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10/1997

17th Annual Report - year ended 30 June 1997

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16 October 1997.

The Hon B J Langton, MP,
Minister for Transport and Minister for Tourism,
Level 20, 227 Elizabeth Street,
SYDNEY NSW 2000.

Dear Mr Langton,

We have pleasure in submitting for your information and presentation to Parliament, the 17th Annual Report of the State Rail Authority of New South Wales, for the year ended 30 June 1997.

The Report is the first to be presented following major restructuring of the Authority under the Transport Administration Amendment (Rail Corporatisation and Restructuring) Act 1996.

It identifies significant variances in the scope of functions and the size and nature of the workforce.

The Report has been prepared in accordance with the Annual Reports (Statutory Bodies) Act 1984 and the Public Finance and Audit Act 1983, and the Regulations under those Acts.

The financial statements of the Authority and its controlled entities have been audited by the Audit Office of NSW and the Auditor-General's report is included.

Yours sincerely,



M G Sexton
CHAIRMAN



David Hill
CHIEF EXECUTIVE

Vision, objectives, aims and values

On 1 July 1996, the New South Wales Government initiated a reform program to improve public transport services by separating the infrastructure and train management functions of the former State Rail Authority, and establishing freight services under a separate corporation.

From that date, the Authority became responsible for the operation of all passenger services of the CityRail and Countrylink business units and retained those assets essential to its business, including rollingstock and stations.

All rail freight services were established under a separate Freight Rail Corporation; the Railway Services Authority was established to supply goods and services to the rail industry including infrastructure (eg signals and track), while the Rail Access Corporation became responsible for the ownership of the NSW rail perway.

In addition, a Public Transport Authority was established to advise the Minister on matters relating to the development, coordination and regulation of public passenger services throughout the state. The Chairman and Chief Executive of State Rail are active members of this Authority.

Against this background of change, the Authority has committed itself to the following vision, objectives, aims and values which are contained in the Corporate Plan, "Managing Change", 1997-98 to 2001-02.

Model of proposed airspace development above St Leonard's station. The complex will consist of offices, a variety of retail outlets and people space.

Vision

Our vision is to be regarded as a leader in the development of passenger rail transport in Australia.

Objective

Our objective is to provide the people of New South Wales with an integrated and coordinated public transport rail service which is reliable, safe, comfortable and efficient.

Aims

In achieving our vision, State Rail's management team aims to:

- develop an awareness of customer concerns and respond to them;
- increase awareness in the community and Government of the value of State Rail;
- respond to the concerns of our staff and provide feedback on progress in dealing with those concerns, and
- communicate the need for change to our staff.

Values

State Rail's values underpin the way we conduct our business. They are the foundation of our culture.

State Rail's core values are:

- safety;
- ethical behaviour;
- environmental responsibility, and
- quality.



State Rail has a world-class safety record. We are committed to maintaining and improving this record.

We are also committed to establishing and maintaining a culture of probity, honesty and integrity which ensures we achieve the highest standards in all our commercial and business dealings. We will inform staff of what we expect and provide the training and support required to meet those expectations.

As a result of the recent ICAC hearings, the Board has agreed to strengthen State Rail's fraud and corruption prevention initiatives which include:

- a revised corruption prevention plan;
- initiatives to increase staff awareness;
- a focus on fraud and corruption risk areas identified in the risk management study, and
- a focus on fraud and corruption prevention in relevant training programs.

We are committed to providing our services in an environmentally-responsible manner. To this end we will implement a due diligence program and consider the environmental implications of our business decisions.

Quality is an integral part of our everyday business.

These characteristics will become a hallmark of all State Rail activities.

Key result areas

State Rail's management team has identified four areas in which we need to improve:

- **Customer satisfaction**
 - the provision of reliable on-time running in clean, properly maintained trains;
 - timely and accurate passenger information;
 - a secure and helpful operating environment, and
 - development of integrated services eg bus/train.
- **Staff productivity and job satisfaction;**
 - efficient work practices and productivity improvements through participative staff management;
 - effective communications to staff, and
 - increased proportion of women in the workforce.
- **Community support**
 - understanding community needs and the development of services to meet those needs;
 - marketing the advantages of rail transport particularly to potential customers, and
 - promoting awareness and public ownership of the rail system.
- **Efficient financial management**

Financial management falls into four key areas;

 - eliminating unnecessary costs;
 - getting the best use out of existing and future resources, both capital and operating;
 - maximising future revenue-earning opportunities, and
 - refining service contracts with Government for delivery of non-commercial services.

Costs are being put under the microscope to ensure that monies spent provide increased returns.

Chairman's report

The 1995/96 annual report outlined the reorganisation of NSW rail services into four separate entities. 1996/97 was the first year of State Rail's operation as a non-vertically integrated rail passenger service.

While 1996/97 was expected to be a year of change, not all change experienced was predicted and the year was livelier than expected.

I have been personally delighted to see the establishment of a full Board as of January 1997. Board members now have a significant mix of private and public sector experience and a strong commitment to rail passenger services.

Throughout 1996/97 the Board gave considerable attention to issues associated with State Rail's corporate governance. The Board has a clear view of these responsibilities as well as the skills to oversight the development of the highest standards of corporate integrity and accountability in State Rail. In furthering corporate governance, State Rail management, with the strong support of the Board, has worked productively with the Independent Commission Against Corruption, the Audit Office and the Ombudsman. The Board participated in briefings with the Audit Office as part of that Office's review of the performance of State Government boards. In June 1997 the Auditor-General produced a report which will be the basis for additional consideration of the corporate governance responsibilities of government boards. The State Rail Board looks forward to participating in this process.

The Board has significant roles in relation to deciding strategic directions and ensuring accountability. In undertaking these roles it is essential for it to have access to high quality information. During 1996/97 attention was given to the development of processes to ensure that the information flows between management and the Board allow for the Board to add value to financial and operational decision making.

In 1996/97 the Board worked with two Chief Executives, Len Harper and David Hill. During the year State Rail received significant press criticism in relation to on-time running following the introduction of a new timetable. By the end of the year, however, this problem had been overcome. Most peak running periods are now recording on-time figures of 94 per cent and even further improvement is a realistic goal.

State Rail management and its Chief Executives can take credit for a range of initiatives and achievements during the year. Considerable management attention has gone, for example, into the negotiation of a new Enterprise Bargaining Agreement and a major risk management study. The Board was able to endorse investment of over \$200 million in the fourth-generation train and additional upgrading of several key stations.

In recent years governments throughout the western world have been reassessing their rail systems and reaffirming the importance of urban rail passenger systems and their significant contribution to community wellbeing. The NSW urban rail network is large by world standards and carries over 268 million passengers each year. The Board has given considerable attention to its role in assisting the NSW Government develop clear objectives for passenger rail which are understood by Treasury and are consistent with economic and community service obligation objectives.

The State Rail Chairman and Chief Executive are both members of the Public Transport Authority which was established in 1996 and commenced operations early in 1997. The PTA is made up of representatives of all bodies providing passenger transport services in NSW and has been set up to assist the government in long-term planning for public transport and the enhancement of existing services.

The challenge for governments in the provision of rail passenger services is to be able to maintain and improve the quality of services within the limits of very real public funding restraints. This is a challenge which I firmly believe can be met in NSW if all those with an interest in passenger rail's survival and further development - including the State Rail Board, management, employees and rail unions - work together; accept the need for innovation, rationalisation and further efficiencies; and develop a strong productive partnership with the Minister for Transport and the government.

M G Sexton
CHAIRMAN



Chief Executive's report

On 20 April this year, I was asked by the Government of NSW to step in temporarily as Chief Executive of State Rail. For the six months I agreed to act as CEO, the Government set me a series of tasks. These were:

1. Ensure all aspects of State Rail's operations regarding on-time running are functioning at appropriate standards.

On-time running was averaging 81.6 per cent for the timetable introduced in November 1996. A prompt decision was made to return to a version of an earlier timetable to operate from 16 June 1997. It was also decided to introduce a series of enhancements to the new timetable in October.

From 16 June through till the end of the financial year, on-time running averaged 94.2 per cent and has continued above 93 per cent into the new financial year.

2. Ensure the State Rail signalling system and related management issues are functioning at appropriate levels and standards.

Following the separation of the NSW rail entities, control of the signalling system is no longer the responsibility of State Rail but rests with the Rail Access Corporation. Signal boxes remain under State Rail control. We are working closely with Rail Access to put in place agreements which will see the signalling system managed efficiently in both organisations. Further discussions are taking place aimed at reaching agreement on our respective operating responsibilities.

