>Section One – Transport</b>	<b>3</b>
Executive Summary	4
Introduction	8
Financial Performance and Reporting	11
Financial Controls	20
Governance	28
Service Delivery	35
<b>Section Two – Appendices</b>	<b>59</b>
Appendix One – Recommendations	60
Appendix Two – Financial Information	62
Appendix Three – Performance Against Budget	63
Appendix Four – Bus Contract Regions	65
Appendix Five – Cluster Information	66



# Section One

Transport



# Executive Summary

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This report analyses the results of the financial statement audits of agencies within the Transport Cluster for the year ended 30 June 2015 in four areas.

## Financial performance and reporting

### Financial reporting

Unqualified audit opinions were issued for all agencies and the number of errors fell to just 14 in the Transport Cluster.

### Passenger revenue and patronage

Public transport revenue decreased by 2.7 per cent despite a price increase and increased patronage. Transport for NSW (TfNSW) attributes this mainly to the Opal pricing strategy.

## Financial controls

### Maintenance backlog

Roads and Maritime Services (RMS) has a maintenance backlog of \$5.3 billion. However, overall ride quality has improved.

### Procurement

RMS allows up to 30 per cent of its invoices to be paid before a purchase order is raised.

### Information Technology

Despite there being just 14 errors, there were 82 internal control issues identified. Thirty one of these related to information systems.

## Governance

### Conflict of interest

A potential conflict of interest within the Transport Cluster as Rail Corporation New South Wales (RailCorp) and Sydney Trains have the same Chief Executive and Chief Financial Officer.

### Risk management

The Transport Cluster Strategy Committee should ensure its risk assessment activities adequately mitigate risks at the Transport Cluster level.

## Service delivery

### Opal card

Independent assurance is required to confirm the Opal system is operating effectively.

Twenty five per cent of all Opal trips were free, including 47 per cent on ferries.

### Buses on-time running

State Transit Authority (STA) should continue working with TfNSW to improve on-time running performance in all its metropolitan bus contract regions.

### Bus crowding

TfNSW does not have target measures on crowding for its bus operators in any region.

### Customer satisfaction

Customer satisfaction improved on all modes of public transport.

### Road travel speeds

Average travel speeds on Sydney roads continued to fall. The afternoon peak average speed fell from 36.0 to 35.2 kilometres per hour.

## Transport Cluster

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

### Financial performance and reporting

#### The quality of financial reporting continues to improve

Unqualified audit opinions were issued for all agencies 30 June financial statements.

The number of misstatements in Transport Cluster financial statements fell from 30 to 14 in 2014-15.

#### Lower public transport revenue despite increases in prices and patronage

TfNSW attributes the overall fall in revenue mainly to Opal pricing strategy. The Opal pricing structure was deliberately designed to encourage voluntary Opal card take-up and increase use of public transport.

### Financial controls

#### RMS has a maintenance backlog of \$5.3 billion

At 30 June 2015, RMS reported a maintenance backlog of \$5.3 billion. However, overall ride quality improved.

RMS spent \$612 million on asset maintenance, \$82.0 million more than planned.

#### RMS' target allows it to raise purchase orders after invoice date 30 per cent of the time

RMS allows up to 30 per cent of its invoices to be paid before a purchase order is raised. This contrasts with a five per cent allowance used by other agencies in the Transport Cluster. Only four entities were able to provide information on the number of purchase orders raised after the invoice date. Raising purchase orders after the invoice date increases the risk of unauthorised purchases occurring and is contrary to the *Public Finance and Audit Act 1983*.

#### Recommendation

RMS should review its procurement processes and align with others in the cluster.

#### The number of internal control issues has doubled

Eighty two control issues were identified within the Transport Cluster (41 in 2013-14), which included 23 repeat issues. Thirty one information systems issues were identified, which included four repeat issues.

#### Recommendation

Transport Cluster agencies should focus on addressing repeat issues as soon as possible, in particular those related to user access management over financial systems.

#### Twenty eight per cent of employees had excessive annual leave

At 30 June 2015, 7,280 or 28 per cent (3,162 or 14 per cent in 2013-14) of transport employees had annual leave balances exceeding 30 days. The related liability has increased from \$8.5 million to \$32.8 million, an increase of \$24.3 million. This is contrary to Treasury Circular 14/11, which requires staff to have accrued annual leave balances of no more than 30 days at 30 June 2015.

### **Recommendation (repeat issue)**

The effectiveness of policies and management practices to reduce annual leave balances should be reconsidered to ensure compliance with targets set by the Premier.

### **Over 320 employees were paid more than 50 per cent of their salary in overtime**

The number of employees receiving overtime has decreased by 9.3 per cent from 21,637 in 2013-14 to 19,624 in 2014-15. Of these, 323 employees were paid 50 per cent or more of their annual salary (235 in 2013-14) in overtime.

### **Some contractors have been engaged for more than 13 years**

Eleven contractors have been engaged for more than ten years, three of whom have been engaged for 13.4 years.

### **Recommendation**

Management should consider and assess the cost benefits of engaging contractors as opposed to the benefits of using permanent staff for ongoing roles.

## **Governance**

### **Governance framework can be enhanced**

Potential conflicts of interest exist within the Transport Cluster. RailCorp and Sydney Trains have the same Chief Executive and Chief Financial Officer. This creates a potential risk that their decisions may favour one entity over another. For example, there is a potential for rail services to favour Sydney Trains (which operates signalling priorities) ahead of other operators.

### **Recommendation**

Potential conflict of interest need to be effectively managed and monitored. For example, signaling protocols should be independently tested and results published and sent to all rail operators.

### **Governance processes can be improved**

Transport Cluster agencies self-assessed their governance processes against the Audit Office's Governance Lighthouse Checklist and identified some gaps.

### **Recommendation**

Transport Cluster agencies should develop effective responses to address the gaps identified by the governance self-assessment.

### **Risk management processes can be improved**

The Transport Cluster Strategy Committee is establishing a risk register for the entire cluster, which includes cluster-wide risks such as procurement, for consideration at executive monthly meetings. However, more work is required to ensure cluster wide risks are effectively managed.

### **Recommendation**

The Transport Cluster Strategy Committee should ensure its risk assessment activities adequately mitigate risks at the Transport Cluster level.



## Service Delivery

### **TfNSW needs independent assurance that the Opal system is operating effectively**

The Opal service provider is not required to independently confirm the effectiveness of its processes to TfNSW. The current Opal data collection of rail transactions is not designed to immediately segregate fare information between rail entities.

#### **Recommendations**

TfNSW should require the Opal service provider to independently confirm the effectiveness of its internal control processes.

Management should ensure that the Opal system directly provides revenue information to meet the needs of all stakeholders.

### **74.5 million free trips, valued at \$189 million were provided by transport operators**

The Opal fare structure offers customers unlimited free trips after the first eight paid journeys each week and there is a \$15 cap (\$2.50 cap on Sunday) on total daily travel fares. This has resulted in 74.5 million free trips, valued at \$189 million, being provided by transport operators.

### **Public transport reporting of on-time running and crowding can be improved**

One of the NSW Government's State Priorities is to ensure on-time running of public transport. The Government is planning to improve integration across public transport services, update timetables and provide clear information to get people to their destinations on time. STA has not met its on-time running target in any of its four metropolitan contract regions for the last three years.

Crowding information is not published for buses in any region, despite bus contracts requiring this information to be reported to TfNSW. TfNSW has no crowding target measures in any bus region.

#### **Recommendations**

STA should continue working with TfNSW to improve on-time running performance in all its metropolitan bus contract regions to meet on-time running targets.

TfNSW should develop target measures on crowding for its bus operators in all regions.

### **Customer satisfaction improved on all modes of public transport**

TfNSW performs bi-annual customer satisfaction surveys across transport modes to identify which areas need improvement when making decisions. However, TfNSW has not set targets for the level of customer satisfaction it would like each mode of transport to achieve.

#### **Recommendation**

TfNSW should set targets for the level of customer satisfaction it would like each transport mode to achieve.

### **Average travel speed has decreased on the Sydney roads network**

Average travel speeds on Sydney roads continued to decrease in 2014-15 for both the morning and afternoon peaks. They moved from 39.0 kilometres per hour to 37.9 kilometres per hour and from 36.0 kilometres per hour to 35.2 kilometres per hour, respectively.

# Introduction

This report provides Parliament and other users of the Transport Cluster agencies' financial statements with an analysis of the results and key observations in the following areas:

Financial Performance and Reporting

Financial Controls

Governance

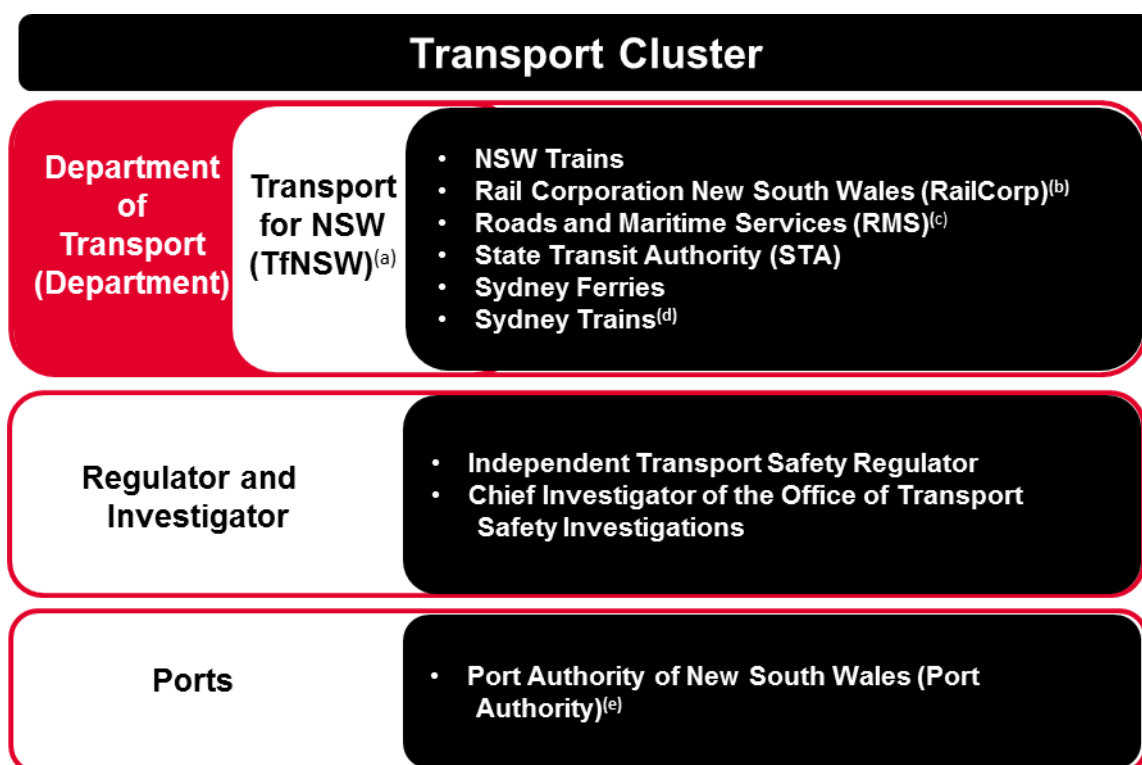
Service Delivery.

## Structure of the Transport Cluster

TfNSW is the lead agency in the Transport Cluster. It is responsible for the co-ordination, funding allocation, policy and planning and other delivery functions for transport services.

TfNSW controls most agencies in the cluster but does not control the transport regulator, transport investigator or ports. TfNSW is controlled by the Department of Transport (Department).

The Government's involvement in NSW port operations is through Port Authority of New South Wales (Port Authority). This involvement has significantly reduced in recent years due to the long term lease to the private sector of significant parts of the port operations.



a TfNSW includes Transport Service of New South Wales.

b RailCorp includes Trainworks Limited and Transport Cleaning Services. Control of Transport Cleaning Services was transferred to Sydney Trains on 1 August 2014.

c RMS includes the WestConnex Delivery Authority.

d Sydney Trains includes Transport Cleaning Services from 1 August 2014. Transport Cleaning Services was dissolved on 1 July 2015.

e Sydney Ports Corporation and Port Kembla Port Corporation was amalgamated into Newcastle Port Corporation (trading as Port Authority of New South Wales) on 1 July 2014.

## Operational Snapshot

New South Wales Public Transport Services			
Bus (a)	Ferries (b)	Rail (c)	Road (d)
Passenger Journeys: 257 million Passenger Revenue: \$354 million Operating Expenses: \$1.7 billion Government Funding: \$1.7 billion Net Assets: \$296 million Cost Recovery from Users: 20.8 per cent	Passenger Journeys: 14.8 million Passenger Revenue: \$45.0 million Operating Expenses: \$126 million Government Funding: \$133 million Net Assets: \$134 million Cost Recovery from Users: 35.7 per cent	Passenger Journeys: 328 million Passenger Revenue: \$816 million Operating Expenses: \$4.4 billion Government Funding: \$4.1 billion Net Assets: \$28.1 billion Cost Recovery from Users: 18.4 per cent	Registered Vehicles: 6.1 million Collections: \$3.2 billion Operating Expenses: \$1.3 billion Government Funding: \$4.9 billion Net Assets: \$76.1 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 private ferry operator and Sydney Ferries' operating expenditure. Net assets relate to Sydney Ferries only.




c Government funding includes operational and capital funding.

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 Treasury.

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

## Status of 2014 Recommendations

Last year's Auditor-General's Report to Parliament on the Transport Cluster included recommendations for cluster agencies to improve financial management and internal controls. The current status of each recommendation is shown below.

Recommendation	Current Status
 All transport agencies should do more to reduce excessive annual leave balances to ensure they will comply with new targets set by the Premier.	Repeat issue. All entities advise that policies have been implemented to manage excessive annual leave, and most have leave plans developed for staff with excessive leave. Other strategies include shutting down non-operational staff for two weeks over Christmas, directing staff with excessive leave to take leave and allowing leave to be cashed in.
 TfNSW should publish on-time running results for outer metropolitan bus regions.	Repeat issue. TfNSW is working to have Public Transport Information and Priority System based on-time running results released by January 2016, with results back dated to July 2015.
 Treasury, TfNSW and the rail agencies should finalise the capital structure of the three rail agencies as soon as possible.	Rail agencies' capital structure was amended in June 2015.

2014 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 or recommendations related to the financial performance and reporting of agencies in the Transport Cluster for 2014-15.

## Financial reporting

### Observation

Ongoing improvements in financial statements reporting procedures helped identify and resolve material misstatements.

The accuracy and timeliness of agency financial statements have improved significantly. The number errors fell to just 14 in the Transport Cluster. However, early close procedures for asset revaluations can be improved.

### Conclusion or recommendation

The Audit Office issued unqualified audit opinions for all agencies in the Transport Cluster.

**Recommendation:** Asset revaluation outcomes should be processed into the fixed asset register before the early close deadline.

## Financial performance

### Observation

Last year's Auditor-General's Report to Parliament recommended amending the capital structure of RailCorp, Sydney Trains and NSW Trains to stabilise their financial position.

Sydney Trains and NSW Trains do not pay RailCorp for access rights or for the use of assets despite Sydney Trains incurring the maintenance costs of maintaining rolling stock and infrastructure.

While public transport patronage increased, passenger revenue decreased \$34.0 million (2.7 per cent) despite a rail price increase of 2.5 per cent from 4 January 2015.

The bus and ferry cost per passenger journey are decreased while rail has increased. Passenger revenue per passenger journey for rail and buses was decreased while ferries is stable.

Government contributions for operating expenditure and capital investment totalled \$11.5 billion, up from \$11.1 billion in 2013-14. Agencies purchased \$6.4 billion of assets in 2014-15.

### Conclusion or recommendation

Rail agencies' capital structures were amended in June 2015 to stabilise their financial position.

The financial performance of Sydney Trains and NSW Trains cannot be measured against other passenger rail service entities.

TfNSW attributes the decrease in passenger revenue mainly to the Opal pricing strategy and the take up rate of Opal.

The overall cost recovery from users of public transport in 2014-15 was 19.5 per cent (20.7 per cent in 2013-14).

Government contributions for operating expenditure and capital investment increased.

## Quality of Financial Reporting

### Unqualified audit opinions issued for all agencies' 30 June 2015 financial statements

Unqualified audit opinions were issued on the 2014-15 financial statements of all agencies in the Transport Cluster. Sufficient audit evidence was obtained to conclude the financial statements were free of material misstatements.

A financial audit is designed to identify matters considered important enough to report to those charged with governance of the agencies, the Minister, Treasurer and agency head. One significant matter was reported in the current year relating to the quality of financial reporting by Trainworks Limited. This company is very small compared to most agencies in the Transport Cluster, and its operations were transferred to a not-for-profit company.