A decision was also taken by Rail Access not to proceed with the Queen Street integrated train control centre and State Rail will be working with Rail Access to develop a replacement complex that will be required by our operations in future.

3. Advise on future rollingstock requirements to ensure the acquisitions strategy meets service needs.

Advertisements for pre-registration of tenders for the fourth-generation train were placed on 4 June and a contract is expected to be awarded by late 1997 or early 1998.

A review of CityRail's present fleet found there is sufficient rollingstock to meet present requirements, but anticipated growth in demand will mean additional carriages will be required early next century. A further 80 carriages will be required at a cost of approximately \$2.5 million each.

4. Ensure that State Rail meets all budgetary requirements in the context of improved service delivery.

State Rail management has developed a draft staff plan for the Authority's needs for the next three to four years. The aim of the plan is to operate rail services as efficiently as possible.

When fully implemented over the next three years the initiatives have the potential to realise operating savings in excess of \$100 million without forced redundancies and with no reduction in services to the public or safety of the rail system.

5. Ensure a consultative industrial relations program is maintained and is related to the above tasks.

The restructure of State Rail would not be possible without union support. Throughout the Corporate, Countrylink and Operations Divisions reviews as well as CityRail's job and work redesign program we have had a continual dialogue with the unions and their contribution has been invaluable. There will be an ongoing process of union and staff consultation as the restructuring is implemented.

State Rail remains a vitally important part of the state's social infrastructure and the on-time running difficulties of the past few months are only a temporary blemish. Its greatest strength remains its people and their commitment to providing a reliable, safe and efficient service.

State Rail's greatest challenge still lies before it as the primary transport provider for the 2000 Olympics. A challenge I am sure it will be equal to.


David Hill
CHIEF EXECUTIVE

The Board

The New South Wales Minister for Transport appoints members to the Board. At the close of the year under review, the Board comprised the following members:

Michael Sexton, LLB (Hons), LLM

Appointed Chairman of the State Rail Board in January 1996. Barrister, author of the Australian text on libel law and of several books on Australian history and politics. Michael is a member of the Public Transport Authority of New South Wales.

He was Senior Lecturer in Law at the University of New South Wales and Visiting Fellow at Georgetown University Law School, Washington DC.

David Hill

David was appointed Chief Executive on 21 April 1997 for a six-month term to restore reliability to commuter rail services, ensure future rollingstock acquisition strategies meet service needs, and ensure that budgetary requirements are targeted to service delivery.

David has a Master of Economics Degree from Sydney University and was a former Economics Advisor to the NSW Government, Chief Executive of the State Rail Authority (1980-1986), Managing Director of the Australian Broadcasting Corporation between 1986 and 1995 and is the current Chairman of Soccer Australia.

John O'Brien, FCA

Appointed to the Board on 1 July 1996, John has been a Fellow of the Institute of Chartered Accountants for many years, as a partner in a substantial city practice. He was formerly a director of a large charitable organisation and is currently a director of a number of private companies. He has been responsible for a number of high-profile corporate investigations.

Gail Gregory, Dip Law, BEc

Gail was appointed to the Board on 1 July 1996. Previously a nurse, she is an Industrial Officer with the Labor Council of New South Wales.

Gail serves on a number of committees, including the NSW Privacy Committee, Anti-Discrimination Board - Women's Consultative Committee, the ACTU's Industrial Legislation Committee, Women's Committee and Social Justice Committee.

She is also an executive member of the International Centre for Trade Union Rights (ICTUR) and the NSW Industrial Relations Society.

John Menadue, AO

John was appointed to the Board on 1 July 1996. He is the principal advisor to the Research Institute for Asia and the Pacific (RIAP) at the University of Sydney.

From 1960 to 1967 John was private secretary to the then Leader of the Opposition, E G Whitlam. He moved to the private sector for seven years as general manager, News Limited, Sydney. Subsequent positions held by John include Head of the Department of Prime Minister and Cabinet, Australian Ambassador to Japan, Head of the Department of Immigration and Ethnic Affairs, Head of the Department of the Special Minister of State, Head of the Department of Trade, and Chief Executive of Qantas.

John is Chairman of the Australia Japan Foundation. As well, he is an advisor to several Australian and Japanese companies.

Merilyn Alt, BEc (Hons), MPA

Joined the Board in January 1997. Merilyn is a principal of Alt Statis & Associates, a consultancy specialising in advice and research on government funding programs and providing strategic planning services.

Merilyn was Director of Employment Programs for the NSW Ministry of Employment and prior to that held several policy and planning roles in the Commonwealth and NSW Governments. She was a Planning Officer in the Public Transport Commission in the late 1970s.

Merilyn is also a member of the NSW Equal Opportunity Tribunal and the Premier's Council for Women.

Dr Barry Hughes, BSc (Econ), PhD

Joined the Board in January 1997. Barry is Chief Economist for investment bankers, Credit Suisse First Boston. His previous career was as an academic economist, including a decade as Professor of Economics at the University of Newcastle, and as an economic adviser to various governments. Author of a dozen books and many articles in research journals, he is also a director of the industry superannuation fund, STA.

Ron Cunningham, BCom

Joined the Board in January 1997. Ron is currently a teacher in the NSW TAFE system in accounting and finance having previously been involved in the accounting profession in the areas of taxation and auditing.

Ron is the principal of a consultancy service which provides advice to organisations on investor and government relations and is also a director of several private publishing and distribution companies operating in the Australian tourism industry.

Board meetings

Twelve Board meetings were held between 1 July 1996 and 30 June 1997. Attendance was as follows:

M Sexton (Chairman)	11
L Harper	9
D Hill	3
J O'Brien	11
G Gregory	7
J Menadue	10
M Alt	6
B Hughes	6
R Cunningham	6

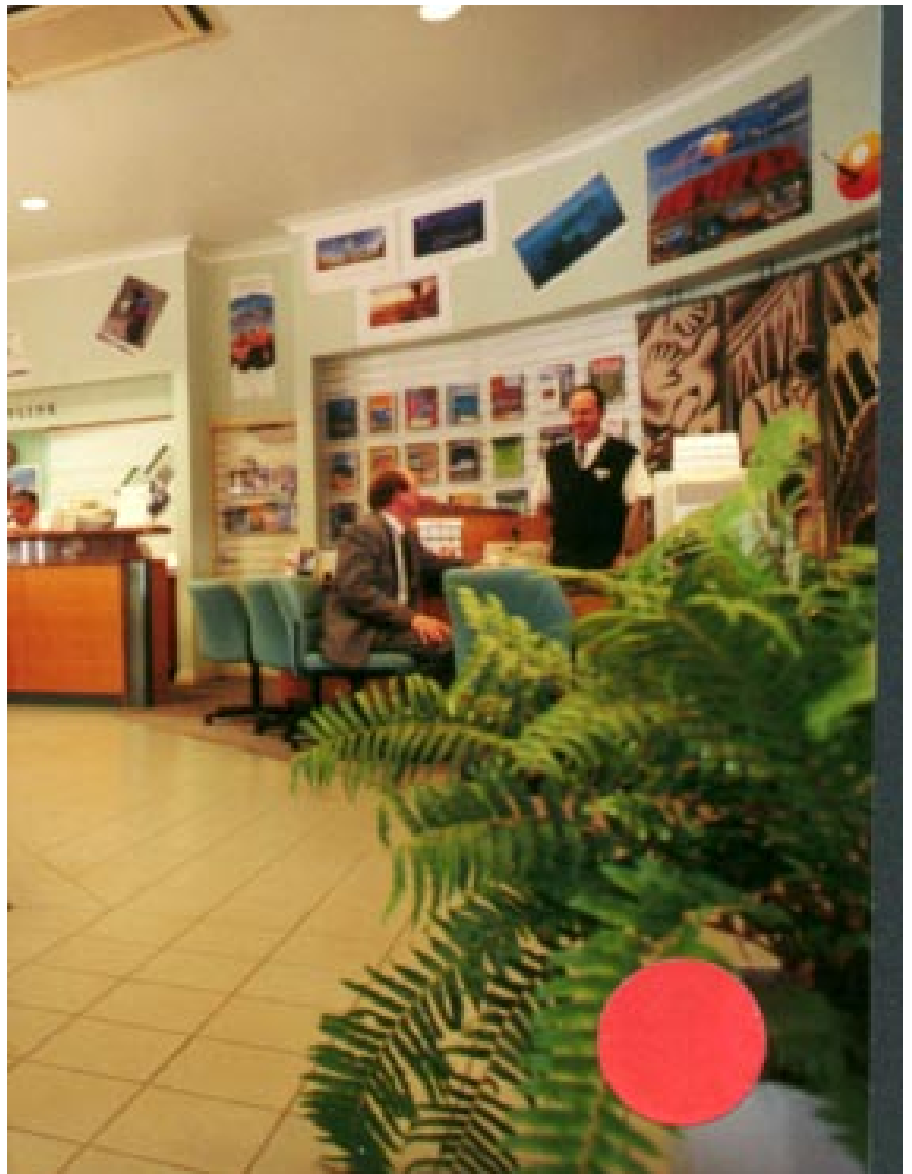
- Marilyn Alt, Barry Hughes and Ron Cunningham were appointed in January 1997.
- David Hill replaced Len Harper and assumed duties on 21 April 1997.
- Secretary to the Board between 1 July 1996 and 5 October 1996 - Roger Halcrow, Dip Law, solicitor of the Supreme Court of NSW.
- Secretary to the Board from 6 October 1997 to 30 June 1997 - Ruth Medd, BSc, Dip Comp Sc, CPA, MAICD.
- John O'Brien, Gail Gregory and John Menadue were appointed on 1 July 1996.

Details and memberships of significant committees are shown in [Appendix 10](#).

Highlights of the year

- On-time running of the suburban fleet increased dramatically from an average of 81.6 per cent to 94.2 per cent following the introduction of a new timetable from 16 June 1997.
- Rollingstock availability increased from 88 per cent to 90 per cent, accompanied by significant changes in fleet maintenance work practices.
- CityRail passenger journeys increased by 4.6 per cent to 268.2 million which resulted in an increase of \$34.5m to \$358.6m in farebox revenue. This was aided by the opening of the Cumberland Line, providing a direct link between Parramatta and Campbelltown via Liverpool, in November at a cost of \$60m.
- Total Countrylink passenger journeys increased by 2.5 per cent - from 2.44 million to 2.51 million.
- Countrylink holiday package sales increased by 40 per cent.
- For the third successive year, Australian Rail Training achieved an operating cash surplus, with a profit of \$0.76m and business growth (student days) of 6 per cent.
- The first course for the national qualification of train drivers was established, under the accreditation of the Vocational Education and Training Accreditation Board (VETAB).
- The achievement of major structural, organisational and resourcing change within critical time frames following the rail reforms of 1 July 1996.
- A major EEO survey of all State Rail staff was completed, facilitating the establishment of a confidential data base in accordance with the reporting requirements of the Office of the Director of Equal Opportunity in Public Employment (ODEOPE).
- A firm commitment was made to meeting future rollingstock requirements with the endorsement by the Board of a \$200m investment in the new fourth-generation train.

Countrylink holiday package sales increased by 40 per cent during the year. (Below); the welcoming interior of the Countrylink Travel Centre at Taree.



Financial performance

The operating deficit for the year before abnormal items was \$72.2m.

Net abnormal items were (\$11.8m) and relate mainly to expenditure items associated with divested assets.

The total operating deficit was \$83.9m.

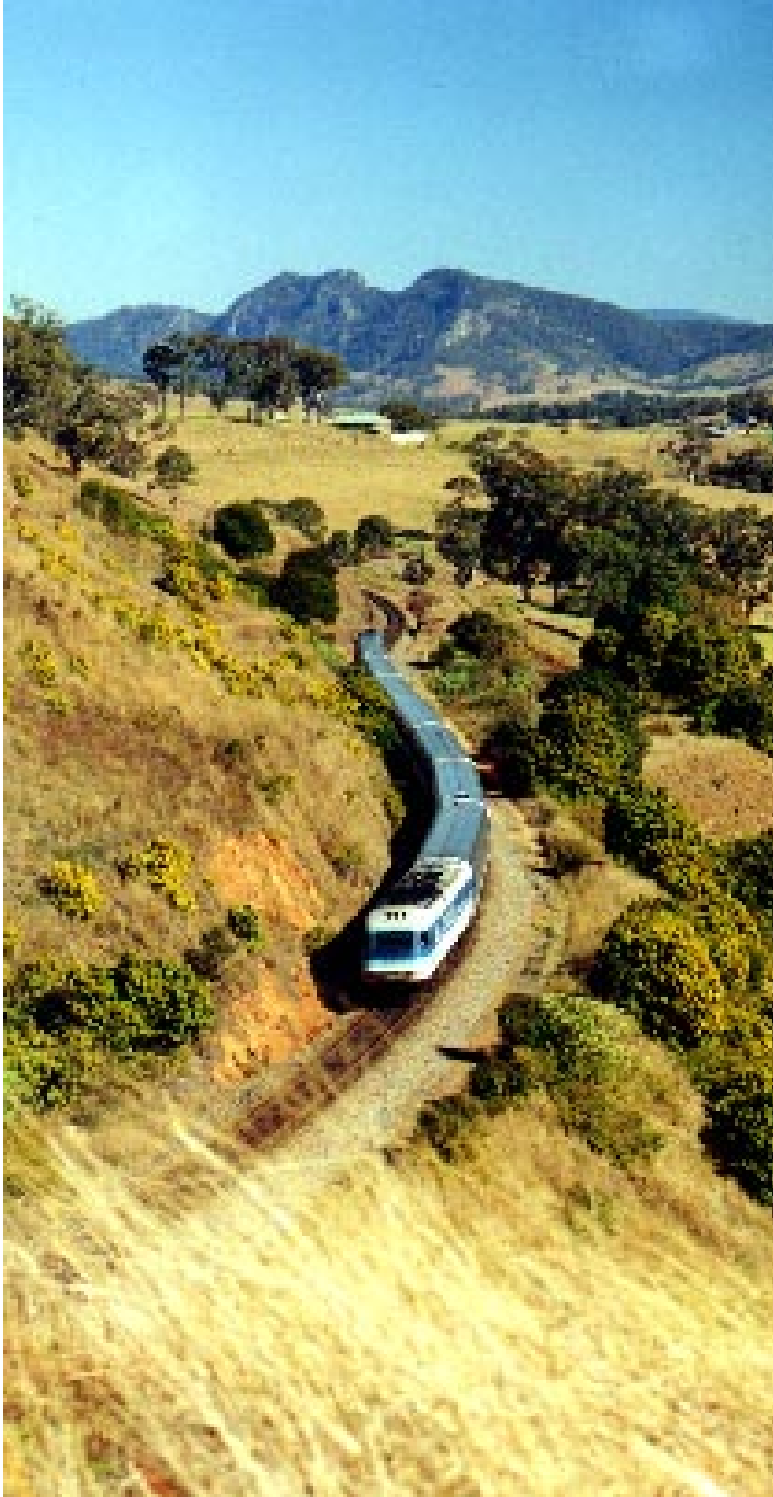
This result includes Government contributions of \$921.1m made up of social program revenue of \$507.5m (to cover shortfalls in concessions, non-profit operations and new access fees payable to RAC) and other contributions (mainly capital grants) of \$413.6m.

The restructure of the Rail industry into four separate entities from 1 July 1996 had a profound effect on SRA's finances which makes comparisons with the previous year's results difficult. In summary, the major events arising from the restructure include a general divesting of assets totalling \$6.4bn to the other entities, a consequential derecognition of land controlled by Rail Access Corporation of \$856.5m and an agreement by Treasury to assume and subsequently fund certain personnel liabilities to the value of \$917.9m.

A specific divesting under the NRC (Agreement) Act 1991 of freight wagons and plant and equipment totalling \$59.5m to National Rail Corporation also occurred.

In the light of these capital adjustments State Rail's key revenue performance indicators for the year showed an overall increase in non-Government passenger-related revenue of \$67.5m (14.0 per cent). This included increases in passenger fares of \$34.2m (9.3 per cent), on-board services of \$1.6m (21.7 per cent) and revenue from other rail entities of \$31.7m (29.9 per cent).

Major operating expenditure items are not comparable due to the difficulty of segregating costs relating to all four new entities (SRA, Freight Corp, RAC and RSA) for the previous year. In addition, a significant new expenditure item is a fee now payable by State Rail to Rail Access Corporation for access to the railway infrastructure. This access charge effectively replaces most infrastructure maintenance expenditure incurred in previous years and was \$419m for 1996/97.