### The quality of financial reporting continues to improve

Misstatements in Transport Cluster agencies' financial statements have fallen by 74.1 per cent from 54 in 2010-11 to 14 in 2014-15. This reflects the improved quality of financial reporting since Treasury introduced its 'early close procedures' initiative in 2011-12.

The table below summarises the past five years' audit results for transport agencies highlighting the total number of misstatements detected during the audit process.

Agency	Reported misstatements for the year ended 30 June				
	2015	2014	2013	2012	2011
Department	1	1	4	5	1
TfNSW	--	--	1	10	N/A
RailCorp	2	1	3	10	9
Sydney Trains	1	1	N/A	N/A	N/A
NSW Trains	1	--	N/A	N/A	N/A
RMS	1	--	1	19	N/A
STA	--	--	1	5	3
MTS Holding Company Pty Ltd	N/A	--	5	2	N/A
ITSR	--	1	6	6	8
OTSI	--	--	2	4	7
TCS	--	2	4	N/A	N/A
Sydney Ferries	--	1	4	5	8
Transport Service	--	2	2	3	N/A
WestConnex Delivery Authority	1	2	N/A	N/A	N/A
Trainworks Ltd	7	8	7	4	3
Newcastle Port Corporation	N/A	9	3	3	5
Port Kembla Ports Corporation	N/A	1	6	4	6
Sydney Ports Corporation	N/A	1	1	5	4
Port Authority	--	N/A	N/A	N/A	N/A
<b>Total misstatements</b>	<b>14</b>	<b>30</b>	<b>50</b>	<b>85</b>	<b>54</b>

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

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

Source: Audit Office of New South Wales.

All material misstatements reported in 2014-15 were corrected in the financial statements.

A material misstatement relates to an incorrect amount, classification, presentation or disclosure in the financial statements that could reasonably be expected to influence the economic decisions of users.

Eight agencies had no misstatements in the 2014-15 financial statements. Trainworks Limited reported seven misstatements because it did not have a strong quality assurance process over the preparation of work papers and financial statements before submitting them to the Auditor-General.

The total number and dollar value of misstatements in the Transport Cluster agencies' financial statements over the past three years are detailed in the table below.

Year ended 30 June	Number of misstatements					
	2015		2014		2013	
	Corrected	Uncorrected	Corrected	Uncorrected	Corrected	Uncorrected
Less than \$50,000	5	6	8	--	14	15
\$50,000 - \$249,999	1	--	6	4	2	8
\$250,000 - \$999,999	--	--	3	2	1	2
\$1,000,000 - \$4,999,999	--	--	1	4	4	--
Greater than \$5,000,000	1	1	1	1	4	--
<b>Total number of misstatements</b>	<b>7</b>	<b>7</b>	<b>19</b>	<b>11</b>	<b>25</b>	<b>25</b>

Source: Audit Office of New South Wales.

Misstatements were corrected where necessary. It is important to correct material misstatements so users of financial statements can rely on them as an accurate representation of an agency's financial performance and position.

## Timeliness of Financial Reporting

### Cluster agencies' financial statements submitted and audits completed on time

All Transport Cluster agencies submitted their financial statements on time and the Audit Office completed the audits and issued the audit opinions by statutory deadlines.

### Early close procedures helped improve the timeliness of financial reporting

Agencies were given less time to complete early close procedures and pro forma financial statements. The deadline for audit teams to report findings was also reduced. Bringing forward the deadlines generally helped to ensure a smoother year-end process as it allowed more time to resolve issues.

The table below shows the reduced deadlines for early close procedures over the past two years.

	Key audit completion dates	
	2015	2014
Agencies provide results of early close procedures to the Audit Office no later than	27 April	27 May
Audit Office to provide feedback on early close procedures by	29 May	30 June
Independent Auditor's Report and Statutory Audit Report issued by statutory deadline	100%	94%

Source: Audit Office of New South Wales.

Early close procedures are designed to bring forward year-end activities, such as valuing assets and resolving financial reporting issues, to reduce reporting timeframes and improve quality.

With the exception of the matters referred to below, agencies substantially complied with Treasury's early close procedures. All agencies submitted pro forma financial statements on time. Most agencies reconciled key account balances, and performed monthly accruals and management reviews as required. Prior year Audit Office management letter issues were addressed by most agencies.

## Some agencies can improve their early close procedures

### Recommendation

**Asset revaluation outcomes should be processed into the fixed asset register before the early close deadline.**

RailCorp and Sydney Trains did not process the buildings revaluation outcomes into the fixed asset register by the 27 April 2015 deadline. These agencies should perform the revaluation earlier so the process can be completed on time.

## Financial Performance Key Issues

### Railcorp, Sydney Trains and NSW Trains

#### Rail agencies' capital structures were amended to stabilise their financial position

Last year's Auditor-General's Report to Parliament recommended changing the capital structure of the three rail agencies to stabilise their financial position.

In June 2015, the Minister for Transport and Infrastructure signed a vesting order approving an equity transfer from RailCorp to Sydney Trains and NSW Trains. This improved their working capital positions and increased borrowings for RailCorp.

The table below summarises the key financial impacts of the changed capital structures.

	Impact on equity of capital structure review	Equity position		Borrowings	
Year ended	19 June 2015	30 June 2015	30 June 2014	22 July 2015	30 June 2014
Entity	\$m	\$m	\$m	\$m	\$m
RailCorp	(1,340)	25,780	26,812	2,034	883
Sydney Trains	989	1,222	534	--	--
NSW Trains	351	84	(184)	--	--

Source: Financial statements (audited).

At 30 June 2015, NSW Trains' equity increased to \$84.0 million, an improvement of \$268 million from 30 June 2014. Sydney Trains' equity more than doubled to \$1.2 billion from \$534 million. This contributed to the entities' ability to pay debts as and when they fell due.

#### Sydney Trains and NSW Trains do not pay for access rights or for the use of assets

RailCorp owns and regulates access to Sydney's rail network. It does not charge access fees to Sydney Trains and NSW Trains, but does charge freight and other non-passenger train operators' access fees for journeys completed on its network. RailCorp earned \$59.1 million in revenue from access fees (excluding the airport line) during 2014-15.

In 2014-15, NSW Trains paid \$20.4 million to Australian Rail Track Corporation (ARTC) and private owners of railways for access rights. ARTC is a Federal Government agency that leases a significant portion of the country's rail lines. Private companies also own rail lines in New South Wales. ARTC has a publicly available pricing schedule and charges access prices for both passenger and non-passenger train journeys.

Sydney Trains and NSW Trains use other RailCorp assets for free to perform their operations including stations, tracks, infrastructure, the majority of other property and certain trains. TfNSW also owns the assets under the Country Rail Network (CRN) used mainly by NSW Trains. However, Sydney Trains and NSW Trains incur the maintenance costs of rolling stock and infrastructure.

#### Financial statements are not easily comparable to other passenger rail service entities

The financial performance of Sydney Trains and NSW Trains cannot be measured against other passenger rail entities due to their operating arrangements.



The total assets of RailCorp and the CRN assets of TfNSW are detailed below.

	RailCorp asset values	TfNSW asset values	Maintenance costs
Year ended 30 June	2015	2015	2015
Entity using assets	\$m	\$m	\$m
Sydney Trains	*	--	550
NSW Trains	*	1,805	393
<b>Total</b>	<b>29,125</b>	<b>1,805</b>	<b>943</b>

\* The value of RailCorp assets used by Sydney Trains and NSW Trains has not been quantified individually.

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

## Passenger Revenue and Patronage

### Lower revenue earned by transport entities despite increases in prices and patronage

Rail is the most popular mode of public transport representing 66.8 per cent of total passenger revenue and 58 per cent of total public transport patronage in 2014-15.

Total public transport passenger revenue decreased by \$34.0 million (2.7 per cent) despite a 2.5 per cent price increase in Opal fares for trains and ferries on 4 January 2015. There was no change in Opal buses and light rail fares in 2014-15.

	Passenger revenue		Movement
Year ended 30 June	2015	2014	
Mode of public transport	\$m	\$m	%
Rail	816	845	(3.4)
Buses*	354	360	(1.6)
Ferries**	45	47	(4.3)
Light rail	7.6	4.5	70.9
<b>Total passenger revenue from public transport</b>	<b>1,223</b>	<b>1,257</b>	<b>(2.7)</b>

\* Passenger revenue for STA and private bus operators.

\*\* Passenger revenue did not include Newcastle Ferries.

\*\*\* Percentage is based on actual passenger revenue, not rounded figures.

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

### TfNSW attributes the overall decrease in revenue mainly due to Opal pricing strategy

TfNSW attributes the overall decrease in revenue mainly to the introduction of Opal and associated factors, including:

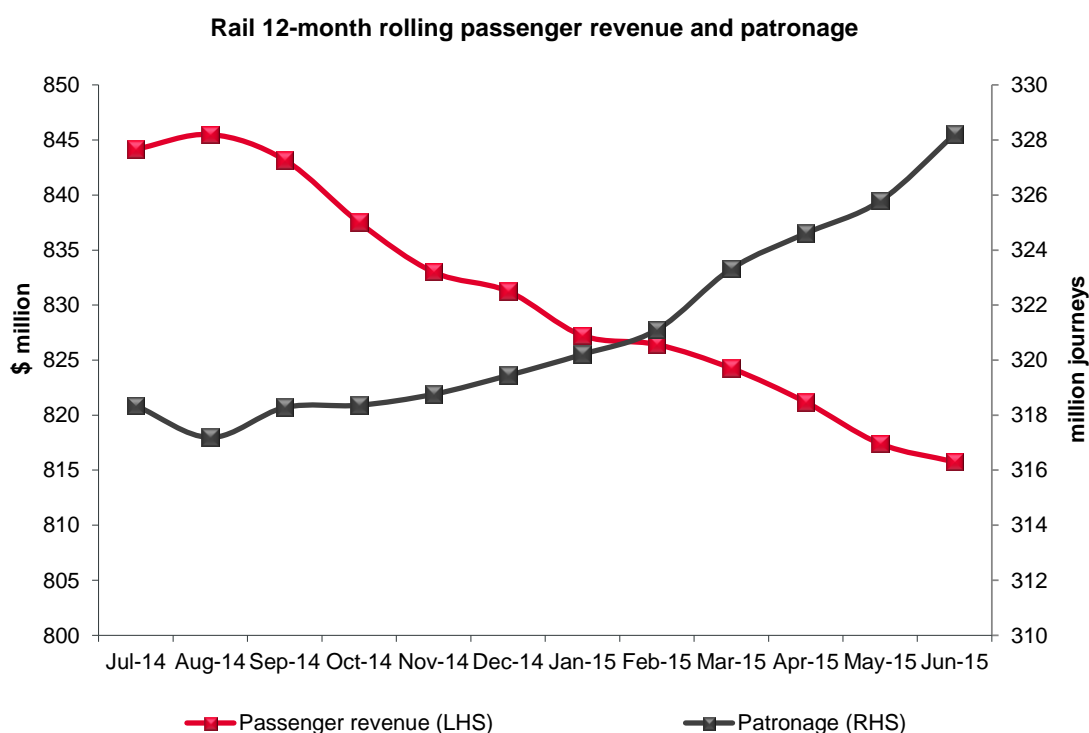
- the pricing structure. It was deliberately designed to encourage voluntary Opal card take-up and increase use of public transport
- the take up rate of Opal - more than four million Opal cards have been ordered and most public transport users switching from paper ticketing.

Total passenger journeys on all public transport modes increased from 561 million to 576 million journeys in 2014-15, a 2.7 per cent increase. Total passenger journeys exclude bus journeys under the School Student Transport Scheme and free shuttle bus routes.

### Lower rail passenger revenue despite increases in prices and patronage

A decrease in passenger revenue increases the burden on government subsidies to public transport. The cost recovery of rail journeys continues to fall to an average of 18.4 per cent per journey.

The graph below shows the movement for the 12 month rolling rail passenger revenue and patronage in 2014-15.



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

## Cost recovery from public transport users

### Cost recovery continues to fall

The overall cost recovery from users of public transport in 2014-15 was 19.5 per cent (20.7 per cent in 2013-14). This is calculated based on revenue from customers and the cost to Government of providing services. Cost recovery for different modes of transport is shown below.

	Rail		Buses**		Ferries	
Year ended 30 June	2015	2014	2015	2014	2015	2014
Cost of services per passenger journey (\$)	13.5	13.3	6.5	7.5	8.6	9.3
Passenger revenue per passenger journey (\$)	2.49	2.67	1.38	1.58	3.04	3.03
Net cost per passenger journey (\$)*	11.0	10.6	5.1	5.9	5.6	6.3
Cost recovery from users (%)	18.4	20.1	21.2	21.1	35.3	32.6

\* 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 nor passengers travelled on free shuttle bus routes up to December 2014. From January 2015, these passenger journeys are included in the calculation provided by TfNSW.

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

The bus and ferry cost per passenger journey decreased while rail has increased. Passenger revenue per passenger journey for rail and buses decreased while ferries is stable. As a result the net cost per passenger journey decreased for buses and ferries but increased for rail in 2014-15 compared to the prior year.

### IPART estimated the total value of external benefits ranges from \$1.4 to \$2.6 billion

The Independent Pricing and Regulatory Tribunal (IPART) asserts government subsidies for public transport should be broadly in line with the estimated value of the community wide or external benefits.

IPART reviewed the external benefits to the community of public transport, to assess how much of the fares should be paid by the users of public transport. The total estimated value of external benefits ranges from \$1.4 to \$2.6 billion. The draft report 'Review of external benefits of public transport (Draft Report)' was issued in December 2014. The final report has not yet been released, although its expected completion date was May 2015.

According to the draft report, IPART intends to update the external benefit estimates in the next round of fare reviews in 2015 covering all public transport modes. The new fare determinations will take effect from 1 July 2016 subject to the Minister's approval. The government subsidies for public transport have been justified on the basis of indirect benefits to the wider community, such as reduced road congestion, traffic accidents and greenhouse gas emissions.

## Analysis of Financial Information

### Department of Transport Consolidation

The Department is a not-for-profit NSW Government entity which controls all the transport agencies within the Transport Cluster, except for the port corporations, Independent Transport Safety Regulator and Office of Transport Safety Investigations. The controlled entities are consolidated in the financial statements of the Department.

The Department's abridged consolidated financial statements are presented below. Additional financial information on agencies in the Transport Cluster appears in Appendices Two, Three and Five.

Year ended 30 June	2015	2014	Increase / (decrease)	Increase / (decrease)
	\$m	\$m	\$m	%
Employee related expenses	2,922	2,776	146	5.3
Depreciation and amortisation	2,839	2,598	241	9.3
Grants and subsidies	552	673	(121)	(18.0)
Finance costs	331	328	3	0.9
Other expenses	3,839	3,961	(122)	(3.1)
<b>Total expenses</b>	<b>10,483</b>	<b>10,336</b>	<b>147</b>	<b>1.4</b>
Government contributions	11,547	11,061	486	4.4
Sale of goods and services	2,026	1,911	115	6.0
Investment income	154	142	12	8.5
Other revenue	799	510	289	56.7
<b>Total revenue</b>	<b>14,526</b>	<b>13,624</b>	<b>902</b>	<b>6.6</b>
Other losses	(423)	(707)	284	(40.2)
<b>Net result</b>	<b>3,620</b>	<b>2,581</b>	<b>1,039</b>	<b>40.3</b>
Total other comprehensive income*	4,017	2,751	1,266	46.0
<b>Total comprehensive income</b>	<b>7,637</b>	<b>5,332</b>	<b>2,305</b>	<b>43.2</b>

\* Includes transactions taken directly to equity, such as asset revaluation movements and actuarial movements on defined benefit superannuation plans.

Source: Department's financial statements (audited).

### Government contributions for operating expenditure and capital investment increased

Government contributions for operating expenditure and capital investment totalled \$11.5 billion, up from \$11.1 billion in 2013-14.

Other losses of \$423 million (\$707 million) mainly represent reduced asset values and losses on asset disposals during the year. Total other comprehensive income mainly represents increases in the value of RMS' infrastructure systems assets of \$3.0 billion and rail system assets of \$1.1 billion at 30 June 2015.

The 9.3 per cent increase in depreciation and amortisation is mainly the result of increases in road and rail infrastructure assets.

Payments of grants and subsidies decreased 18.0 per cent from \$673 million in 2013-14 to \$552 million in 2014-15. The decrease is mainly due to lower grant payments to local councils for transport maintenance and fewer transfers of roads and bridges from RMS to local councils.

At 30 June	2015	2014	Increase / (decrease)	Increase / (decrease)
	\$m	\$m	\$m	%
Current assets	2,467	2,066	401	19.4
Non-current assets	117,179	108,950	8,229	7.6
<b>Total assets</b>	<b>119,646</b>	<b>111,016</b>	<b>8,630</b>	<b>7.8</b>
Current liabilities	4,081	4,633	(552)	(11.9)
Non-current liabilities	7,320	6,365	955	15.0
<b>Total liabilities</b>	<b>11,401</b>	<b>10,998</b>	<b>403</b>	<b>3.7</b>
<b>Net assets</b>	<b>108,245</b>	<b>100,018</b>	<b>8,227</b>	<b>8.2</b>

Source: Department financial statements (audited).

## There was a significant investment in assets and a reduction of debt in 2014-15

Non-current assets at 30 June 2015 included \$114 billion of property, plant and equipment. Agencies purchased \$6.4 billion of assets in 2014-15 while revaluations of existing assets added \$4.0 billion.

The decrease in current liabilities of \$552 million was due to reduced current borrowings at RailCorp of \$180 million and RMS of \$333 million. Treasury approved a \$506 million equity transfer of debt from RMS to the Crown effective 1 July 2014. Non-current liabilities increased mainly due to an increase in borrowings at RailCorp of \$721 million.

### Revaluations

A net increase of \$4.0 billion in asset values was recognised by transport agencies in 2014-15. Most land and building assets were valued by reference to market value, while infrastructure assets were valued at depreciated replacement cost.

The highest revaluation increment was recognised by RMS. In years between full revaluations road, bridges and tunnel infrastructure are revalued to depreciated replacement cost using the annualised average changes of the Road and Bridge Construction Index from the Australian Bureau of Statistics. In 2014-15, this was 2.9 per cent which resulted in a \$3.0 billion increase in the value of these assets.

### Performance against Budget

Comparing agency performance against budget assists in understanding how public funds are being used to achieve NSW Government policy objectives. Five cluster agencies were required to report budget figures from Budget Paper No. 3 'Budget Estimates' in the 30 June 2015 financial statements. For the largest of Transport Cluster agencies, the budget figures are reported in Appendix Three.

The table in Appendix Three compares the 2014-15 actual results of agencies to their 2014-15 original budgets and highlights variances of greater than five per cent for major financial statement line items.

Of the largest agencies that reported or provided a budget in 2014-15:

- two exceeded the budget for employee expenses by more than five per cent
- one's net asset position exceeded five per cent of budget.

This analysis is based on a combination of the original budgets for agencies presented in Parliament and unaudited budgets provided by management.

TfNSW advises that employee related expenses exceeded budget by \$291 million primarily due to RMS' capitalised employee expenses that were not included in the original budget. These employees are shown under TfNSW as a result of the *Government Sector Employment Act 2013*. The increased expenses are offset by increases in recoupments from RMS.

The net assets of the Department, TfNSW and Transport Service exceed budget by \$287 million. The favourable variation is primarily due to the Crown Entity resuming responsibility for \$116 million of debt, and additional temporary cash held for capital projects including the Newcastle and Sydney Light Rail projects, Wynyard Walk and Opal.

RMS's total liabilities exceeded budget by \$629 million or 20.1 per cent. The excess was an unbudgeted additional deferred concession liability of \$325 million, the compulsory property acquisitions of \$310 million and superannuation actuarial adjustments of \$308 million. These increases were offset by an unbudgeted transfer of New South Wales Treasury Corporation borrowings of \$410 million (net of budgeted repayments) to the Crown during the year.

# Financial Controls

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

This chapter outlines findings about financial controls of agencies in the Transport Cluster for 2014-15. The table below summarises key findings, observation, conclusions or recommendations.

Financial controls	
Observation	Conclusion or recommendation
RMS spent \$612 million on asset maintenance, \$82.0 million more than planned.	RMS has a maintenance backlog of \$5.3 billion. However, overall ride quality has improved.
RMS allows up to 30 per cent of its invoices to be paid before a purchase order is raised. This contrasts with a five per cent allowance used by other agencies in the Transport Cluster.	<b>Recommendation:</b> RMS should review its procurement processes and align with others in the cluster.
Only four entities were able to provide information on the number of purchase orders raised after the invoice date.	<b>Recommendation:</b> Transport agencies should pay invoices on time.
Eighty two control issues were identified within the Transport Cluster (41 in 2013-14), which included 23 repeat issues. Thirty one information systems issues were identified, which included four repeat issues.	<b>Recommendation:</b> Transport Cluster agencies should focus on addressing repeat issues as soon as possible, in particular those related to user access management over financial systems.
Agencies are using outdated legacy Information Technology systems.	<b>Recommendation:</b> Appropriate strategies should be implemented to address risks associated with legacy systems during the transition to new systems.
At 30 June 2015, 7,280 or 28 per cent of transport employees had annual leave balances exceeding 30 days, worth \$32.8 million. This is contrary to the requirements of Treasury Circular 14/11.	<b>Recommendation:</b> The effectiveness of policies and management practices to reduce annual leave balances should be reconsidered to ensure compliance with targets set by the Premier.
The number of employees receiving overtime has decreased, but still cost \$210 million in 2014-15. Over 320 employees were paid more than 50 per cent of their salary in overtime.	When overtime is paid, penalty rates apply. It may be more expensive to pay overtime than to employ additional staff.
Some contractors have been engaged for more than 13 years.	<b>Recommendation:</b> Management should consider the cost benefits of using contractors rather than permanent staff for ongoing roles.

## Maintenance

### **RMS has a maintenance backlog of \$5.3 billion**

At 30 June 2015, RMS reported a maintenance backlog of \$5.3 billion. Despite this, overall ride quality has improved. Sydney Trains had a maintenance backlog of \$250 million. Sydney Trains advises the existence of a backlog at this level has no impact on safety or service levels.

RMS spent \$612 million on asset maintenance in 2014-15 (2013-14: \$664 million), \$82.0 million more than planned.

### **Maintenance expenditure increased by \$70.0 million in 2014-15**

In 2014-15, maintenance expenditure increased by \$70.0 million or four per cent, from \$1,762 million to \$1,832 million. The majority of this increase was in STA.

During 2014-15, agencies spent \$168 million more on maintenance than planned.

Agencies attribute the variance to the reclassification of expenses, program acceleration, emergency repairs and unplanned maintenance on new assets.

## **Creditors Payment Performance**

### **RMS' target allows it to raise purchase orders after invoice date 30 per cent of the time**

#### **Recommendation**

**RMS should review its procurement processes and align with others in the cluster.**

Best practice is for purchase orders to be approved before goods are ordered. Only four entities were able to provide information on the number of purchase orders raised after the invoice date. RMS and Sydney Trains performed within their targets of 30 per cent and five per cent respectively. Sydney Ferries performed worst raising purchase orders after the invoice date 85.6 per cent (90.9 per cent) of the time.

### **Four of ten transport entities did not achieve their target for paying invoices on time**

#### **Recommendation**

**Transport agencies should address the issues preventing invoices being paid on time.**

The table below shows invoices paid on time.

Invoice paid on time			
Year ended 30 June	2015	2015 Target	2014
Entity	%	%	%
RMS	92.9	90.0	91.2
TfNSW*	95.7	95.0	88.7
OTSI	89.1	95.0	91.7
STA	95.4	90.0	94.9
Port Authority	78.3	N/A	89.3
ITSR	99.4	95.0	98.6
NSW Trains	96.0	90.0	93.1
Sydney Trains	88.0	90.0	89.1
RailCorp	75.0	90.0	83.6
Sydney Ferries	14.4	95.0	9.1

\* TfNSW includes the Transport Service and the Department.

N/A Not available.

Source: TfNSW (unaudited).

Four of the ten transport entities did not achieve their target for paying invoices on time.

The Port Authority's payment rate fell to 78.3 per cent from 89.3 per cent due to the restructure and renaming of the port corporations to the Port Authority, and delays in suppliers altering their records.

Sydney Ferries had the worst performance of only 14.4 per cent (9.1 per cent) on time payments against a 95 per cent target. Its supplier invoices were being sent to an old post office box address that was not in use, for part of 2013-14 and all of 2014-15. Consequently, the invoices had to be redirected for payment authorisation and approval, which resulted in considerable delays and only 61 invoices were processed in 2014-15.

## Internal Controls

### The number of internal control issues has doubled

#### Recommendation

**Transport Cluster agencies should focus on addressing repeat issues as soon as possible, in particular those related to user access management over financial systems.**

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

While the number of misstatements in the Transport Cluster financial statements fell from 30 to 14 in 2014-15, a total of 82 control issues were identified (41 in 2013-14) and 23 of these were repeat issues. There were 31 information systems related issues, including four repeat issues.

Issues identified during the audits included:

- employee annual leave balances being greater than thirty days
- inadequate documentation and approval of journals
- delayed and ineffective reconciliations
- assets excluded in the valuation of property, plant and equipment



- incorrect calculation of the useful lives of assets
- no loan agreements between agencies for loans
- unauthorised purchases
- incorrect rental and valuation information in the Property Information and Management System.

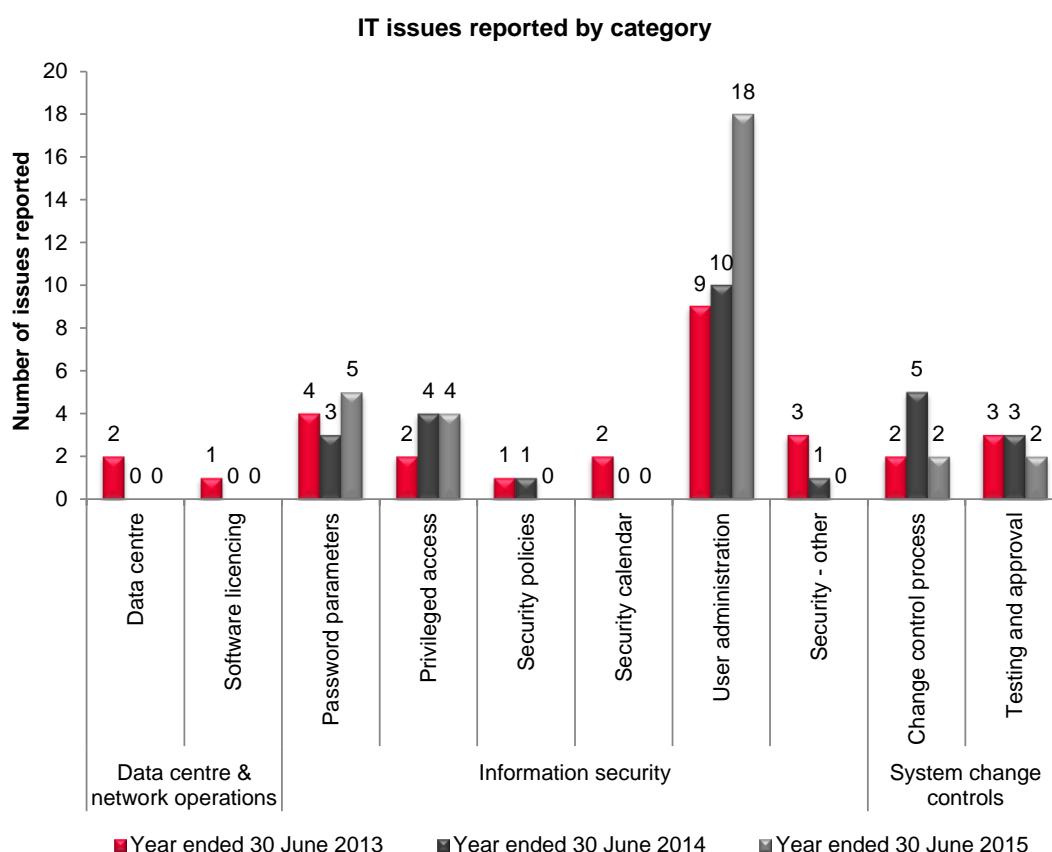
Financial audits focus on the processes and controls supporting the integrity of financial data used in the preparation of agencies' financial statements.

## Information Technology Controls

### User administration issues accounted for over half of all IT issues identified in 2014-15

Information system audits focus on the information technology (IT) processes and controls supporting the integrity of financial data used in the preparation of agencies' financial statements.

User administration issues accounted for over half of all IT issues identified in 2014-15. Specifically, the management controls over additions and changes to financial systems' access were not effective. Weak user administration processes increase the risk of users having excessive or unauthorised access to critical financial systems. This compromises the integrity and security of financial data residing in these systems.



Thirty-one IT issues were identified in Cluster agencies in 2014-15 (27 in 2013-14). Four of these were repeat issues. All IT issues identified in 2014-15 related to information security and system change control processes.

## Replacement of Legacy Systems

**Projects are underway to replace legacy systems and address associated risks**

### **Recommendation**

**Appropriate strategies should be implemented to address risks associated with legacy systems during the transition to new systems.**

Projects are underway to improve the reliability and sustainability of financial systems across Cluster agencies. Until the projects are completed, agencies will continue to use legacy systems.

The operational management of legacy systems continues to be an area of concern for agencies, with many experiencing the following challenges:

- technical limitations of legacy systems preventing agencies from meeting business objectives, regulatory requirements and achieving efficiencies
- susceptibility to newer and advanced security attacks
- incompatibility with newer technology platforms and hardware
- containing costs and addressing difficulties when integrating legacy systems with other systems
- maintaining and supporting legacy systems
- funding and retaining staff with the relevant skills to support legacy systems.

A \$196 million project is underway to replace financial, human resources/payroll and procurement legacy systems with a single SAP solution across all Transport agencies. Total costs for the project at 30 June 2015 were \$113 million. TfNSW management advises this project is on budget and will be completed on time.

## Excessive Annual Leave

**Twenty eight per cent of employees had excessive annual leave**

### **Recommendation**

**The effectiveness of policies and management practices to reduce annual leave balances should be reconsidered to ensure compliance with targets set by the Premier.**

At 30 June 2015, 7,280 or 28 per cent (3,162 or 14 per cent in 2013-14 exceeded 35 days) of transport employees had annual leave balances exceeding 30 days. The value of excessive leave at 30 June 2015 was \$32.8 million. This is contrary to the requirements of Treasury Circular 14/11.

The Treasurer requested all Secretaries and Chief Executives to reduce excessive annual leave balances to 30 days by 30 June 2015. Previous targets were 35 days by 30 June 2014 and 40 days by 30 June 2013.

There are several implications of excessive leave balances, including:

- possible work health and safety implications
- disruptions to service delivery if key employees are absent for lengthy periods to reduce leave balances
- employee fraud may remain undetected
- the associated financial liability generally increases over time as salaries increase.

Staff with leave balances exceeding Treasury targets are detailed below.

At 30 June		2015		2014		2013	
Transport entity	Trend	Number of employees	Amount \$'000	Number of employees	Amount \$'000	Number of employees	Amount \$'000
RailCorp	~	*	*	180	1,035	1,147	5,193
Sydney Trains	↑	3,768	12,292	1,321	4,749	N/A	N/A
NSW Trains	↑	839	9,276	134	383	N/A	N/A
STA	↑	876	1,225	81	153	121	323
RMS	↑	1,157	3,832	898	2,292	596	1,873
Others <sup>#</sup>	↑	640	6,192	548	2,785	198	1,156
<b>Total</b>	<b>↑</b>	<b>7,280</b>	<b>32,817</b>	<b>3,162</b>	<b>11,397</b>	<b>2,062</b>	<b>8,545</b>

Note: Sydney Trains and NSW Trains Enterprise Agreement allows for 40 days for non-shift workers and 50 days for shift workers.

\* All RailCorp staff were transferred to Sydney Trains and NSW Trains in August 2014.

↑ Trend upwards, ↓ Trend downwards, ~ No trend as staff were transferred out.

# Others include the Department, TfNSW, Transport Service of New South Wales, Office of Transport Safety Investigations, Independent Transport Safety Regulator, Port Authority, and Sydney Ferries.

Source: TfNSW (unaudited).

Sydney Trains and NSW Trains have Enterprise Agreements that allow staff to accumulate up to 40 days annual leave, or 50 days annual leave for shift workers. These agencies account for 63.3 per cent of the employees exceeding 30 days and 65.7 per cent of the related liability at 30 June 2015.

STA's Enterprise Agreement allows employees to accumulate 35 days (40 days in 2013-14) annual leave.

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

## Overtime

### Over 320 employees were paid more than 50 per cent of their salary in overtime

The number of employees receiving overtime has decreased by 7.8 per cent from 21,637 in 2013-14 to 19,944 in 2014-15. Of these, 323 employees were paid 50 per cent or more of their annual salary in overtime (235 in 2013-14).

Overtime costs have increased from \$209 million in 2013-14 to \$210 million in 2014-15. While the number of employees receiving overtime has decreased, overtime continues to represent a significant employment expense that needs to be effectively managed. When overtime is paid, penalty rates apply. It may be more expensive to pay overtime than to employ additional staff.

Overtime costs for Cluster agencies are shown in the table below.