Part of a network linking 334 destinations: a Countrylink XPT winds through the beautiful countryside near Gloucester NSW, with the Bucketts Mountain Range in the background.

THE BOARD

CHIEF EXECUTIVE

INTERNAL AUDIT

CORPORATE HEAD OFFICE

OPERATIONS

COUNTRYLINK

PASSENGER FLEET MAINTENANCE

FORMER CITYRAIL FUNCTIONS

FORMER NETWORK CONTROL FUNCTIONS

- Finance
- Corporate Secretary
- Business Services
 - Human Resources
 - Australian Rail Training
 - Industrial Relations and Payroll
 - Rail Estate and Heritage
- Internal Audit
- Executive Support

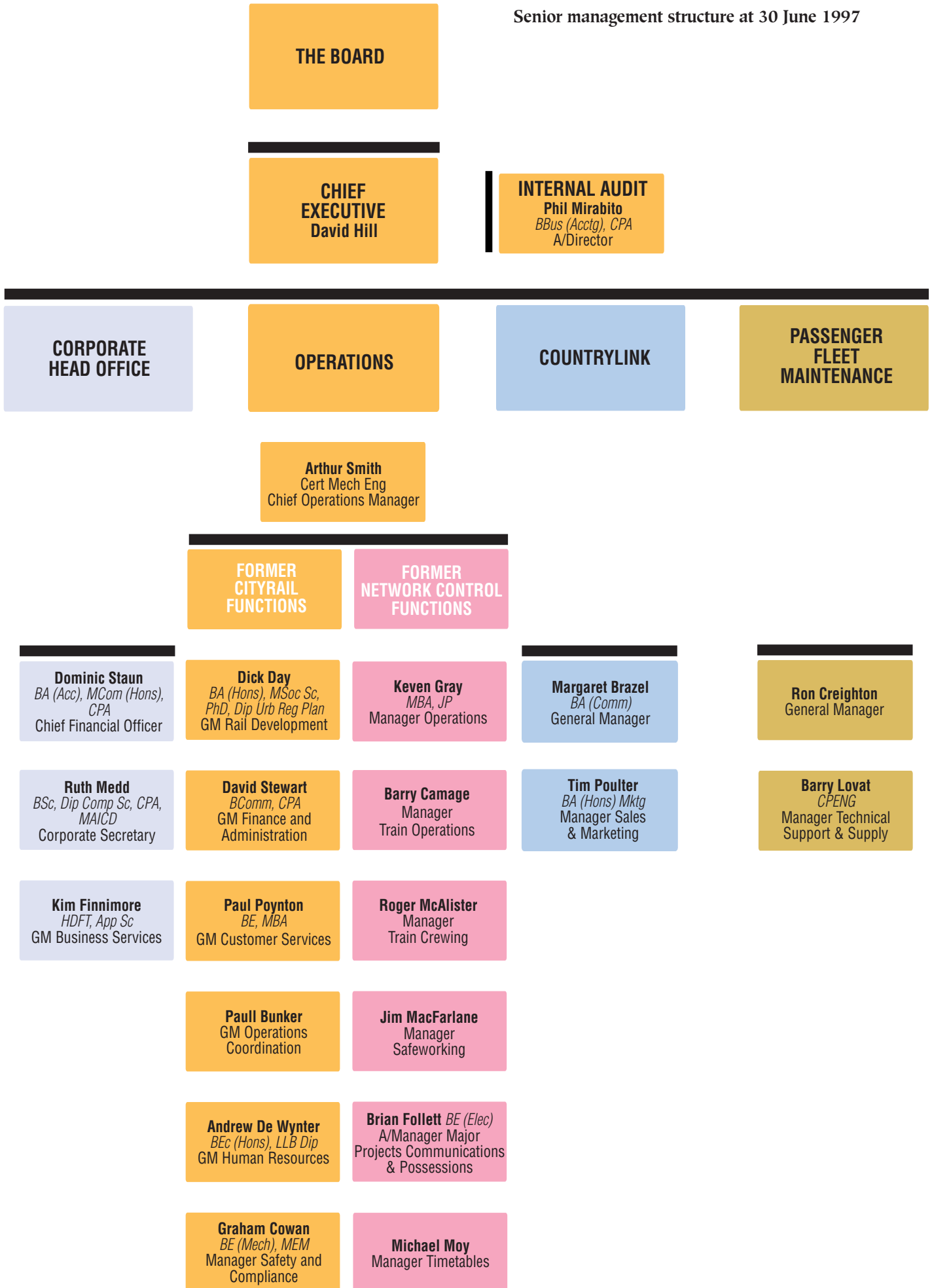
- Planning and Development
- Operations Coordination
- Customer services
- Finance and Administration
- Human Resources

- Safety and Compliance
- Network Operations
- Train Control
- Train Crewing
- Safeworking
- Timetables

- Country passenger train and coach services
- Marketing and sales
- Finance and Administration
- Strategic Planning
- Customer Relations

- Fleet Maintenance Centres
 - Flemington
 - Hornsby
 - Mortdale
- Diesel Services
 - XPT
 - XPLOER
 - Endeavour
- Technical support and Supply
- MainTrain contract management
- Finance, Administration and Executive Services Support

Senior management structure at 30 June 1997



Operations Division report

On Friday 16 May 1997 CityRail (the suburban passenger services operator), and Network Control divisions of State Rail were combined into the Operations Division. This integration of functions provided better control of on-time running and increased focus and accountability for timetable development and other operating functions.

However, for most of the financial year the two divisions operated separately. For this reason the Annual Report looks at CityRail and Network Control separately, under the Operations Division heading.

CityRail

CityRail's mission is to deliver fast, safe, reliable services which exceed customers' expectations.

CityRail is the principal urban public transport provider in Sydney and the surrounding region, charged with delivering comfortable, reliable and efficient suburban, outer suburban and regional services in the Sydney, Hunter, Central Coast, Blue Mountains, Southern Highlands, Illawarra and South Coast areas.

From the opening of the Cumberland line in November 1996, CityRail provided around 2,300 services each weekday carrying approximately 900,000 passengers. These services operate between 300 stations over some 2,060 kilometres of track.

The fleet

The CityRail fleet consists of 1,503 carriages. Double deck electric sets service the Sydney metropolitan and outer suburban areas while 30 Endeavour diesel cars provide most services in the non-electrified regional areas of the Hunter Valley, Illawarra-South Coast and Southern Highlands.

State Rail's Operations Division employed 5,429 people at 30 June 1996, previously categorised as CityRail employees.

As foreshadowed in the 1995/96 Annual Report, CityRail introduced a new timetable in November 1996, developed after extensive public consultation. The timetable provided more than 100 new services each day with the majority benefiting customers from western and southern Sydney, as well as Central Coast commuters. The new timetable also lifted CityRail's rollingstock use to a world-class 88 per cent. This paves the way for higher peak hour train use which is on target to achieve 90 per cent by 1998.

Unfortunately this timetable proved to be over-ambitious and problems were experienced providing reliable services.

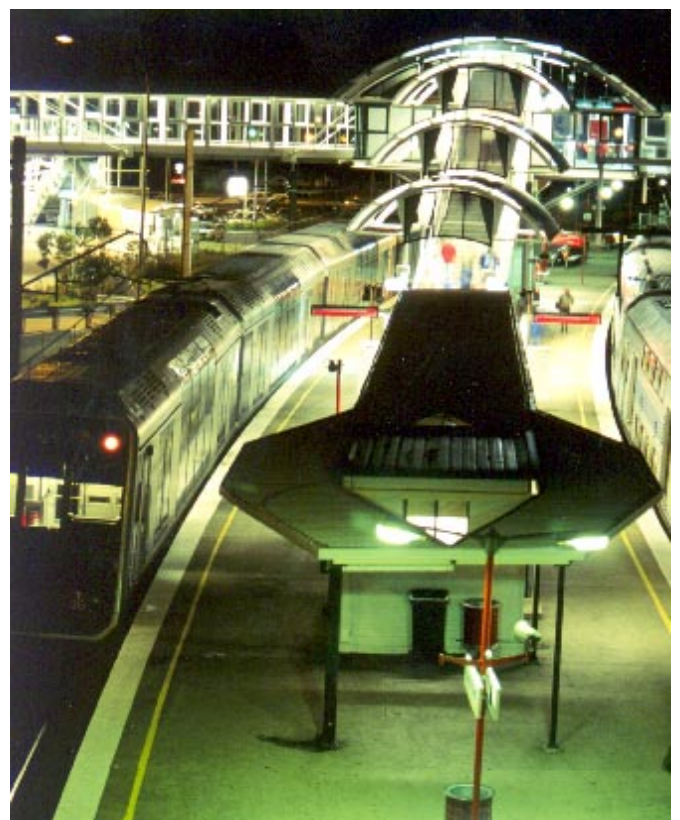
As a consequence a new timetable was introduced in June 1997 which retained the Cumberland line services but which was more robust. Carriages from services withdrawn in the June timetable were used to build up other trains and there was no reduction in rollingstock use. The introduction of this timetable required enormous effort from all involved.