		Overtime cost		
Year ended 30 June		2015	2014	2013
Transport entity	Trend	\$'000	\$'000	\$'000
RailCorp ***	↓	425	9,040	129,245
Sydney Trains **	~	101,298	102,151	N/A
NSW Trains **	↑	21,234	18,272	N/A
STA	↑	50,647	45,107	42,591
RMS	↓	29,997	29,609	42,971
Others *	↑	6,651	5,289	2,629
<b>Total</b>	↓	<b>210,252</b>	<b>209,468</b>	<b>217,436</b>
Number of employees receiving overtime	↓	19,944	21,637	21,902

\* Others consist of the Department, TfNSW, Transport Service of New South Wales, Office of Transport Safety Investigations, Independent Transport Safety Regulator, Ports Authority.

\*\* Sydney Trains and NSW Trains commenced their operations on 1 July 2013.

\*\*\* Remaining RailCorp staff were transferred to Sydney Trains and NSW Trains in August 2014.

↑ Trend upwards, ↓ Trend downwards, ~ No trend as staff were transferred out.

N/A Not applicable.

Source: TfNSW (unaudited).

Major contributors to overtime in Transport agencies include:

- transport operations requiring work at night and on weekends in metropolitan areas due to traffic considerations
- needing to provide around-the-clock responses to traffic incidents, emergencies and traffic signal repairs
- resourcing of traffic arrangements for special events throughout the year
- providing operations 24 hours a day, 365 days a year
- maintenance and construction occurring outside normal operating hours.

## Engagement of Contractors

**Some contractors have been engaged for more than 13 years**

### Recommendation

**Management should consider the cost benefits of using contractors instead of permanent staff for ongoing roles.**

Since 2011-12, the number of contractors used has increased. In 2014-15, 1,977 contractors were used and cost \$242 million.

Eleven contractors have been engaged for more than ten years including three contractors for 13.4 years.

Twenty one contractors were each paid more than \$250,000 in 2014-15. Six of these contractors were each paid more than \$500,000.

The table below shows the number and cost of contractors in 2014-15.

Year ended 30 June	2015			
Transport entity	Number of contractors	Total cost of contractors \$'000	Term of longest serving contractor Years	Highest amount paid to a contractor \$'000
TfNSW *	1,185	137,499	12	602
RMS	370	40,863	13	255
Sydney Trains	362	57,353	6	584
ITSR	28	1,164	6	225
NSW Trains	22	4,299	6	213
STA	6	286	2	68
Ports Authority	4	305	2	111
RailCorp	--	--	--	--
<b>Total</b>	<b>1,977</b>	<b>241,769</b>		

\* Includes the Department, TfNSW and Transport Shared Service.

Source: TfNSW (unaudited).

## Fines

### The number and value of fines issued decreased as more cautions were issued

During 2014-15, the value and number of fines issued decreased by \$6.7 million and 33,226 respectively. New technology is being used to keep secure records of interactions with customers allowing cautions to be issued for first or accidental offences. This new approach is intended to result in a better customer outcome and a greater chance of long term compliance.

The number, cost and collectability of fines issued in 2014-15 is shown in the table below.

Year ended 30 June	Number of fines issued	Penalty per fine (average) \$	Value of fines issued \$	Value of fines collected \$	Collectability %
2012	114,347	171	19,549,203	6,417,704	32.8
2013	24,104	178	4,280,289	1,445,907	33.8
2014	100,252	196	19,624,657	6,690,652	34.1
2015	67,026	192	12,886,644	3,845,318	29.8

Source: TfNSW (unaudited).

The NSW Police Transport Command (the Command) took over policing of the State's public transport network on 1 May 2012. The Command currently comprises 610 police officers. It reached full strength in December 2014, up from 400 officers at 30 June 2014. There are also 150 Transport Officers that work across all transport modes.

### Policing the State's public transport network cost \$55.0 million in 2014-15

The Command's costs were \$55.0 million in 2014-15, an increase of \$15.8 million from \$39.2 million in 2013-14.

The Command is responsible for security, safety and targeting crimes across all modes of transport across the State. In addition to uniform patrols, special command teams operate in plain clothes targeting identified problem areas and graffiti vandalism. The Command detects and prosecutes offenders for a variety of matters including malicious damage, graffiti and trespassing in the rail corridor.

# Governance

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

Good governance promotes public confidence in Government and its agencies. Well governed agencies should result in improved service delivery and the most efficient use of resources.

This chapter outlines audit observations, conclusions or recommendations related to the governance of agencies in the Transport Cluster for 2014-15.

Governance	
Observation	Conclusion or recommendation
Potential conflicts of interest exist within the Transport Cluster. RailCorp and Sydney Trains have the same Chief Executive and Chief Financial Officer. For example, there is a potential for rail services to favour Sydney Trains (which operates signalling priorities) ahead of other operators.	<b>Recommendation:</b> The signalling protocols should be independently tested and results published and sent to all rail operators.
Transport Cluster agencies self-assessed their governance processes against the Audit Office's Governance Lighthouse Checklist and identified some gaps.	<b>Recommendation:</b> Transport Cluster agencies should respond appropriately to the gaps identified through the governance self-assessments.
The Transport Cluster Strategy Committee is establishing a risk register for the entire cluster, which includes cluster-wide risks such as procurement, for consideration at executive monthly meetings. However, more work is required to ensure cluster wide risks are effectively managed.	<b>Recommendation:</b> The Transport Cluster Strategy Committee should ensure its risk assessment activities adequately mitigate risks at the Transport Cluster level.
Many agencies do not maintain compliance registers or adequate processes to ensure they comply with relevant legislative frameworks and requirements.	<b>Recommendation:</b> Each transport agency should implement effective compliance management practices.

## Control of the Transport Cluster

TfNSW is the lead agency in the Transport Cluster. It is responsible for co-ordination, funding allocation, policy and planning, and other delivery functions for transport in New South Wales.

The Secretary of TfNSW has the ability to 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.

TfNSW but does not control the Independent Transport Safety Regulator, Office of Transport Safety Investigations and the Port Authority.

## Governance Framework

### Governance framework can be enhanced

#### Recommendation

**Potential conflict of interest need to be effectively managed and monitored. For example, signalling protocols should be independently tested and results published and sent to all rail operators.**

Potential conflicts of interest exist within the Transport Cluster. RailCorp and Sydney Trains have the same Chief Executive and Chief Financial Officer. This creates a potential risk that their decisions may favour one entity over another. For example, there is a potential for rail services to favour Sydney Trains (which operates signalling priorities) ahead of other operators.

Sydney Trains advised that there are sufficient internal control procedures in place to manage the potential conflicts of interest. For example, RailCorp and Sydney Trains each have a Rail Services Contract with TfNSW which sets out the performance expectations and requirements of each agency. If a conflict is identified, the Secretary acts as the arbiter.

Management believes the creation of the Transport Asset Holding Entity (TAHE) will address potential conflicts of interest as it is likely to have a separate board and management. TAHE is designed to streamline the delivery of public transport asset management.

RailCorp operates signalling priorities through Sydney Trains' personnel. Management advises that if disruptions occur, train controllers are to implement a plan that benefits most passengers and minimises inconvenience. Priorities are set for train running and maintaining the working timetable. Sydney Trains advises there are defined and agreed rules and protocols accepted by all operators. However, these protocols and procedures are not independently tested and results published.

TfNSW operates within a network of alliances to provide transport and other services. Some transport service providers are government operators like Sydney Trains, while others are private operators. TfNSW contracts private service providers to deliver services.

### Public transport providers have performance based agreements

To strengthen the governance framework within the cluster, TfNSW has established performance based service agreements incorporating key performance indicators with public and private service providers.

In addition, the Secretary issues an annual Statement of Expectations to RMS, Sydney Trains, NSW Trains, RailCorp, the STA and Sydney Ferries. Agencies determine their service delivery priorities having regard to the Secretary's expectations.

Oversight arrangements have been established through various mechanisms to provide the Secretary with evidence that the Transport Cluster is fulfilling its legislative objectives and functions. These mechanisms include performance agreements and performance meetings with each member of the executive team. Service contracts are monitored through regular contract review meetings.

## Governance Processes

### Governance processes can be improved

#### Recommendation

**Transport Cluster agencies should respond appropriately to the gaps identified through the governance self-assessments.**

The self-assessments indicate agencies have developed strategic and business plans with clear accountability and delegations, and regularly report against plans. However, they can further improve governance by:

- requiring all staff to sign the code of conduct annually
- making the code of conduct publicly available
- making internal audit plans publicly available
- revising the continuous disclosure policy to provide for regular disclosure of performance information on key metrics, inputs, outputs, processes and outcomes, in addition to the annual report
- promoting disclosure of positive and negative information
- publishing the continuous disclosure policy on agency websites
- building a strong risk management culture which includes annual reviews of the risk management framework, linking this to corporate planning and having a shared understanding of management's risk appetite.

Good governance promotes public confidence in government and its agencies. Well governed agencies should result in improved service delivery and the efficient use of resources.

Agencies can use the principles from the Audit Office's Best Practice Guide 'Governance Lighthouse – Strategic Early Warning System' (Guide) to improve areas of governance.

The Audit Office published its updated Guide in 'Volume One 2015 Areas of focus from 2014'. It was amended to align the values that support eight governance principles with the 2014 Ethical Framework for the NSW Government sector that supports good governance, released by the Public Service Commission.

The checklist acts as a strategic early warning system and helps agencies identify areas which need attention.

Six transport agencies conducted a self-assessment against the Audit Office's governance checklist. The Port Authority did not perform a self-assessment, but asserts it has the most of the governance structures and procedures in place.



## Risk Management

### Risk management processes can be improved

#### Recommendation

**The Transport Cluster Strategy Committee should ensure its risk assessment activities adequately mitigate risks at the Transport Cluster level.**

Agencies within the Cluster were invited to self-assess their risk management processes using the Audit Office's Risk Management Maturity Toolkit. The toolkit is based on the principles and guidelines of the International Standards on Risk Management AS/NZS ISO 31000: 2009 Risk Management and Treasury Policy Guideline TPP 12-03: Risk Management Toolkit for the NSW Public Sector'. The toolkit is published on Audit Office website.

Generally, these self-assessments showed respondents believe their agency has:

- an enterprise wide risk management framework covering all major risk types
- an annual risk management plan with capacity to track key milestones and compliance
- defined, standardised and documented risk management policies and processes
- formalised risk monitoring and reporting with the risk management framework requiring all risks and controls to have assigned owners.

However, some respondents indicated there was limited articulation or communication of the level of risks the agency was willing to accept or tolerate to achieve its objectives.

The Transport Cluster Strategy Committee is establishing a risk register for the entire cluster, which includes cluster-wide risks such as procurement, for consideration at executive monthly meetings. However, more work is required to ensure cluster wide risks are effectively managed.

Each agency in the cluster has its own risk profile and risk management framework. Risk management is performed at an agency level with oversight by Audit and Risk Committees. Risks may, however, have implications for other agencies in the cluster.

Effective risk management can improve decision making and lead to significant efficiencies and cost savings. By embedding risk management directly into processes, agencies can derive additional value from their 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.

## Performance Measurement Framework

In 2014, TfNSW commissioned a review of cluster performance measures to ensure they were appropriate and met the requirements of the Transport Cluster executive. The review was finalised in October 2014, with 20 Key Performance Indicators (KPI) identified for monthly reporting to the Transport Cluster Strategy Committee.

### The NSW Government introduced four state priorities in the Transport Cluster

In September 2015, the NSW 2021 performance targets were replaced by NSW 'Making it Happen', State Priorities. It lists 30 priorities, four of which are transport related. Each of the 30 state priorities will be measured against the best available indicators of economic growth, infrastructure delivery, service provision and other measures of community wellbeing and safety across New South Wales.

The state priorities for Transport are:

- ninety per cent of peak travel on key road routes is on time
- maintain or improve reliability of public transport services over the next four years
- reduce road fatalities by at least 30 per cent from 2011 levels by 2021
- key infrastructure projects to be delivered on time and on budget across the state.

## Compliance Management

### Compliance management processes can be improved

#### Recommendation

**Each transport agency should implement effective compliance management practices.**

RMS, STA, Sydney Ferries, Sydney Trains and TfNSW advise they have identified all applicable laws, regulations and government directions, and assigned responsibility for each requirement. However, their compliance registers are currently being reviewed or under development.

All other Transport Cluster entities have not provided sufficient information to enable an assessment of their response to this recommendation.

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

**The vast majority of reported cases of fraud and corrupt conduct occur in rail agencies**

Fraud statistics over the last three years are detailed in the table below.

Year ended 30 June	2015		2014		2013	
Entity	Cases investigated	Cases reported	Cases investigated	Cases reported	Cases investigated	Cases reported
Sydney Trains	62	184	88	128	N/A	N/A
NSW Trains	4	14	14	14	N/A	N/A
RailCorp	--	--	25	31	275	331
STA	12	14	20	20	22	22
Sydney Ferries	--	--	--	--	--	--
RMS	19	30	23	31	9	11
TfNSW*	6	13	15	18	4	5
ITSR	--	--	--	--	--	--
OTSI	--	--	--	--	--	--
Port Authority	--	--	N/A	N/A	N/A	N/A
<b>Total</b>	<b>103</b>	<b>255</b>	<b>185</b>	<b>242</b>	<b>310</b>	<b>369</b>

N/A Sydney Trains and NSW Trains started operations on 1 July 2013.

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

Source: TfNSW (unaudited).

The cases reported in Sydney Trains include all reports of corruption, misconduct, non-compliance and requests for advice. Not all matters require investigation. Each transport entity is independently accountable for implementing programs and initiatives to combat fraud and misuse of public resources.

All major transport agencies have a corruption control frameworks; as well as internal units assigned to investigate reported frauds and report via their respective Audit and Risk Committees. These units work with the business units to provide fraud and corruption training across their organisations.

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 organisations. The approach to fraud control should be positive and proactive, not a 'tick and flick' exercise.

The Fraud Control Improvement Kit is designed to help organisations 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 organisations implement, review and monitor the framework's effectiveness.

## Restructures within Transport

### Transport Cleaning Services, Trainworks Limited and Independent Transport Safety Regulator

On 1 July 2015, Transport Cleaning Services was dissolved under the Transport Administration (General) Amendment (Transport Cleaning Services) Regulation 2015.

Transport Cleaning Services was responsible for the delivery of cleaning services and the improved presentation of rolling stock, railway stations and platforms, rolling stock maintenance facilities and rail yard facilities.

In August 2014, Sydney Trains assumed all the responsibilities from Transport Cleaning Services. In November 2014, NSW Trains outsourced all cleaning services to the private sector.

Transport Cleaning Services' financial statements were prepared on a liquidation basis as it was dissolved on 1 July 2015 under the Transport Administration (General) Amendment (Transport Cleaning Services) Regulation 2015.

Trainworks Limited's financial statements were prepared on a liquidation basis as it has ceased trading. Its operations transferred to a new not-for-profit company, Transport Heritage NSW Limited on 1 July 2014. The directors appointed a liquidator on 24 June 2015 to wind up Trainworks Limited.

Independent Transport Safety Regulator is progressing preparations for transition of direct delivery of its regulatory services to the Office of the National Rail Safety Regulator should a final decision for transition by the NSW Government be made. Initial approval to progress towards transition was provided by the NSW Government in June 2015.

### **Port Authority**

On 1 July 2014, Sydney Ports Corporation and Port Kembla Port Corporation were amalgamated into Newcastle Port Corporation. The new state owned corporation is trading as Port Authority of New South Wales.

# Service Delivery

This chapter outlines key findings, observations or recommendations about service delivery in the Transport Cluster agencies for the 2014-15 financial year.

Service Delivery	
Observation	Conclusion or recommendation
TfNSW's contract with the Opal service provider does not require it to provide an independent operating controls assurance report on the Opal system.	<b>Recommendation:</b> TfNSW should require the Opal service provider to independently confirm the effectiveness of its internal control processes.
The Opal data collection of rail transactions is not designed to immediately segregate fare information between Sydney Trains, NSW Trains, Light Rail Services and the Airport Rail Link. Fares are reported in total and additional steps are required to attribute fare revenue.	<b>Recommendation:</b> Management should ensure the Opal system directly provides revenue information to meet the needs of all stakeholders.
\$189 million in free trips, equivalent to 74.5 million trips, were provided by transport operators in 2014-15.	Twenty five per cent of all Opal trips were free. Just over 47 per cent of all trips on ferries were free.
STA has not met its on-time running target in any of its four metropolitan contract regions for the last three years.	<b>Recommendation:</b> STA should continue working with TfNSW to improve on-time running performance in all its metropolitan bus contract regions to meet on-time running targets.
There are currently no target measures of crowding on buses.	<b>Recommendation:</b> TfNSW should develop target measures on crowding for its bus operators in all regions.
TfNSW performs bi-annual customer satisfaction surveys across transport modes to identify which areas need improvement when making decisions. However, TfNSW has not set targets for the level of customer satisfaction.	<b>Recommendation:</b> TfNSW should set targets for the level of customer satisfaction it would like each transport mode to achieve.
Average travel speeds on Sydney roads continued to fall. The morning peak average speed fell from 39.0 kilometres per hour in 2013-14 to 37.9 kilometres per hour in 2014-15. The afternoon peak average speed fell from 36.0 to 35.2 kilometres per hour.	RMS is responsible for improving efficiency, measured by travel speeds, on Sydney's major roads during peak times. RMS has implemented a number of long term measures (including the NorthConnex and WestConnex projects) to enhance the efficiency and effectiveness of road infrastructure and systems.
RMS achieved its own short-term pavement rebuilding target, but did not meet the long term target of two per cent under the former NSW 2021 Plan.	<b>Recommendation:</b> TfNSW, in consultation with RMS, should develop an appropriate funding model to ensure pavement rebuilding targets are met.
The pricing of shared services performed by Transport Shared Services is based on the level of effort required to deliver services rather than on outcomes or performance achieved.	<b>Recommendation:</b> Performance elements should be incorporated into the pricing of shared services.