The revamped timetable resulted in immediate improvements. While on-time running for the full year (overall peak suburban on-time running to three minutes) was a disappointing 86.4 per cent, on-time running from the introduction of the new timetable immediately performed to a very high standard.

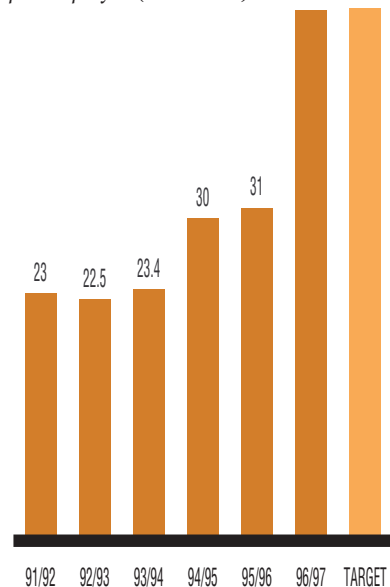
Customer satisfaction

Five on-board customer service satisfaction surveys were conducted during the year covering areas such as information provided at stations, train cleanliness and station and train security after dark. The final survey (conducted in April this year) showed 68 per cent of all

Enhanced station and platform lighting, with closed circuit television monitors provides greater security for our customers. Here, trains wait at the new Blacktown interchange in Sydney's west.



CityRail passenger journeys per employee (thousands)



CityRail customers were either satisfied or very satisfied with CityRail overall, unchanged from 1995/96. However, customer satisfaction declined with the introduction of the November 1996 timetable having reached a record 79 per cent in September/ October 1996.

Calls to the 131 500 InfoLine continued to grow, with 1.6 million CityRail-related calls -- an increase of 12 per cent from the previous year.

Business growth

Despite the on-time running difficulties experienced, passenger journeys increased by 4.6 per cent to 268.2 million, aided by the November opening of the Cumberland line which provides a direct link between Parramatta and Campbelltown via Liverpool. This result is 0.8 per cent above the target of 266 million journeys. While historical records are unclear (due mainly to changes in structure) it is likely that this is a record-breaking result.

However, it should be noted that this figure is to some extent overstated as station accounting requirements led to 53 weeks' patronage being reported for the year. It is estimated that on a 52 week basis CityRail carried approximately 264.7 million passengers.

While the bulk of this improvement was generated by economic growth and growing road congestion a number of marketing initiatives also helped lift patronage during the year. These included:

- the continuation of the "Another reason why train's the way to go" promotion;
- an integrated advertising campaign - "together we'll get you there" - launched with Sydney Buses and Sydney Ferries and used to promote public transport for major events such as Australia Day and The Gay and Lesbian Mardi Gras;
- the expansion of the range of link products, offering discounted travel and entry to include MaritimeLink (Australia National Maritime Museum), DinoLink (Dinosaur World Tour) and DragonLink (Rugby League games at Kogarah Oval);
- BusPlus tickets, offering weekly rail and private bus travel launched on the Central Coast and in the West; and
- a number of value-added deals, negotiated on behalf of CityRail's customers, offering discounted entry to exhibitions such as the Home Show and the Holiday Travel and Snow Sports Show.

Staff productivity and job satisfaction

Despite some improvement, productivity was marginally (0.4 per cent) below target due to year-end staff numbers exceeding target by 63. This was primarily a result of underestimation of train crew required to operate the Cumberland line timetable.

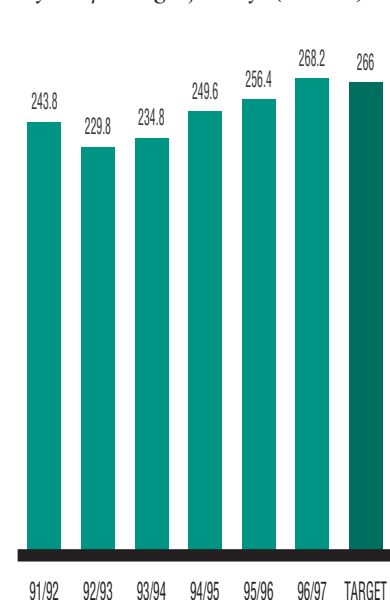
The ratio of passenger journeys per employee increased by almost 60 per cent. However, the majority of this improvement is attributable to the devolution of CityRail staff to the Railway Services Authority (RSA) and to State Rail's new Passenger Fleet Maintenance and Network Control divisions.

High community and shareholder support

A telephone survey was conducted in November/December 1996 to gauge community support. The survey found that 64 per cent of the community (users and non-users) had a quite good or very good impression of train travel by CityRail. Results for users were not statistically different from the results of an on-board service customer satisfaction survey conducted concurrently.

Non-users, living within reasonable reach of a CityRail station, indicated 58 per cent support. The main reasons for not using CityRail were: no need to travel by train; preference for travel by car; and lack of services to intended destination. Less than 4 per cent of non-users indicated poor reliability or expensive fares as reasons for not travelling.

CityRail passenger journeys (millions)



Financial performance

CityRail achieved farebox revenue of \$348.6 million - \$34.5 million more than last year, although this includes the effect of inflation-based fare increases awarded by the Independent Pricing and Regulatory Tribunal (IPART), effective from 21 July 1996.

Other revenue of \$17 million exceeded budget by 14.3 per cent.

However, expenditure also exceeded projections, payroll expenditure in particular being above expected levels. It should be noted that the NSW Treasury allocation for 1996/97 was \$13 million below CityRail's budget bid.

The primary cause of non-payroll over-expenditure was increased access charges paid to RAC. This was a result of a NSW Treasury review of funding arrangements.

Key achievements for 1996/97

The Cumberland Line

A highlight of the year was the opening of the Cumberland line, constructed at a cost of \$60 million to cater to the growing demand for cross-regional travel from southwest Sydney to the west, and vice versa.

The Cumberland line provides a direct link from Campbelltown and Liverpool to Parramatta with trains every half hour.

Strategic disability plan and easy access

State Rail is finalising its Strategic Disability Plan. The plan is designed to provide access to State Rail services and employment opportunities for people with disabilities.

In this context CityRail is continuing its Easy Access program to improve access to stations for customers with mobility constraints including people with disabilities, the aged and people with small children.

Easy Access improvements were completed at Campbelltown, Kogarah, Parramatta and Strathfield. In total, 15 stations have been upgraded to full Easy Access standards and another 11 stations had substantial improvements to access carried out.

CityRail is also undertaking the CityDecker carriage refurbishment program in which wheelchair accommodation is being provided in every second carriage in suburban trains. Works are also in progress to modify InterCity trains to accommodate wheel chairs.

The opening of the Cumberland Line on 22 November 1997 provided a vital link between Parramatta and Campbelltown via Liverpool. Here, the first train to run on the new Y-Link arrives at Parramatta station.

Capital works

CityRail invested \$241 million on capital works and major periodic maintenance. In addition, \$130.6 million was expended on the New Southern Railway, which continues to be a State Rail project.

Progress on this new railway to Sydney's major domestic and international airports is proceeding well. Seven sites are now under construction, with tunnelling occurring from three sites. All underground walls for the two stations located at Sydney Airport are complete.

Rollingstock improvement program

Five additional Tangara cars to replace and provide cover for damaged stock are being delivered and the original 450 car contract is completed with the exception of minor variation claims.



The fitting of train radio systems to both the suburban and regional fleets is nearing completion.

A shortlist has been chosen to tender for the design, construction and maintenance options for the acquisition of new suburban passenger rollingstock. It is anticipated that six of these new fourth-generation trains will commence service for the 2000 Olympics.

Locking door motors were fitted to a number of suburban and InterCity cars. The half-life refurbishment of CityRail's 1,137 suburban cars and 320 InterCity cars by Goninans of Newcastle continued. The CityDecker program involves replacing floor and seat coverings and repainting carriages. Carriage light quality is also improved by installing light diffusers and replacing vestibule ends with glass partitions. Suburban destination headboards are being progressively installed to improve customer information.

Station improvement

Work continued on CityRail's station upgrading program with significant works (such as Easy Access, security, station passenger information and automatic ticketing) completed at: Campbelltown, Caringbah, Croydon, Kogarah, Newcastle (bus interchange) and Strathfield.

To coincide with the opening of the Cumberland line Parramatta station's eastern subway was completed. Additionally, detailed planning was commissioned on the new interchange station at Liverpool.

Upgrading works at St James and Museum stations comprised the major improvements to the City Underground. The installation of Fire and Life safety systems throughout all City Underground stations continued.

There was also an ongoing program of station maintenance (building maintenance, platform resurfacing, reconstruction and footbridge renewal). Principal locations were Allawah, Burwood, Epping, Merrylands, Milsons Point and Sydenham.

Achievement of key business targets	Target	Actual
Passenger journeys (millions)	266.0	268.2
Productivity (passenger journeys/employee)	49,600	49,399
Farebox revenue (\$m)	341.6	348.6
On-time running (%) - 24 hours Inc.. weekends, on-time to 5 mins.	92	91.5
Stations skipped (%) - proportion of stations skipped in peak periods	0.6	0.6

Market testing

Following the restructure of CityRail in June last year, rollingstock functions were devolved to Passenger Fleet Maintenance, and track maintenance functions became the responsibility of Rail Access Corporation. Previous market testing had been centred in these areas. With CityRail's business now focused on station and train operations - which are not easily contestable - no market testing was undertaken during the year under review.

Network Control Division

The Network Control Division of State Rail was set up in 1996/97 as a separate business unit to manage the train operations function throughout New South Wales. This includes real-time control of all train movements through management of signalling, area control, safeworking, service planning, track possession, timetable standards, communications, operational systems and facilities.

Network Control took over train operations from FreightCorp. It also took all responsibility for the reliability of the network, the safeworking function from Safety and Compliance and the management of communications and development of standards for rollingstock. Initial problems coordinating the new structure were made more challenging with the introduction of the new timetable in November.

The new operating environment means that Network Control has to negotiate on a commercial basis for funds for its services from the Rail Access Corporation. The telecommunications area has to negotiate across rail entities for contracts/agreements.

On Friday 16 May, 1997 Network Control became part of the Operations Division of State Rail. However, by virtue of its contract with the Rail Access Corporation to operate independently of the passenger business, it has restructured its accounting, business and financial arrangements to facilitate transparency.

Vision:

To be a leader in railway network control services and be recognised by its customers as a quality performer in this field.

Values:

- Safety;
- Customer satisfaction;
- Service culture;
- Technical excellence;
- Commercial orientation, and
- Quality process.

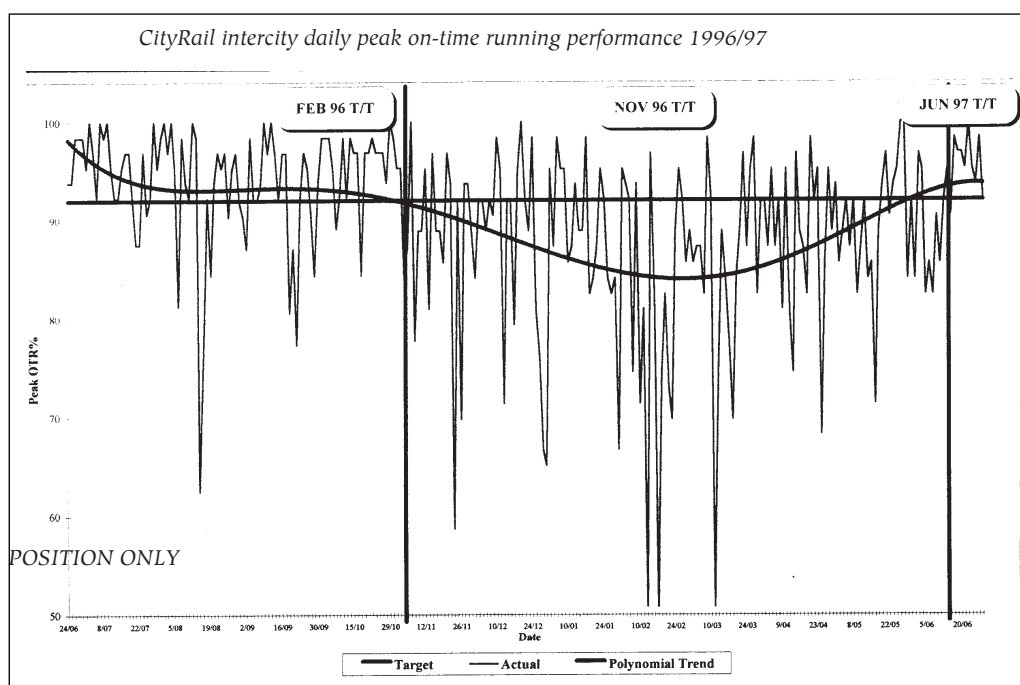
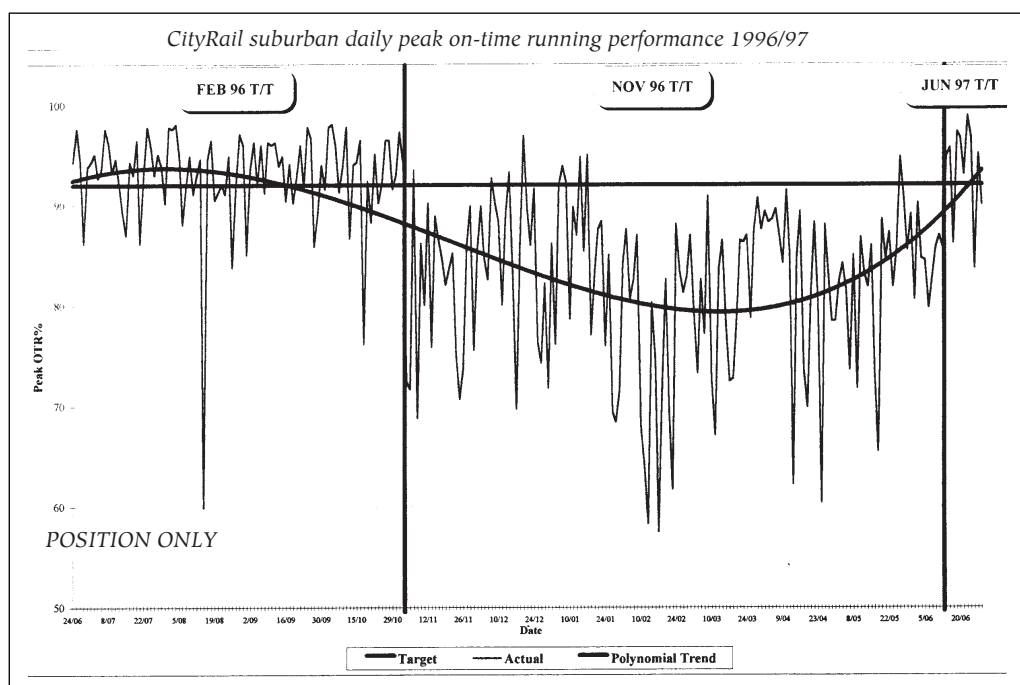
CityRail is committed to providing accurate, easy-to-understand information for customers at its stations throughout the network.



Service reliability

In 1996/97, 86.4 per cent of peak CityRail suburban services ran on-time (within three minutes of timetable). Peak intercity services achieved 90.1 per cent on time (within five minutes of timetable). This performance was below previous years and less than the 92 per cent target.

The graphs clearly show the impact of the November 1996 timetable on performance. A high standard of performance for suburban services was achieved in the first quarter. Performance declined following the introduction of the overly-ambitious November 1996 timetable. However, the trend shows improvement from the end of February when strategies started to influence performance. At the end of the financial year the target of 92 per cent was achieved on a regular basis following the introduction of the new timetable on 19 June.



Financial performance

In its first year of operation Network Control earned revenue of \$98.9m of which 74 per cent came from Rail Access Corporation (RAC). Other revenue earners included the provision of telecommunication services to the rail entities.