## Opal Card

The Opal card contract was awarded to the Pearl Consortium in May 2010. The contractor is responsible for the development, delivery, operation and maintenance of the electronic ticketing system known as Opal. The contract is for a period of 14 years, including a ten year operational term. The contract term ends on 30 September 2024.

### **TfNSW need independent assurance that the Opal system is operating effectively**

#### **Recommendation**

**TfNSW should require the Opal service provider to independently confirm the effectiveness of its internal control processes.**

The management of Opal data is outsourced to the private sector. 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 providers.

TfNSW should obtain an independent operating controls assurance report on the Opal system. This report should include the service organisation's description of controls in place and the results of testing. The report will give TfNSW assurance that the system is operating effectively.

#### **Electronic Ticketing System Data and Reporting**

### **Sydney Trains and NSW Trains require more data on passenger revenue and trips**

#### **Recommendation**

**Management should ensure the Opal system directly provides revenue information to meet the needs of all stakeholders.**

Sydney Trains and NSW Trains are not able to obtain required information on passenger revenue and trips to assist in operating an efficient and effective business. For instance, operators would like boarding and exiting data by station 24/7 so they can resource demand appropriately.

TfNSW, Sydney Trains and NSW Trains are continuing the development of an information sharing mechanism for passenger revenue and trips to assist in operating an efficient and effective business.

The current data collection of rail transactions is not designed to immediately segregate fare information between Sydney Trains, NSW Trains, Light Rail Services and the Airport Rail Link. These fares are initially reported in total by the Opal system. Segregated passenger information is extracted from the Opal system by TfNSW based on assumptions. This information is used to create significant financial transactions between the agencies.

### **A total of 15,000 Opal reader breakdowns occurred causing loss in revenue**

The Opal reader roll out was completed on 20 November 2014. Opal reader breakdowns increased in 2014-15 across all transport modes. This led to a loss of revenue. Buses experienced the most breakdowns accounting for 53.3 per cent of all breakdowns in 2014-15.

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

### There were 134,000 Opal cards with a negative balance at 30 June 2015

The Opal cards with number of negative balances increased to 134,000 at 30 June 2015 with a negative value of \$427,000. The Opal website states that as long as a passenger has the minimum value on their card at the time they tap on, they will be able to tap off and the Opal card will go into a negative balance. The passenger will need to add value to their Opal card to tap on again.

Unregistered Opal cards with negative balances cannot be recovered unless the passenger adds value to top up the card. The negative value may not be recovered if customers purchase additional unregistered cards and discard their negative balance cards.

### Over 74 million free trips valued at \$189 million were provided by transport operators

The Opal fare structure offers customers unlimited free trips after the first eight paid journeys in a week. There is also a \$15 cap (\$2.50 cap on Sunday) on total daily travel fares.

### Twenty five per cent of all Opal trips were free, including 47.1 per cent on ferries

The table below shows free trips taken by mode of transport in 2014-15 and 2013-14.

	Free trips by mode		
	Number		Total Opal trips
Year ended 30 June	2015	2014	2015
Mode of public transport	'000	'000	%
Rail	45,381	3,398	24.0
Light Rail	879	--	33.6
Bus	25,440	120	25.4
Ferry	2,750	208	47.1
<b>Total</b>	<b>74,450</b>	<b>3,726</b>	<b>25.0</b>

Source: TfNSW (unaudited).

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

### Over 1.2 million Opal cards were issued in 2014-15

In the year ending 30 June 2015, 721,000 adult Opal cards and 93,000 youth cards were issued. In November 2014, the gold card for seniors/pensioners was released and 333,000 cards were issued by 30 June 2015. In February 2015, the card for concession travellers was released and 80,000 cards were issued by 30 June 2015.

## On-Time Running

One of the State Priorities is to ensure on-time running of public transport. The Government is planning to improve integration across public transport services, update timetables and provide clear information to get people to their destinations on time.

### Rail

#### Sydney Trains' average punctuality is above target

Sydney Trains achieved an average punctuality performance of 93.9 per cent. This compares well to the target of 92.0 per cent, but is lower than its punctuality performance in 2013-14 of 94.1 per cent.

#### NSW Trains' services punctuality is below target

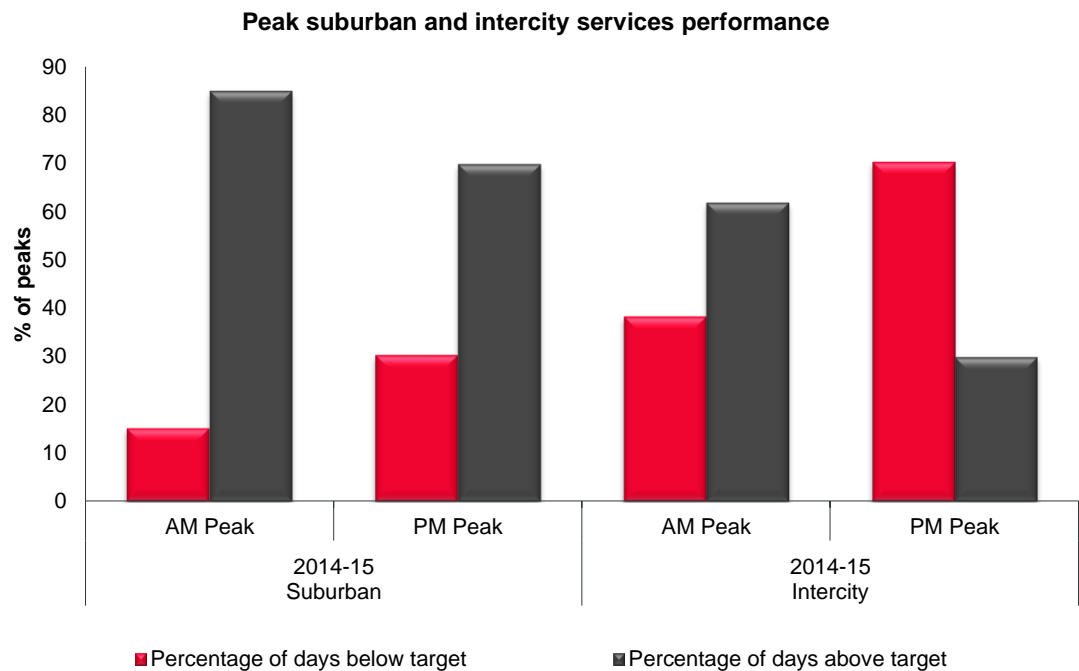
NSW Trains intercity services achieved an average punctuality performance of 87.4 per cent, lower than the 89.3 per cent achieved in 2013-14 and the target of 92.0 per cent. NSW Trains regional services achieved an average of 77.4 per cent on time running, which increased from 73.5 per cent in 2013-14, but was just below the target of 78.0 per cent.

Six of 15 suburban and intercity rail lines did not achieve the punctuality target of 92 per cent in 2014-15. Thirteen of 15 suburban and intercity rail line's peak punctuality performances fell in 2014-15. Decreased punctuality, especially during peak hours, is likely to result in overcrowding and a decline in customer satisfaction.

### Only 29.9 per cent of afternoon peak intercity services operated on time

In 2014-15, there were many days when suburban and intercity services did not achieve the 92.0 per cent punctuality target. The graph below shows 70.1 per cent of afternoon peak intercity services did not operate on time.

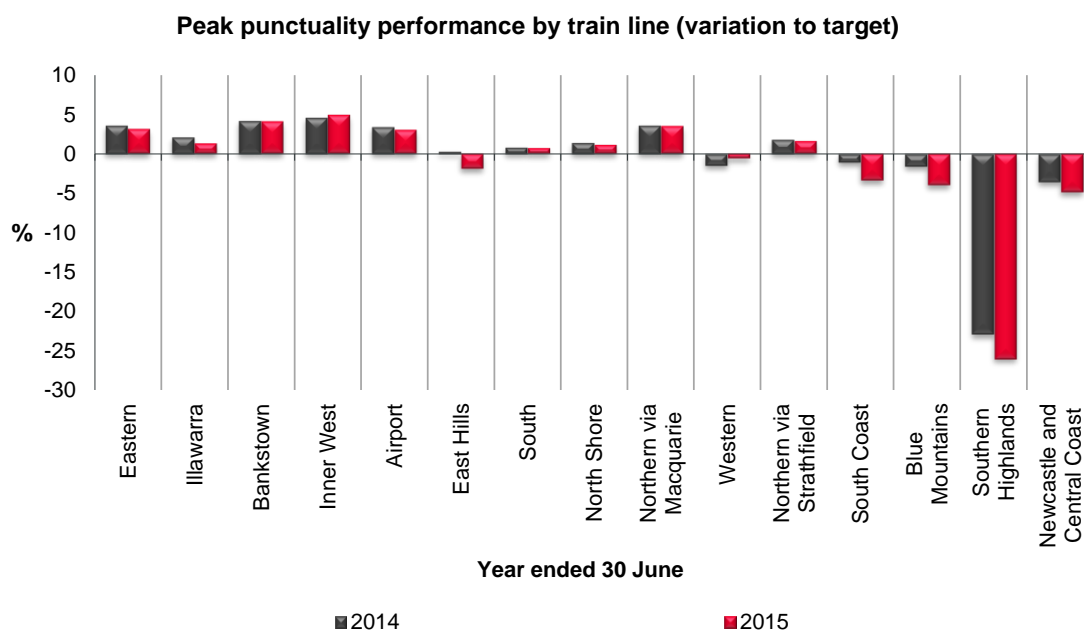
Thirteen of 15 train lines' peak punctuality performance fell in 2014-15. This performance is contrary to the State Priorities which aims to deliver better services.



Source: TfNSW (unaudited).



The graph below shows punctuality performance by rail line for the last two years for suburban and intercity services as a variation from the target of 92.0 per cent.



Source: TfNSW (unaudited).

Sydney Trains attribute lower punctuality partly due to extreme weather conditions experienced across the Sydney, Hunter and Illawarra regions in April 2015. There were more than 45 incidences of trees or other debris falling on the rail corridor, power outages, 17 flooding incidents and track repairs, which affected 500 peak train services.

The Southern Highlands line had the largest fall in punctuality of 3.1 per cent in 2014-15. The Eastern Suburbs, Illawarra, Bankstown, Airport, East Hills, South, North shore, Northern via Macquarie, Northern via Strathfield, South Coast, Blue Mountains, Southern Highlands and Newcastle and Central Coast lines' punctuality have all deteriorated since 2013-14. The Western line's performance improved from 90.5 per cent in 2013-14 to 91.4 per cent in-2014-15, but, it is still below the target of 92.0 per cent.

### Regional passenger services have not achieved on-time running targets for 12 years

Intercity and regional services were transferred to NSW Trains on 1 July 2013. Both services punctuality improved in 2014-15. Regional services recorded a 3.9 per cent improvement compared to 2013-14.

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

Year ended 30 June	Target	Actual	
	2015	2015	2014
Percentage punctuality	%	%	%
Sydney Trains Suburban	92.0	93.9	94.1
NSW Trains Intercity	92.0	87.4	89.3
NSW Trains Regional	78.0	77.4	73.5

Source: Sydney Trains and NSW Trains (unaudited).

## Buses

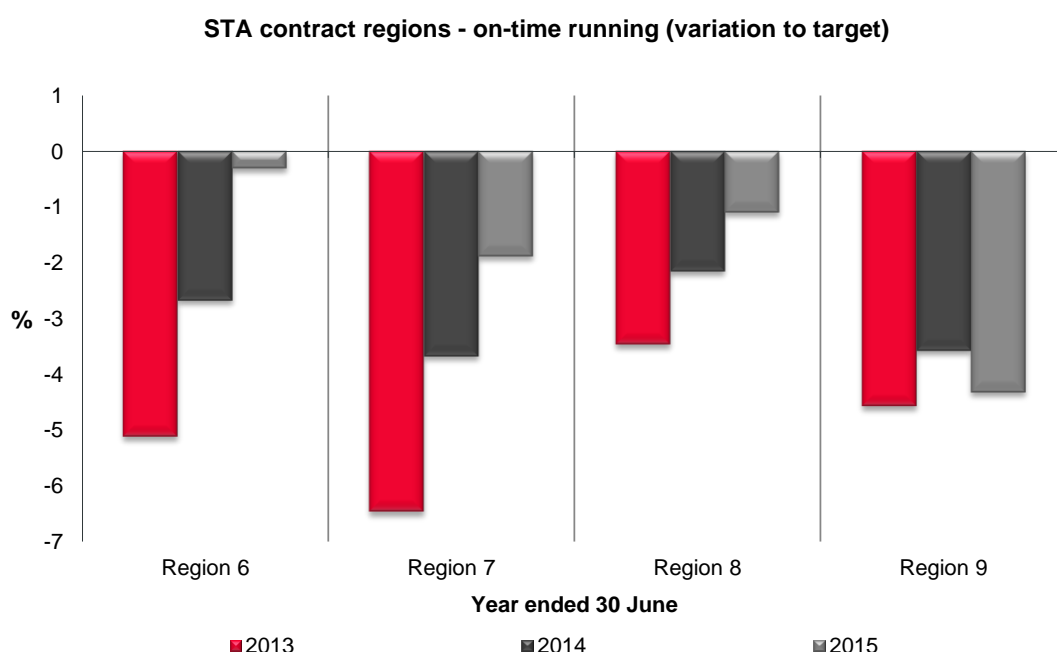
### STA is not meeting on-time running targets

#### Recommendation

**STA should continue working with TfNSW to improve on-time running performance in all its metropolitan bus contract regions to meet on-time running targets.**

STA has not met its on-time running target in any of its four metropolitan contract regions for the last three years. However, Regions 6, 7 and 8 recorded improvements in 2014-15. In 2014-15, Region 6 was only 0.3 per cent below the target and Region 7 was 1.9 per cent lower than the target.

The graph below shows STA's on-time running performance for its four metropolitan contract regions compared to the target of 95.0 per cent.



Note: Refer to Appendix Four for a description of the areas serviced by each bus region.  
Source: TfNSW (unaudited).

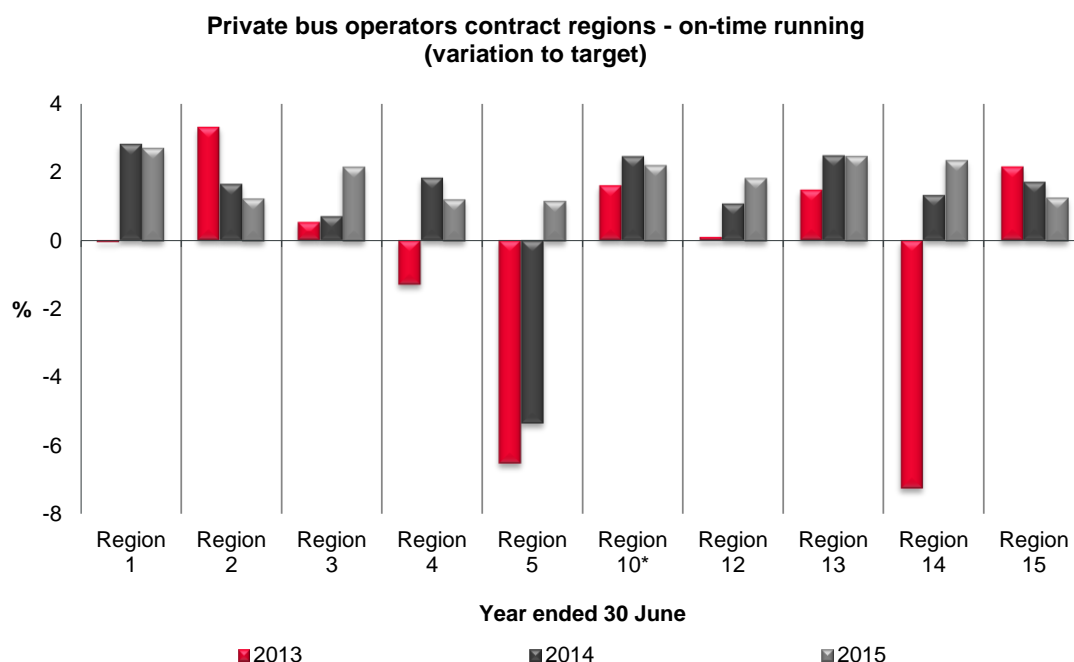
TfNSW is working with STA on projects to improve punctuality. A Strategic Governance Committee oversees the STA reform program to drive improvement.

In addition, an STA On Time Running Working Group has been established, comprising representatives from STA and TfNSW's contract management and planning areas, to identify the root causes and identify remediation action.

### Private bus operators on-time running is above targets

All metropolitan regions managed by private bus operators achieved on-time running targets in 2014-15. Contract region five, servicing Lakemba, Mortdale, Punchbowl, and Roselands had the biggest improvement in 2014-15, achieving an average on-time running performance of 96.2 per cent, compared to 89.7 per cent in 2013-14. Contract region one, servicing Blacktown, Penrith, Richmond and Windsor achieved the best on-time running result with an average of 97.7 per cent, slightly down from 97.8 per cent in 2013-14.

The graph below shows on-time running performance by private bus operators for the last three years for their metropolitan contract regions as a variation from the target.



\* Regions 10 and 11 were combined during 2012-13.

Source: TfNSW (unaudited).

TfNSW publishes average on-time running performance for metropolitan bus contract regions. These are based on observational surveys from six to ten a.m. on selected weekdays. On-time running performance data is not published for outer metropolitan bus contracts.

In 2013-14, TfNSW advised that on-time running measurement was being transitioned to a Public Transport Information and Priority based System (PTIPS) to measure performance across all services and time periods. To ensure consistency in the publically reported measure for all operators, TfNSW plans to release outer metropolitan on-time running results in conjunction with the results for metropolitan contract areas in future. PTIPS metropolitan on-time running results are not currently published.

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

## Ferries

### All ferries' on-time running is above target

On-time running performance for ferry services continues to be strong. All service areas have performed above the target of 98.5 per cent in the past three years.

The Manly service area achieved the best on-time running performance of 99.2 per cent in 2014-15, followed by the Inner Harbour service area's 99.1 per cent. Average on-time running performance for all service areas was 99.1 per cent in 2014-15, which is consistent with the past two years.

## Public Transport Capacity

### Rail

#### Rail crowding significantly below the global benchmark

Sydney Trains and NSW Trains passengers continue to experience significantly lower passenger density than the global benchmark of no more than four passengers per square metre. They achieved an average of one passenger in 2014-15 compared to 1.1 in 2013-14. This also compares well with Sydney Trains' internal target of 1.9 passengers per square metre.

Sydney Trains and NSW Trains benchmark passenger crowding against other global operators. The benchmark measures the number of passengers per square metre of standing space.

The average load during the morning peak has increased on nine (five in 2013-14) of twelve lines surveyed. The South and Western lines had the largest increase in average load from 121 per cent to 137 per cent. The Eastern Suburbs line experienced a decrease in average load from 71 per cent to 62 per cent.

In the afternoon peak survey period, the Northern line experienced the largest increase in average load from 105 per cent to 133 per cent. The number of services decreased from four to three on the Northern via Strathfield line due to the cancellation of one service.

### Buses

#### No target measures on crowding for buses

##### Recommendation

**TfNSW should develop target measures on crowding for its bus operators in all regions.**

Information on bus crowding and target measures will assist TfNSW plan and execute its transport strategies and assess bus operators' performances. TfNSW has no crowding target measures for bus regions.

Crowding information is not published for buses in any region, despite bus contracts requiring this information to be reported to TfNSW. This contrasts with ferry and train services where load surveys are conducted bi-annually and results are published on the Bureau of Transport Statistics website.

Crowding information (bus full on route) is self-reported monthly by all bus operators. The data is generally obtained by operators from various sources including manual reports from bus drivers, customer complaints and physical sightings. There are no measures to assess the accuracy of this self-reporting data. TfNSW advises this will be possible once full Opal functionality is available to its Contract Management team.

Over 9.5 million scheduled bus trips are provided annually under the contracts, with STA accounting for around five million trips. Trips include express, limited stops, regular, school and free shuttle services.

## Seven of the ten bus contract regions with private operators had full buses

TfNSW advises there were no capacity issues for regions one, two, five and 15. The heavily patronised T80 Parramatta to Liverpool T-way service continues to grow and operate at capacity in region three. Region four operates from Hills District to the City. Increases in passengers traveling from this area continue to result in more buses full on route. A service increase in regions ten, 12 and 13 contributed to a fall in buses full on route.

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.

## Patronage Growth

### Total passenger journeys on all public transport modes continues to rise

The continuing growth in patronage increases pressure on public transport crowding, on-time running and capacity.

The table below shows the movement in patronage journeys over the last five years by mode.

Year ended 30 June	Passenger Journeys #					Movement***
	2015	2014	2013	2012	2011	2014-15
Mode of public transport	m	m	m	m	m	%
Rail*	328	317	308	306	296	3.6
Buses**	227	224	220	219	214	1.2
Ferries	15	16	15	15	15	(7.4)
Light rail	6	4	4	4	3	57.7
<b>Total passenger journeys</b>	<b>576</b>	<b>561</b>	<b>547</b>	<b>544</b>	<b>528</b>	<b>2.7</b>

\* In September 2015 TfNSW changed the methodology for calculating patronage figures on trains for 2013-14 and 2014-15. 2013-14 figures increased slightly from 316 million to 317 million passenger journeys.

\*\* Passenger journeys for buses do not include children under the School Student Transport Scheme nor passengers on free shuttle bus routes. STA bus patronage for 2014-15 was estimated.

\*\*\* Percentage is based on actual passenger journeys, not rounded figures.

# Introduction of the Opal system enables individual Opal trips to be counted consistently across transport modes. This is in contrast to the legacy ticketing system, where different methodologies were used for each mode. Patronage data provided in this table is a combination of both old and new methodologies.

Source: TfNSW (unaudited).

Rail patronage for Sydney Trains suburban services and NSW Trains intercity services increased 3.5 per cent from 315 million in 2013-14 to 326 million in 2014-15. NSW Trains' Regional services patronage fell by 2.5 per cent compared to 2013-14. Patronage on regional services has been decreasing since 2011-12 when it peaked at 2.0 million passenger journeys. There were less than 1.8 million passenger journeys in 2014-15, the lowest patronage recorded in the last five years.

Light rail patronage increased from 3.9 million passengers in 2013-14 to 6.1 million in 2014-15. The increase was largely due to the opening of the Inner West Extension in March 2014.

Metropolitan bus patronage increased by 3.1 million passenger journeys from 209 million in 2013-14 to 212 million in 2014-15. Outer metropolitan bus patronage, however, decreased from 15.2 million in 2013-14 to 14.7 million in 2014-15.

## Customer Satisfaction

### Increased customer satisfaction for all modes of public transport

#### Recommendation

**TfNSW should set targets for the level of customer satisfaction it believes each transport mode should achieve.**

Between November 2012 and May 2015, overall customer satisfaction for public transport modes increased nine percentage points to 88 per cent for trains, nine percentage points to 88 per cent for buses and three percentage points to 97 per cent for ferries.

The highest dissatisfaction across all modes continues to be the availability of car parking facilities near train stations, with 30 per cent of respondents dissatisfied. This was closely followed by the availability of information about service delays on buses, with 26 per cent of respondents dissatisfied.

TfNSW includes a measure for the proportion of transport users partly satisfied to very satisfied with overall service. TfNSW has not set targets for the level of customer satisfaction it believes each mode of transport should achieve.

Set out below are the top three service attributes with the highest customer satisfaction and customer dissatisfaction from the May 2015 customer survey.

Mode	Service attributes with the highest satisfaction	Service attributes with the highest dissatisfaction
Train	Ease of getting on and off this train	Availability of car parking facilities near the train station
	This train turning up on time	Frequency of this train service
	Feeling safe while on this train	Ease of connection with other modes of transport
Bus	Feeling safe while on this bus	Availability of information about service delays
	This bus being driven safely	Frequency of this bus service
	Ease of getting on and off buses	Availability of car parking facilities near the bus stop
Ferry	This ferry being driven safely	Availability of car parking facilities near the ferry wharf
	Feeling safe while on this ferry	Frequency of this ferry service
	Ease of getting on and off the ferry	Availability of information about service delays

Source: Customer Satisfaction Index May 2015 (unaudited).

TfNSW is responsible for putting the customer at the centre of their decision making process to ensure their needs, preferences and opinions are reflected. TfNSW performs bi-annual customer satisfaction surveys across transport modes to identify which areas need improvement when making decisions.

## Ferry customers continue to be the most satisfied

During 2014-15, ferry customers continued to be the most satisfied, while taxi customers were the least satisfied. All modes of transport have achieved higher customer satisfaction since May 2014.

The results of customer satisfaction surveys are shown below.

	May 2015	November 2014	May 2014
Mode	Partially to very satisfied %	Partially to very satisfied %	Partially to very satisfied %
Rail	88	88	85
Light Rail	92	92	89
Bus	88	87	87
Ferry	97	97	96
Taxi	84	81	81

Source: TfNSW (unaudited).

## Complaints

### Fewer complaints about Sydney Trains and NSW Trains in 2014-15

Complaints received about Sydney Trains and NSW Trains dropped 23.1 per cent to 31,805 during 2014-15. Sydney Trains customer satisfaction improved from 79 per cent to 88 per cent in two and a half years. The October 2013 timetable change in the Sydney Trains network contributed to the large number of complaints in 2013-14. Most complaints received by Sydney Trains in 2014-15 related to service issues, but that number fell by approximately 1,000 compared to 2013-14. 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 in the table below.

Year ended 30 June	2015	2014	2015	2014
Mode	Number of complaints	Number of complaints	Complaints per 100,000 passengers	Complaints per 100,000 passengers
Rail	32,291	41,849	9.8	13.2
Light rail	640	498	10.4	12.8
Bus	59,710	55,936	23.2	25.0
Ferry	334	338	2.3	2.1

\* Bus passengers include School Student Transport Scheme and free shuttle boarding from January 2015.

Source: TfNSW (unaudited).

Complaints from ferry passengers in 2014-15 are consistent with 2013-14, and represent the lowest percentage of complaints for all modes compared to total passenger numbers.

While complaints relating to light rail increased 28.5 per cent to 640, this represents a fall in complaints per 100,000 passengers. More passengers are travelling on the light rail network since the Inner West Extension opened in March 2014.

Although relating to buses increased 6.7 per cent to 59,710, this represents a decrease in complaints per 100,000 passengers. The complaints and patronage for School Student Transport Scheme and Free Shuttle Boarding was not included in 2013-14.

## Project Management

### Five major transport projects original budgets were significantly revised

The 2014-15 capital budget for the Transport Cluster was \$7.3 billion. The budget included \$2.8 billion for major road projects and \$2.4 billion for major rail projects.

Transport projects are subject to change as the NSW Government's priorities are reviewed and updated. Variations between original and latest revised budgets primarily relate to changes in project scopes.

Significant revisions to the original budgets for major transport projects are summarised below.

Significant Budget Revision			
Projects	Original budget \$	Revised budget \$	Reasons
WestConnex	11.5 billion	15.4 billion	The government approved an increase in the budget to \$15.4 billion in May 2015. The increase was primarily associated with acceleration costs for stage two and additional network integration costs
Intercity Fleet Program	2.8 billion	3.9 billion	The revised budget approved by the expenditure review committee includes potential foreign exchange fluctuations, a new maintenance facility and related infrastructure costs
South West Rail Link	2.1 billion	1.8 billion	The reduction in the budget is due to expected program savings
CBD and South East Light Rail	1.6 billion	2.1 billion	Increased cost estimates are due to a 50 per cent increase in passenger capacity and a reduction in construction time
Opal Card System	500 million (capital portion)	563 million (capital portion)	Increased cost estimates are due to new initiatives and changes in scope to extend the Opal system to cover the existing Light Rail and Inner West Extension, enhanced payment options on the Opal website and additional hardware for buses

Source: TfNSW (unaudited).

### Wynyard Walk is forecast to be delivered six months late

All major transport projects with total costs exceeding \$100 million were forecast to be delivered within the original completion date, except for the Wynyard Walk. The Walk is forecast to be delivered six months late due to delays in construction.



Original and latest revised project costs for a selection of the major transport projects are shown below.

Projects	Forecast completion year	Original project costs	Latest revised project costs	Total spend to 30 June 2015
		\$m	\$m	\$m
WestConnex	2023	11,500	15,400	475
Sydney Metro Northwest (previously known as North West Rail Link)	2019	8,300	8,300	2,100
Road infrastructure upgrades in the Western Sydney Infrastructure Plan	Various	3,500	3,600	103
Intercity Fleet Program	2024	2,800	3,900	10
South West Rail Link	2016	2,100	1,800	1,700
CBD and South East Light Rail	2019	1,600	2,100	309
Northern Sydney Freight Corridor Program	2016	1,100	1,000	775
Opal card system	2015	510	563	453

Source: TfNSW (unaudited).

The WestConnex motorway scheme was initially budgeted to cost \$11.5 billion, although an increase to \$15.4 billion was approved by the Government in May 2015. Expenditure in 2014-15 totalled \$405 million. This project will be delivered in three stages as shown below.

WestConnex	
Stages	Description
Stage 1	M4 Widening and M4 East will widen the M4 Motorway to four lanes in each direction from Church Street, Parramatta to Homebush Bay Drive, Homebush.
	The M4 Motorway will be extended with twin tunnels, three lanes in each direction, from Homebush to Parramatta Road and the City West Link at Haberfield.
Stage 2	New M5 twin tunnels will run underground from Kingsgrove to St Peters and more than double the capacity of the M5 East corridor.
	The New M5 connects to an upgraded King Georges Road Interchange and the St Peters Interchange.
Stage 3	M4-M5 Link will join the M4 and M5 from Haberfield to St Peters with two new tunnels, three lanes in each direction, and connect to Victoria Road and the ANZAC bridge, and the future Western Harbour Tunnel.

Source: [http://www.westconnex.com.au/explore\\_the\\_route/index.html](http://www.westconnex.com.au/explore_the_route/index.html) (unaudited).

This project is expected to be completed on schedule in mid-2023.

## Sydney Metro Northwest

Sydney Metro Northwest is Australia's largest public transport infrastructure project. It will be the first fully-automated metro rail system in Australia. The project includes construction of twin 15 km tunnels from Bella Vista to Epping. The Sydney Metro Northwest should be open to passengers by the end of 2019.

The project is expected to complete within the original budget of \$8.3 billion. In 2014-15, only \$754 million was spent from an allocation of \$863 million, mainly due to contingency reserves not being used during the year.

## CBD and South East Light Rail

### Revised budget of \$2.1 billion

TfNSW prepared a Contract Summary for the project and provided it to the Audit Office 48 days after the due date specified in the NSW Public Private Partnerships Guidelines. At the date of this report the Contract Summary has not been tabled in Parliament.

The CBD and South East Light Rail will run from Circular Quay through George Street to Central Station, the University of New South Wales via Anzac Parade, Alison Road and High Street. The project was initially expected to cost \$1.6 billion with a scheduled completion date in 2019. The estimated cost has been revised to \$2.1 billion due to a preferred bidder's proposal, which includes significant improvements. These include increased capacity to reduce crowding and cater for future demand, an earlier construction date along George St and reduced community impacts during construction.

Expenditure in 2014-15 totalled \$174 million from an allocation of \$265 million. Management advises a portion of the allocation had been used for costs incurred in the previous year. The underspend is due to the deferment of contingency costs, a reduction in the Early Work scope, increased productivity and delays in property acquisitions.

## Fleet Ageing and Reliability

### Rail

#### Increased monthly rail fleet incidents are affecting peak services

Increases in average monthly incidents impact on rail services running on-time. Average monthly rail fleet incidents affecting peak services increased from 34.9 in 2013-14 to 61.2 in 2014-15, an increase of 75.4 per cent. However, the average number of delays in peak periods caused by electric fleet failures fell by 28.8 per cent to 184.4 in the same period.

The table below analyses all reported rail fleet faults for each train type monitored on a 24 hour basis.

Car type	Number of Carriages	Average Age	Average monthly carriage reported faults		
	2015		Actual	Rate 2015*	Rate 2014*
Car type		Years	Faults	%	%
R, S, L, K, C Sets	408	33	36	9	9
V Sets	204	30	37	18	19
Tangara - T Sets	444	23	42	9	10
Millennium - M Sets	141	12	17	12	11
OSCAR - H Sets	220	6	19	9	8
Waratahs	624	2	23	4	6
<b>Total electric fleet</b>	<b>2,041</b>	<b>18</b>	<b>174</b>	<b>9</b>	<b>9</b>

Note: Reported faults data includes incidents of graffiti and vandalism in gross numbers.