The focus on expenditure was aimed at eliminating unnecessary costs and putting measures in place to ensure that necessary costs are kept to a minimum. There has been ongoing formal reviews of all Network Control activities with RAC to identify cost reduction opportunities as part of the Network Control Agreement.

A resource management strategy to reduce labour and overtime expenditure caused by essential shifts covered by overtime due to a signaller's shortage, resulted in a comprehensive review of staffing requirements within the metropolitan and country signal boxes and culminated in a major recruitment drive. Network Control took part in developing a risk management plan to minimise the impact of key financial risks.

A number of commercial systems and practices was introduced during the year. The negotiation of the Network Control Agreement saw Network Control having to operate under a commercial framework with RAC. The implementation of the MIMS integrated software will support the adoption of internal processes in many aspects of the business.

Skilled, committed and productive people

During the year, staff levels averaged 1100. A major recruitment drive resulted in the hire of 80 trainee signallers and 11 train controllers. Training opportunities were made available to all staff in Network Control in signalling, safety, rehabilitation, computer skills, EEO and management development. Ten employees successfully completed middle and senior management modules of the Management Development Program. Total expenditure incurred on training during the year was \$207,000.

Network Control participated in the Equal Employment Opportunity (EEO) Survey with a response rate of 26 per cent. Strategies are being developed to encourage more employees to complete the survey.

Network Operations and Train Operations

A key initiative in these areas was the development of on-time running advice to the Minister for Transport and SRA Board for peak morning and afternoon services.

The November 1996 timetable was replaced on 19 June 1997. Service reliability has significantly improved with record performances being sustained in the high percentile range. Further enhancements will be implemented on 19 October 1997.

Planning is underway for train operations on the Olympic line for the Royal Easter Show in 1998. This will be a major test of State Rail's ability to meet the transport task for the 2000 Olympics.

During the year a partnering workshop was conducted with managers of Network Control and RAC following the signing of the RAC/NCD Agreement on 15th July, 1996. The workshop looked at the process of reform and the pursuit of economic efficiencies through rationalisation of the scope of Network Control Services and minimising the cost of access to the NSW rail network.

Safety

A major initiative is underway to review all safeworking units within the safeworking manuals which adversely affect on-time running. Further research is being carried out to establish what other safeworking units will be affected. This will result in the current number of safeworking manuals being reduced from seven to five.

A System Safety Plan was developed to ensure all guidelines in Australian Standard AS4292 are followed.

A Train Order Manual was developed and a trial is anticipated to commence later this year.

CityRail's new diesel Endeavour cars provide fast, comfortable services on the Intercity network and those stations outside the electrified system.

Below: Endeavours at Newcastle station.



Telecommunications

Railcom, the telecommunications arm of State Rail, provides a broad range of telecommunications, voice and data services for the new rail entities.

Railcom continued to implement the restructuring program which flowed from a review conducted by KPMG in 1996. The restructure will enable Railcom to improve customer service levels and commercial performance.

Railcom's team provided installation work and commissioning support under contract for major signalling works at Granville, Mt Owen and Strathfield, and for the installation of trackside phones at Enfield for FreightCorp.

An additional 21 commuter telephones were installed at 12 stations on the central coast corridor and upgrading of station communications involving closed circuit TV, digital voice announcement systems and passenger information displays was carried out.

Pending completion of the final train radio system, the existing train working radio was extended to provide wide area coverage in the CityRail area as well as in the City Underground tunnels.

Specifications were developed in conjunction with users for the replacement of telephone communication systems used in electrical operations and Train Crewing control offices. Integrated touch-screen-based systems have been proposed for these areas.

Several projects to improve the State Rail Wide Area Network were initiated, targeted at improving performance and providing a modern management system for improved failure diagnosis and network availability.

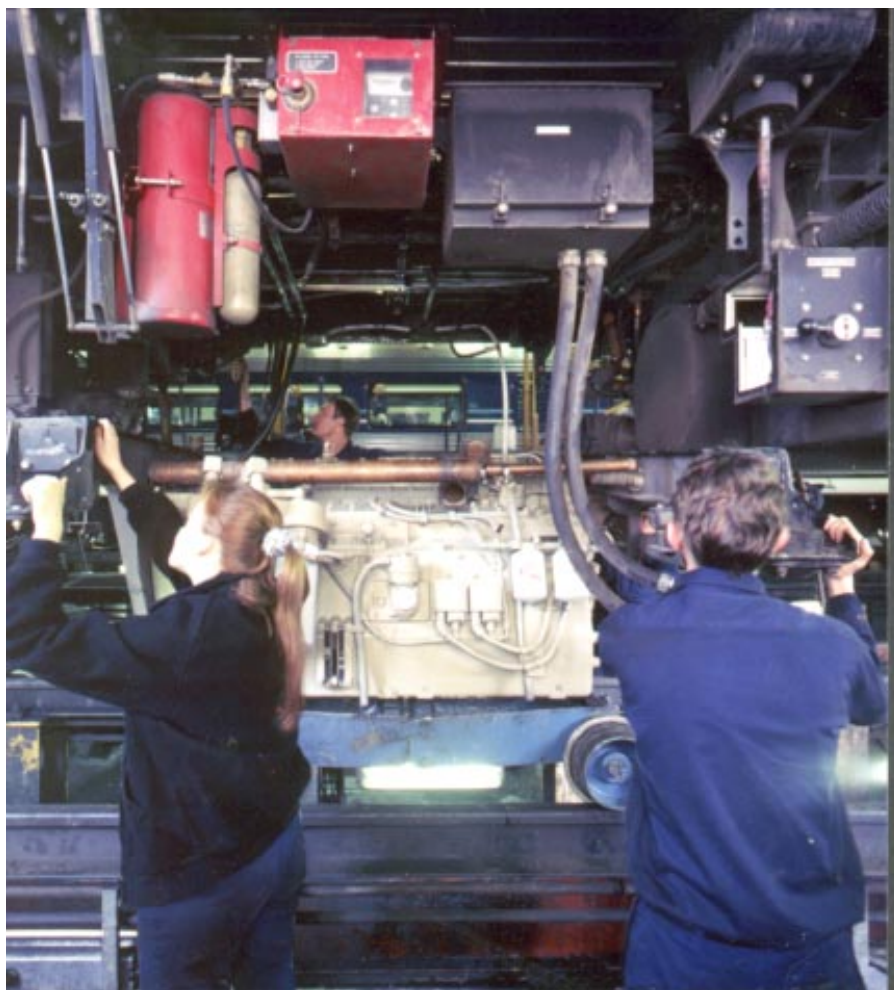
Railcom continued to provide ongoing support for a number of major projects such as design management and cost control for the City Underground fire and life safety project. Railcom was also successful in winning a bid to provide all telecommunications aspects for the New South-ern Railway.