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

Source: Sydney Trains (unaudited).

The reported number of average monthly faults in 2014 has been revised down from 202 to 191. Sydney Trains advises that after further investigation, some instances previously reported as the fault of the trains were actually faults in other areas, such as infrastructure.

The rate of rail fleet faults remained consistent between 2013-14 and 2014-15. Faults in the total electric fleet fell nine per cent mainly due to a decrease in V Sets faults. In 2014-15, the total number of train carriages increased by four carriages for the Waratah trains.

## Buses

### All bus operators had bus fleet average age under 12 years

The Sydney Metropolitan Bus Service Contract states that no operator must have a bus fleet that exceeds an average age of 12 years. Average ages of buses greater than 12 years increases the risk of bus fleet failures and accidents. TfNSW advised that all bus operators comply with their contract.

The total mechanical failures per 100,000 kilometres increased from 70.6 in 2012-13 to 80.5 in 2013-14. In 2014-15, the definition of mechanical failures changed with the introduction of the Sydney Metropolitan Bus Service Contract, and operators were only required to report 'major' and 'major – grounded' defects, rather than total mechanical failures. There were nine reports of major defects, which include fuel leaks, engine oil leaks, braking systems not working to standard, seat belt retractor not working and brake lights not working. There are no reports of 'major – grounded' defects.

Total bus numbers increased by 17 in 2014-15 to 3,884 and the average age of buses increased from 9.4 to 9.5 years.

## Ferries

### The number of breakdowns fell in 2014-15

The average age of vessels at 30 June 2015 was 25.5 years, with 78.6 per cent of vessels over 20 years old. However, the number of breakdowns fell by 12.0 per cent in 2014-15.

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

Year ended 30 June	2015	2014
	Number	Number
Engine hours	99,611	99,815
Breakdowns	285	324
Mechanical failures per 1,000 engine hours	90	103

Source: TfNSW (unaudited).

While engine hours remained relatively constant in 2014-15, break downs dropped 12 per cent to 285.

## Safety Performance

### Rail passenger injuries continued to increase

Rail passenger injuries increased 18.8 per cent to 1,282 in 2014-15.

Bus passenger injuries improved 16.3 per cent from 700 in 2013-14 to 586 in 2014-15.

Ferry passenger injuries were relatively stable compared to 2013-14, with six passenger injuries reported in 2014-15.

During the year, passenger injuries increased on rail transport, while buses and ferries recorded a decrease in passenger injuries. 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 these are primarily outside the operators' control.

The number of passenger injuries by mode of transport over the last five years is shown in the graph below.



Source: TfNSW (unaudited).

Rail data includes on-train incidents involving passengers who may or may not have been injured. For example, a passenger caught-in-doors incident is considered significant, but may not have resulted in an injury. Rail's reporting regime for passenger on-train incidents does not differentiate incidents which caused an injury from those which did not.

While Sydney Trains' reported injuries fell in 2014-15, the overall increase in rail passenger injuries came mainly from NSW Trains. NSW Trains advises that data collection improved over the last year and the increase is indicative of better reporting rather than an increase in passenger injuries.

The *Rail Safety National Law Act 2012* requires that rail transport operators submit occurrence notifications on rail safety incidents to the Office of the National Rail Safety Regulator, which commenced operations on 20 January 2013.

Independent Transport Safety Regulator conducts compliance inspections and investigations in its role as the NSW office of the Office of the National Rail Safety Regulator. It has the capacity to provide independent safety advice to the NSW Government, and prepares an annual rail industry safety performance report, which is available on its website.

Its service measures over the last three years are summarised below.

Year ended 30 June	2015	2014	2013
Service measure	Actual	Actual	Actual
Compliance activities completed	188	149	168
Statutory notices issued	100	140	78

Source: Independent Transport Safety Regulator (unaudited).

Compliance activities completed increased by 26.2 per cent in 2014-15. This reflects a higher rate of inspections with a continued focus on risk-based regulation. Independent Transport Safety Regulator has a targeted inspection program with rail operators on rail safety issues and has consolidated its activities within a national operations work plan. In 2014-15, statutory notices issued fell by 28.6 per cent.

Office of Transport Safety Investigations investigates safety incidents involving bus, ferry and rail transport to identify reasons why incidents occurred and provides recommendations. A summary of its service measures is shown below.

Year ended 30 June	2015	2014	2013
Service Measure			
Notifiable incidents reported	640	618	1,808
Notifiable rail incidents reported to ATSB	110	96	39
Incident investigations conducted	13	16	16
Confidential safety information and reporting scheme investigations conducted	10	12	18

Source: Office of Transport Safety Investigations (unaudited).

Since January 2013, notifications of rail incidents are reported to the Australian Transport Safety Bureau (ATSB). Notifiable incidents increased in 2014-15 due to external agencies recording more accidents and safety incidents. Office of Transport Safety Investigations investigates 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

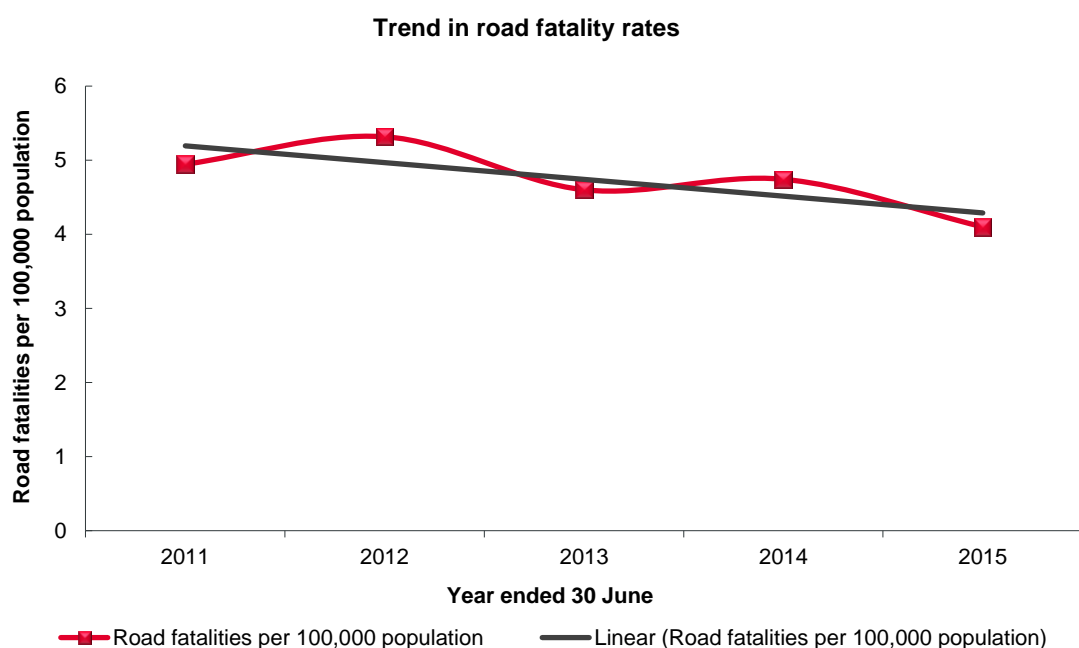
### A downward trend in road fatalities continues

Road fatalities have continued to fall and consequently the fatality rate per head of population is now, for the first time, below the 2016 target in the former NSW 2021 Plan.

The Government's Road Safety Strategy 2012-21 includes a primary road safety target of reducing fatalities to 4.1 per 100,000 of population by 2016. For the year ended 30 June 2015, the rate was 4.2 fatalities per 100,000, slightly lower than the target for the first time.

TfNSW is the lead agency for road safety in New South Wales and works with other agencies including the NSW Police Force, Education Sector, Justice and RMS to improve road safety.

The NSW Centre for Road Safety within TfNSW reported 314 fatalities in 2014-15 (provisional figure at 1 July 2015), compared to 337 in 2013-14 (final figure).



Source: NSW Centre for Road Safety (unaudited).

Contributions from Centre for Road Safety and its delivery partners including RMS, Education Sector, Justice and NSW Police Force to improve road safety in 2014-15 included:

- ongoing delivery of the NSW Road Safety Strategy 2012-2021 and sub-strategies and action plans including Aboriginal, speed cameras, motorcycles, pedestrians and cyclists
- launching a major motorcycle risk management campaign 'Ride to Live' supporting the delivery of the NSW Motorcycle Safety Strategy
- delivering safety upgrades under the State Government and the Australian Government Black Spot programs
- flashing lights being installed at 1,133 school zones, covering 1,161 out of nearly 1,700 schools in the State at 30 June 2015
- delivery of an Aboriginal Driver Licensing Access Program in 16 NSW communities
- partnering with Aboriginal Community Controlled Health Service groups in regional and remote New South Wales to deliver 17 workshops, supplying 846 child safety restraints for vehicles.

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

Year ended 30 June	2015	2014	2013	2012	2011
	Actual	Actual	Actual	Actual	Actual
Road fatalities per 100,000 population	4.1	4.5	4.6	5.3	4.9
<b>Total fatalities*</b>	<b>314</b>	<b>337</b>	<b>341</b>	<b>386</b>	<b>355</b>
<b>Total injuries**</b>	<b>--</b>	<b>21,784</b>	<b>21,796</b>	<b>25,199</b>	<b>25,932</b>

\* TfNSW advises that 2014-15 fatality data are provisional figures and subject to change.

\*\* Injuries data for 2014-15 are preliminary and incomplete for reporting.

Source: NSW Centre for Road Safety (unaudited).

# Managing Road Congestion

## RMS initiated measures to address road congestion in 2014-15

RMS has implemented measures to reduce congestion across the Sydney roads network. The initiatives aim to improve fuel consumption, reduce vehicle emissions, improve air quality and reduce motoring costs. Some major initiatives to manage congestion and improve travel times are listed below.

Initiative	Description	Funding	Duration	Expected Completion
		\$m		
WestConnex	WestConnex is primarily aimed at reducing traffic congestion on the Sydney road network.			
	The WestConnex project involves 33 kilometres of upgraded and new motorways. Stages 1a and 1b include widening of the M4 between Church Street Parramatta to Homebush and subsequently a tunnel to City West link. Later stages include duplication of the M5 East Tunnel and a potential tunnel between the M4 and the M5.	15,400	8 years	Construction commenced in March 2015, with completion of all stages expected in 2023
	Project funding from NSW and Commonwealth governments amounts to \$4.2 billion. With an additional loan of \$2.0 billion loan provided by the Commonwealth. The balance of the funding for the scheme will come from private sector.			
Sydney Road Congestion Capital Program	A major capital works plan is being developed for a significant number of projects aimed at alleviating congestion in Sydney.	3,000	10 years	June 2025
NorthConnex	NorthConnex is a 9 kilometre road tunnel linking the M1 and M2.			
	The \$3.0 billion project has funding of \$992 million from the NSW and Commonwealth Governments. The balance is provided by the private sector.	3,000	5 years	June 2019
Managed Motorways (Smart Motorways)	The planning and construction phase of a program, jointly funded by the NSW and Commonwealth Governments to improve the efficiency of Motorways, commencing with the M4 Motorway.	395	5 years	June 2021
Gateway to the South	Measures to relieve traffic congestion and improve network efficiency that target peak hour traffic hotspots on the A1, A2 and A6 corridors.	300	10 years	June 2025
Easing Sydney's Congestion (Pinch Points)	The RMS Pinch Point Program was established to relieve traffic congestion and improve network efficiency by targeting such peak hour traffic hotspots.			
	Pinch points are defined as traffic congestion points, intersections or short lengths of roads at which a traffic bottleneck exists. Pinch points can cause a build-up of traffic and travel delays on the wider Sydney roads network, increasing travel time and reducing reliability.	246	5 years	June 2017
	Funding of the Pinch Point program includes \$121 million from Restart NSW.			
SCATS Technology Upgrade	Funding to plan and develop an upgrade of the SCATS (Sydney Coordinated Adaptive Traffic System) technology system to optimise traffic flow through signaled intersections. RMS uses SCATS S to monitor and control traffic signals in NSW.	100	5 years	June 2020
Local Roads Congestion and Safety Program	A package of works aimed at addressing pinch points and congestion bottlenecks on the local road network.	100	4 years	June 2019
Journey Reliability (Traffic Efficiency and Network Improvements)	Programs and projects aimed at improving traffic efficiency and traffic flow, including installation of overtaking lanes, flood mitigation and sealing of gravel roads.	50	Ongoing	Annually
Active Transport Initiatives	Programs and projects aimed at encouraging the use of cycling and walking infrastructure to ease road congestion.	42	Ongoing	Annually

Source: RMS (unaudited).

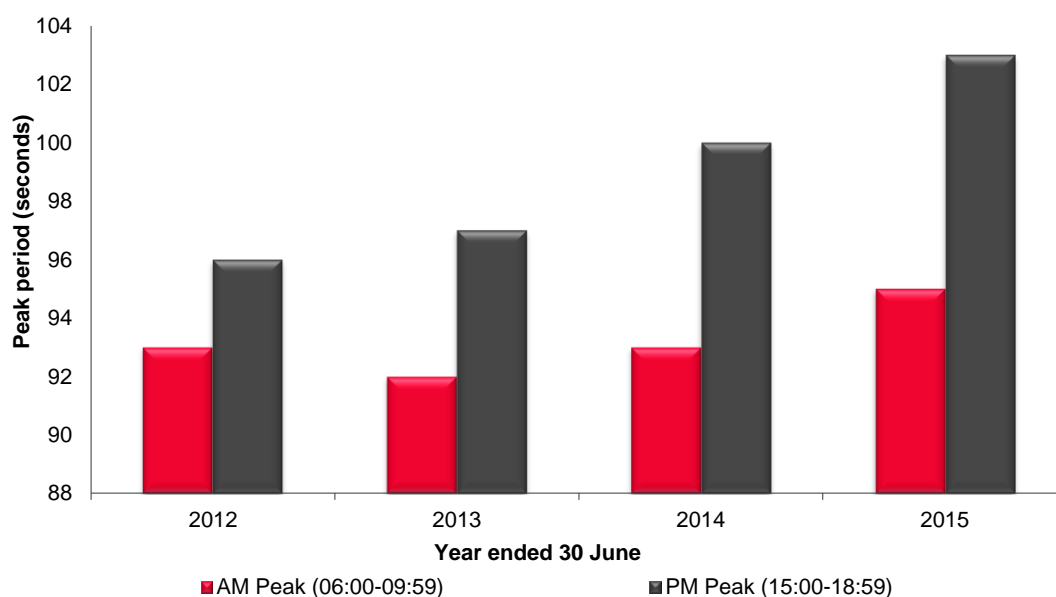
The Sydney roads network is an integral part of the city's transport network. It comprises the main connecting roads that transverse the city and link to interstate and national highways, tolled and un-tolled motorways and local roads. The NSW Government views easing congestion on the Sydney roads network as critical in supporting current and future economic growth in New South Wales.

## Average Travel Speeds

### Average travel speeds fell on the Sydney roads network

Average travel speeds on Sydney roads fell for the morning and afternoon peaks from 39.0 to 37.9 kilometres per hour and from 36.0 to 35.2 kilometres per hour, respectively.

**Average Travel Time to Travel One Kilometre on Sydney Roads**



Source: RMS (unaudited).

Average travel times and speeds measure the performance of the roads network by estimating how long it takes (on average) for a vehicle to travel one kilometre on the network during the morning (AM) and afternoon (PM) peak periods in peak direction.

The estimated time to travel one kilometre on Sydney roads increased for the morning and afternoon peaks from 93 to 95 seconds and from 100 to 103 seconds respectively.

RMS is responsible for improving efficiency, measured by travel speeds, on Sydney's major roads during peak times. The graph above indicates travel times and speeds continue to show broadly consistent downward trends for the afternoon peaks over the last four years. Projects, such as Westconnex and Northconnex, have commenced and should improve this trend in future years.

### The number of registered vehicles continues to increase

RMS advises registered vehicles on the roads increased from 6.0 million to 6.1 million in 2014-15, continuing an increasing trend over the past five years.

RMS has implemented long term measures, including the NorthConnex and WestConnex projects, to enhance the efficiency and effectiveness of road infrastructure and systems.



## Pavement Rebuilding Targets

**RMS met its short term pavement rebuilding target, but not the long term target**

### Recommendation

**TfNSW, in consultation with RMS, should develop an appropriate funding model to ensure pavement rebuilding targets are met.**

RMS has established target indicators for rebuilding the State's road network. The indicators consist of contributions from both the major infrastructure program and the asset maintenance program.

RMS achieved its own short-term pavement rebuilding target of 1.7 per cent, but did not meet the long term target of two per cent under the former NSW 2021 Plan.

The percentage of pavement rebuilding represents the road surface area repaired for structural damages compared to the total area of road surfaces.

The long-term rebuilding target is based on: a comparison with current age profile; a comparison with recent pavement rebuilding rates; and an analysis of strength data to estimate structural remaining life.

A two per cent long-term target produces, on average, pavements that reach an end of service life after 50 years.

Statistics on pavement rebuilding over the past five years are shown below.

Year ended 30 June	2015	2015	2014	2013	2012	2011
	Target	Actual	Actual	Actual	Actual	Actual
Pavement rebuilding rate (%)*	1.7	1.7	1.9	1.1	1.6	1.5
Per cent achievement of two per cent long-term rate (%)**	82.5	87.0	96.0	55.0	80.0	75.5

\* Short-term target set by RMS.

\*\* Two per cent long-term target set under the former NSW 2021 Plan.

Source: RMS (unaudited).

The demand for pavement renewal funding will continue to increase primarily due to the effects of an aging network and increased freight loading. RMS advises that a return to wet weather patterns would result in significant weakening of old and thin pavements triggering sudden pavement failure and precipitate unplanned rebuilding.

RMS advises that its ability to effectively maintain service levels and sustain road infrastructure is impacted by:

- an expanding asset base and the adequacy of funding for recurrent maintenance and new works or replacements
- an ageing infrastructure (over 40 per cent of pavement network is over 30 years old)
- increased traffic and axle loadings
- increasing costs of maintenance
- increasing environmental constraints and amenity requirements.

## Ride Quality and Pavement Durability

### RMS achieved 'Good Ride Quality' target one year ahead of forecast

The former NSW 2021 Plan included a 'Good Ride Quality' target of 93 per cent by 2016. Ride quality measures the 'roughness' of travel over road surfaces (including national highways) and is used as a primary indicator of road condition. The target was achieved in 2014-15, a year ahead of forecast.

The table below shows the impact of wet weather on road smoothness for all roads between 2011 and early 2013 when road smoothness deteriorated. A return to drier weather has seen the indicators for all roads improve over the past two years. The road smoothness of urban roads deteriorated slightly in 2014-15 while that of rural roads improved significantly.

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

Year ended 30 June	2015	2015	2014	2013	2012	2011
	Target *	Actual	Actual	Actual	Actual	Actual
	%	%	%	%	%	%
<b>Ride quality**</b>						
Good - urban	92.8	92.2	92.6	89.9	89.6	90.0
Good - rural	93.8	94.2	93.7	93.6	93.5	93.2
Good - overall	93.1	93.0	92.9	91.3	91.1	91.2
<b>Pavement durability***</b>						
Good	na	na	78.3	78.2	78.1	78.1

\* Targets are set by RMS.

\*\* Ride quality measures the longitudinal profile and undulations of the road surface using vehicle mounted laser technology. Smoother roads provide a more comfortable ride, reduce the damage to roads by heavy vehicles, cause less damage to vehicles, save fuel, are safer and reduce accidents.

\*\*\* 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.

na Not available.

Source: RMS (unaudited).

RMS advises it will no longer report pavement durability in the same way because different technology has been used to measure pavement durability (road cracking). RMS is reviewing its KPI framework. It is likely to propose a 'pavement health index' that will better measure pavement quality by including a broader set of pavement distresses (e.g. roughness, cracking, rutting, etc.) and a customer level of service framework.

## Container Freight Movements by Rail

### For five consecutive years the proportion of freight moved by rail has remained stable

A target of the former NSW 2021 Plan was to enhance rail freight movements by doubling the proportion of container freight movement by rail through NSW ports by 2020. This target translates to 28 per cent or 800,000 twenty foot equivalent container units (TEUs) moved to and from NSW ports by rail in 2020, based on projected throughput.

For five consecutive years the proportion of freight moved by rail has remained stable at around 14.0 per cent compared to the former target of 28.0 per cent.

Last year TfNSW advised it was unlikely the target would be achieved without significant Government intervention.

TEUs moved by rail continued its increasing trend from 250,000 TEUs in 2010-11 to 290,000 TEUs in 2014-15. However, the rate of increase was lower than the overall growth in total container movement.

## Contract Management and Procurement Reform

### Transport agencies performed a self-assessment on contract management

Volume One of the 2015 Auditor-General's Report to Parliament recommended agencies self-assess their contract management against the Audit Office's Better Practice Contract Management Framework and implement a plan to address weaknesses.

#### Transport entities

TfNSW management advised that TfNSW, RMS, Sydney Trains, NSW Trains and STA have all obtained procurement accreditation from the NSW Procurement Board. Sydney Trains and TfNSW achieved the highest possible rating of 3A. TfNSW has mandated contract performance plans and issued contract management guidance.

Sydney Trains continues to track its progress against its strategy, 'Strategic Directions', and has implemented significant initiatives, including standardised reporting of contract performance for all top-tier contracts, increased use of purchasing cards in line with Treasury directives, and continuing to further develop capability of procurement professionals.

RMS' internal audit coverage included a review of professional service contract management and contract management for selected construction projects during 2014-15. RMS management advises it will fully review and reissue policies with the implementation of an automated procurement system, scheduled to go live in July 2016.

NSW Trains has reviewed existing policies and procedures and developed a strategic plan to address contract implementation and management.

STA has self-reviewed its performance against key elements in the Framework and identified opportunities for improvement. Limited system tools are available to assist and monitor contract management. Management advises that implementation of the new TfNSW Enterprise Resource Planning system will address this weakness.

The Independent Transport Safety Regulator obtained an independent assessment of its procurement processes and contract management. Although no issues relating directly to contract management were identified, the assessment noted policies and procedures had not been updated to reflect current procurement processes.

RailCorp and Sydney Trains have planned for self-assessments to be conducted in 2015-16.

#### Port Authority

The Port Authority performed a self-assessment in August 2015 and identified gaps in its framework. It aims to reconcile and formalise contract registers across ports by the end of 2015 and establish a contract management plan for each contract.

## Shared Services

### Performance elements are not used to price services

#### Recommendation

**Performance elements should be incorporated into the pricing of shared services.**

Transport Shared Services pricing is based on, an agreed subscription, pending implementation of a common system and processes, which is subject to an annual review in June each year to account for changes in demand. There is no clear indication that performance elements are incorporated in the pricing. Shared service agreements detail the expected working relationships and key performance principles, the scope of services to be provided, pricing structure and reporting.

During 2014, service level agreements were renewed between Transport Shared Services and the transport entities for the period 1 July 2014 to 30 June 2017. The scope of services provided includes finance, human resources, asset management and workplace services, and procurement. Transport Shared Services, which is a branch within the People and Corporate Services Division of TfNSW, provides shared services to entities with the Transport Cluster, as required by the *Transport Administration Act 1988*.

### Performance and pricing

Performance is monitored and reported against 16 Key Performance Indicators (KPIs). The results for 2014-15 are summarised below.

KPI results of transport shared services			
Service areas	Number of KPIs	KPIs met for all entities	KPIs met for some entities
Procurement services	7	5	2
Human resource service delivery	4	3	1
Asset management and workplace services	--	1	--
Financial services	4	2	2

Source: TfNSW (unaudited).

The on-time payment of invoices KPI was not met for half of the entities serviced by Transport Shared Services and the general ledger reconciliation target was met for only two of seven entities. KPIs for human resources service delivery were met except for one failure affected by a new system implementation.

KPIs and performance reports are presented for review at monthly and quarterly client engagement meetings. Biannual Customer Council meetings are held in November and May to provide high level cross-client oversight of the services provided.

# Section Two

Appendices



# Appendix One – Recommendations

The table below summarises the recommendations from the Auditor-General's Volume Six Report to Parliament covering transport for the year ended 30 June 2015.

## Financial and performance reporting

### Asset revaluations

Asset revaluation outcomes should be processed into the fixed asset register before the early close deadline.

## Financial controls

### Procurement

RMS should review its procurement processes and align with others in the cluster.

Transport agencies should address the issues preventing invoices being paid on time.

### Internal control issues

Transport Cluster agencies should focus on addressing repeat issues as soon as possible, in particular those related to user access management over financial systems.

### Replacement of legacy systems

Appropriate strategies should be implemented to address risks associated with legacy systems during the transition to new systems.

### Excessive annual leave

The effectiveness of policies and management practices to reduce annual leave balances should be reconsidered to ensure compliance with targets set by the Premier.

### Engagement of contractors

Management should consider the cost benefits of using contractors instead of permanent staff for ongoing roles.

## Governance

### Conflict of interest

Potential conflict of interest need to be effectively managed and monitored. For example, signalling protocols should be independently tested and results published and sent to all rail operators.

### Governance processes

Transport Cluster agencies should respond appropriately to the gaps identified through the governance self-assessments.

### Risk management

The Transport Cluster Strategy Committee should ensure its risk assessment activities adequately mitigate risks at the Transport Cluster level.

### Compliance management

Each transport agency should implement effective compliance management practices.

## Service delivery

### Opal card capacity

TfNSW should require the Opal service provider to independently confirm the effectiveness of its internal control processes.

Management should ensure the Opal system directly provides revenue information to meet the needs of all stakeholders.

### Bus on-time running capacity

STA should continue working with TfNSW to improve on-time running performance in all its metropolitan bus contract regions to meet on-time running targets.

### Bus crowding

TfNSW should develop target measures on crowding for its bus operators in all regions.

### Customer satisfaction

TfNSW should set targets for the level of customer satisfaction it believes each transport mode should achieve.

### Pavement rebuilding targets

TfNSW, in consultation with RMS, should develop an appropriate funding model to ensure pavement rebuilding targets are met.

### Pricing of share services

Performance elements should be incorporated into the pricing of shared services.

## Appendix Two – Financial Information

	Total assets		Total liabilities		Total revenue*		Total expense**		Net result	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Cluster lead entity</b>										
Department	1	18	1	18	2	12	2	12	--	--
TfNSW	5,909	5,318	2,402	2,444	12,004	11,417	11,540	11,159	464	258
<b>Transport service providers</b>										
RailCorp	29,376	27,377	2,564	1,597	2,440	2,764	1,209	1,296	1,231	1,468
Sydney Trains	4,445	3,899	3,223	3,365	3,157	3,053	3,371	3,224	(214)	(171)
NSW Trains	325	61	241	245	685	676	787	744	(102)	(68)
RMS	79,882	74,244	3,755	3,708	6,110	5,443	3,941	4,447	2,169	996
STA	903	922	607	654	661	673	641	640	20	33
<b>Port corporations</b>										
Newcastle Port Corporation ( <i>trading as Ports Authority of NSW</i> )	562	86	153	32	133	595	131	96	2	499
Port Kembla Port Corporation	--	28	--	8	--	53	--	52	--	1
Sydney Ports Corporation	--	438	--	118	--	111	--	112	--	(1)
<b>Other agencies</b>										
OTSI	--	--	--	--	2	2	2	2	--	--
ITSR	10	7	2	2	17	17	13	15	4	2
MTS Holding Company Pty Ltd	N/A	--	N/A	--	N/A	15	N/A	15	N/A	--
Sydney Ferries	140	143	6	8	14	12	16	22	(2)	(10)
TCS	--	12	--	12	78	89	78	89	--	--
Transport Service	1,853	1,820	1,853	1,820	1,803	1,100	1,796	1,003	7	97
WestConnex Delivery Authority	301	--	144	--	261	40	105	40	156	--
Trainworks Limited	--	--	--	--	--	2	--	2	--	--

\* Total revenue includes other gain, gain on disposal, capital contribution which were shown separately on financial statements.

\*\* Total expense includes other loss, loss on disposal, income tax expense which were shown separately on financial statements.

Source: Financial statements (audited).



## Appendix Three – Performance Against Budget

	TfNSW <sup>(a)</sup>		RMS		RailCorp <sup>(b)</sup>	
	2015 actual	2015 budget	2015 actual	2015 budget	2015 actual	2015 budget
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Abridged statement of comprehensive income - year ended 30 June 2015</b>						
Total expenses	● 12,803	12,972	● 3,941	3,831	● 1,209	1,197
Total revenue	● 13,274	13,280	● 6,110	6,053	● 2,440	2,674
Net result	● 471	308	● 2,169	2,222	● 1,231	1,477
Total other comprehensive income/(expense)*	–	–	–	–	1,046	–
Total comprehensive income/(expense)	● 471	308	● 2,169	2,222	● 2,277	1,477
<b>Abridged statement of financial position - at 30 June 2015</b>						
Total assets	● 7,692	7,006	● 79,882	78,122	29,376	c
Total liabilities	● 4,185	3,786	● 3,754	3,125	2,564	c
Net assets	● 3,507	3,220	● 76,128	74,997	26,814	c
<b>Abridged statement of cash flows - year ended 30 June 2015</b>						
Purchases of property, plant and equipment	● 2,917	2,627	● 3,300	3,646	472	c

●	100	98	Variance below 2 per cent of budget
●	190	200	Variance between 2 and 5 per cent of budget
●	180	220	Variance greater than 5 per cent of budget

	Sydney Trains <sup>(b)</sup>		NSW Trains <sup>(b)</sup>		STA <sup>(b)</sup>	
	2015 actual	2015 budget	2015 actual	2015 budget	2015 actual	2015 budget
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Abridged statement of comprehensive income - year ended 30 June 2015</b>						
Total expenses	● 3,372	3,422	● 787	795	● 641	643
Total revenue	● 3,157	3,080	● 685	690	● 661	666
Net result	● (215)	(342)	● (102)	(105)	● 20	23
Total other comprehensive income/(expense)*	10	–	19	–	7	–
Total comprehensive income/(expense)	● (205)	(342)	● (83)	(105)	● 27	23
<b>Abridged statement of financial position - at 30 June 2015</b>						
Total assets	4,445	c	325	c	903	c
Total liabilities	3,223	c	241	c	607	c
Net assets	1,222	c	84	c	296	c
<b>Abridged statement of cash flows - year ended 30 June 2015</b>						
Purchases of property, plant and equipment	47	c	4	c	44	c

\* Includes transactions taken directly to equity, such as asset revaluation movements and actuarial movements on defined benefit superannuation plans.

a To facilitate comparison with NSW Budget Paper No.3, actual amounts comprise: Department of Transport (entity), Transport for NSW, Transport Service of NSW.

b Budget figures have been provided by the Agency's management.

c There were no budget figures for the statement of financial position

Source: Financial statements (audited).

## Appendix Four – Bus Contract Regions

Contract region	Area serviced
1	Penrith, Mt Druitt, St Marys, Richmond and Windsor
2	Liverpool, Glenfield, Ingleburn, Bringelly and Hoxton Park
3	Liverpool, Fairfield, and Holroyd
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

\* Regions 10 and 11 were combined in 2012-13.

Source: TfNSW (unaudited).

## Appendix Five – Cluster Information

Agency	Website
<b>Cluster lead entity</b>	
Department	*
TfNSW	<a href="http://www.transport.nsw.gov.au">www.transport.nsw.gov.au</a>
<b>Transport service providers</b>	
NSW Trains	<a href="http://www.nswtrainlink.info/">www.nswtrainlink.info/</a>
RailCorp	<a href="http://www.transport.nsw.gov.au/railcorp">www.transport.nsw.gov.au/railcorp</a>
Sydney Trains	<a href="http://www.sydneytrains.info">www.sydneytrains.info</a>
STA	<a href="http://www.statetransit.info">www.statetransit.info</a>
Sydney Ferries	<a href="http://www.transport.nsw.gov.au/content/sydney-ferries">www.transport.nsw.gov.au/content/sydney-ferries</a>
RMS	<a href="http://www.rms.nsw.gov.au">www.rms.nsw.gov.au</a>
<b>Ports</b>	
Port Authority of New South Wales	<a href="http://www.portauthoritynsw.com.au">www.portauthoritynsw.com.au</a>
<b>Other agencies</b>	
OTSI	<a href="http://www.otsi.nsw.gov.au">www.otsi.nsw.gov.au</a>
ITSR	<a href="http://www.transportregulator.nsw.gov.au">www.transportregulator.nsw.gov.au</a>
TCS	*
Transport Service of New South Wales	*
WestConnex Delivery Authority	<a href="http://www.westconnex.com.au">www.westconnex.com.au</a>
Sydney Motorway Corporation	*
WCX M4	*
Trainworks Limited	<a href="http://www.trainworks.com.au">www.trainworks.com.au</a>

\* This entity has no website.

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Level 15, 1 Margaret Street  
Sydney NSW 2000 Australia

**t** +61 2 9275 7100

**f** +61 2 9275 7200

**e** [mail@audit.nsw.gov.au](mailto:mail@audit.nsw.gov.au)

**office hours** 8.30 am–5.00 pm

[audit.nsw.gov.au](http://audit.nsw.gov.au)