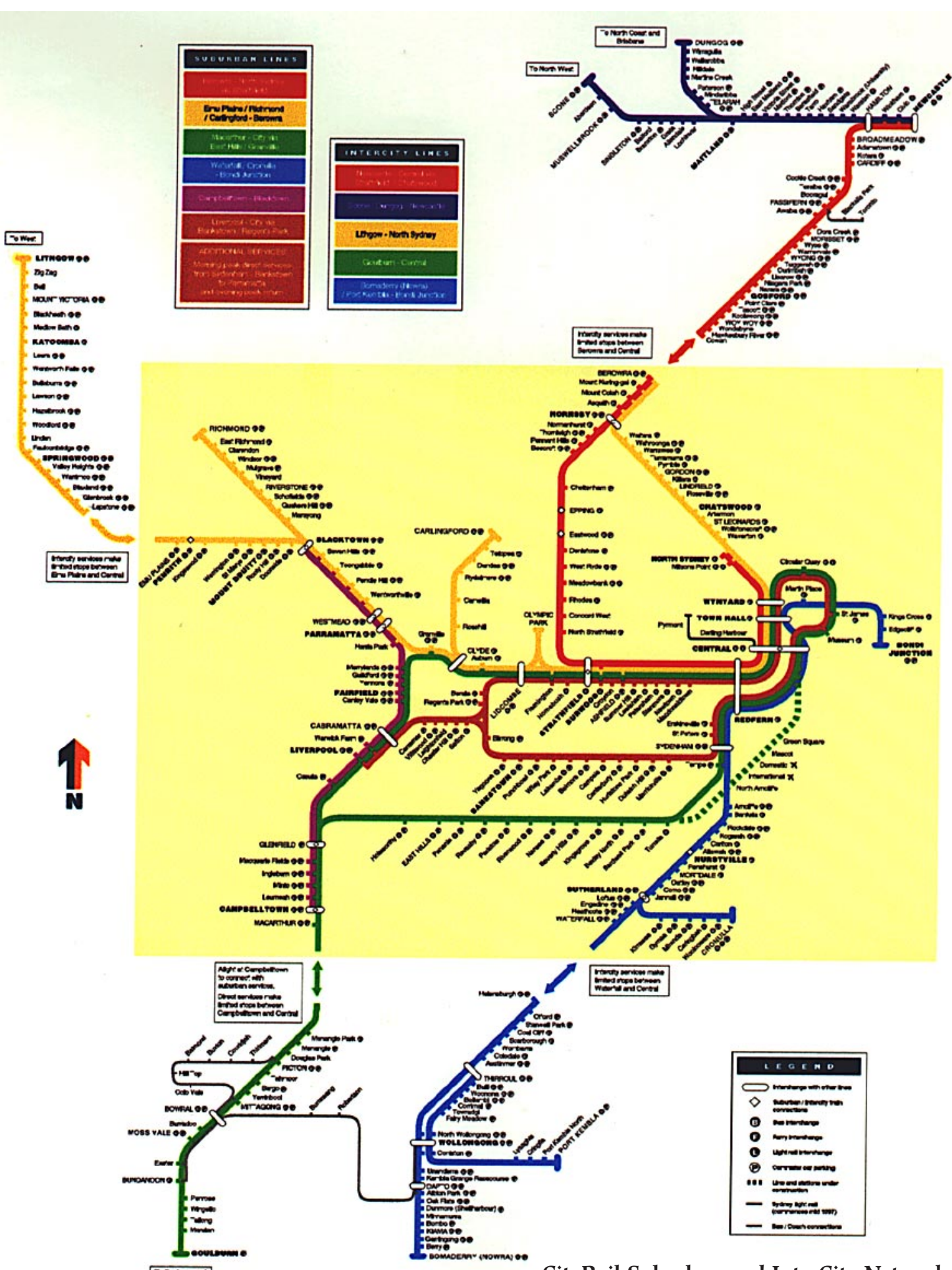
Possessions

In early 1996 the Network Possession Management Unit was established to manage all track possessions in the State. Previously, possession management was fragmented between metropolitan and country regions. A new network possession approval process incorporating cancellation procedures was developed to encompass the entire state and to enable controlled access by the existing maintainer (Railway Services Authority), and new facility maintenance organisations.

The new process has enhanced accountability for possession management and provides rigorous controls to eliminate service disruptions and time overruns.

Passenger Fleet Maintenance staff at work in the motor renewal lift shop at State Rail's XPLOER/Endeavour Service Centre, Eveleigh.





SUBURBAN LINES	
●	Eastern Suburbs
●	Blue Plains / Richmond / Carlingford - Berona
●	North Shore City Rail / East Hills / Newpark
●	Waterfall / Central - Bondi Junction
●	Carlingford - Berona
●	Liverpool / Central / Bankstown - Bondi Junction
●	SPECIAL SERVICES
●	Monday peak service between Parramatta / Berona / Bankstown / Bondi Junction and Liverpool / Central

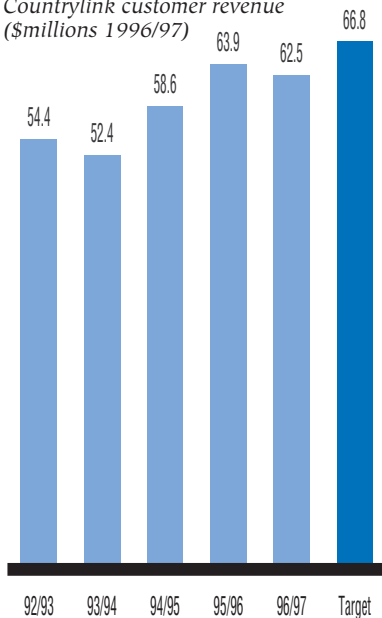
INTERCITY LINES	
●	North Coast / Blue Mountains
●	North / Sydney / Newcastle
●	Lithgow - North Sydney
●	Casulman - Central
●	Southern / Central / Four Mountains / Bank Junction

LEGEND	
	Interchange with other lines
	Suburban / InterCity rail connections
	Bus interchange
	Heavy interchange
	Light rail interchange
	Overpass or junction
	Line and stations under construction
	Sydney Light Rail (L1)
	Sea / Coach connections

CityRail Suburban and InterCity Network
 © CityRail 1996

Countrylink report

Countrylink customer revenue
(Millions 1996/97)



As State Rail's long-distance passenger service, Countrylink is an integral part of a network covering 334 destinations in New South Wales, Queensland, Victoria and the Australian Capital Territory.

Following a period of strong marketing activity focused on revenue growth, Countrylink now enjoys a high level of brand awareness and offers an excellent product to its point-to-point and rail holiday passengers.

This year Countrylink refocused on cost management, with a number of reforms put in place to increase cost recovery. Implementing these initiatives meant that a number of considerations, including the importance of maintaining revenue and services, as well as proper consultation with staff and unions, had to be taken into account.

The coming year will see the reform process continue and cost recovery is expected to improve significantly in 1997/98.

Financial performance

Countrylink's revenue performance increased marginally with net customer revenue (including on-board services) up from \$61.7 million in 1995/96 to \$62.5 million this year. A number of factors negatively affected revenue, eg the removal of the \$10 pensioner fare which accounted for a loss of \$2 million, and a general tightening in the passenger transport and holiday industry.

Savings arising from cost-cutting measures enabled the overall expenditure of \$185.9 million to remain within budget, even though Countrylink acquired the management of rural coaches from the Department of Transport, incurring an additional \$5.5 million in expenditure.

Operating performance

Countrylink operated 8,493 rail services and 29,138 feeder coach services throughout rural NSW and to Melbourne, Canberra and Brisbane this year. Countrylink has 868 staff who provide a high level of service to customers who took 2.5 million passenger journeys over the year. The Countrylink fleet of 13 trains is made up of XPTs and XPLOREs, which travel more than 5.4 million kilometres each year.

Countrylink's on-time running performance averaged 87 per cent for the year, This was 3 per cent below the target of 90 per cent - mainly due to a number of speed restrictions in Victoria which were in place from February until the end of June.

Millions of kilometres of experience: Countrylink driver Tony Wallace has been at the controls for 20 years, the last twelve aboard XPTs.



Key achievements

Passenger journeys overall increased by 2.5 per cent from 2.44 million to 2.51 million during the year. This growth is largely attributed to marketing activity which increased public awareness of rail as a viable choice compared to other transport modes.

Countrylink holidays

Countrylink's range of holiday packages expanded during the year to encourage increased revenue from this growth area. The packages are concentrated around Countrylink destinations and aim to create both a value-added service to our customers as well as the opportunity to increase revenue from Countrylink's customer base.

Countrylink now also distributes the holiday packages to licensed and A.F.T.A travel agents, which increases sales distribution from the core group of Countrylink Travel Centres to over 3000 travel agents across Australia. During the year holiday package sales grew by 40 per cent and are forecast to increase a further 40 per cent in the coming year.

To develop a loyal customer base, Countrylink launched a Travel Club during the year aimed at a key target market, ie. people aged over 50 years. From an initial mail-out of 40,000, more than 10,000 people responded and registered as Countrylink Travel Club members. Each Travel Club member receives regular brochures with details on added-value holidays specifically designed for their travel requirements.

Brand awareness

Independent research showed an increased awareness of the Countrylink brand from 50 per cent in 1995/96 to a peak of 95 per cent this year. Average brand awareness for the year was 90 per cent.

Customer satisfaction

Countrylink prides itself on providing a high level of customer service and conducts regular surveys to ensure service levels are meeting or exceeding the 90 per cent target of overall customer satisfaction. Two surveys were conducted during the year; The July 1996 survey revealed that Countrylink met its target with 90 per cent of customers either satisfied or very satisfied with the service; the January 1997 survey showed an increase of 2 per cent, with 92 per cent satisfied with the overall service.

During the year on-board pay phones were introduced into XPTs, with installation planned for XPLOREs during next year. Passengers can use the telephones to call anywhere in Australia by purchasing a phone card from the buffet.

Commercial reforms

During the year Countrylink continued its drive to bring a sharper commercial focus to the business, with the introduction of a number of reforms in the Central Reservations Centre (CRC) and the Travel Centre Network.

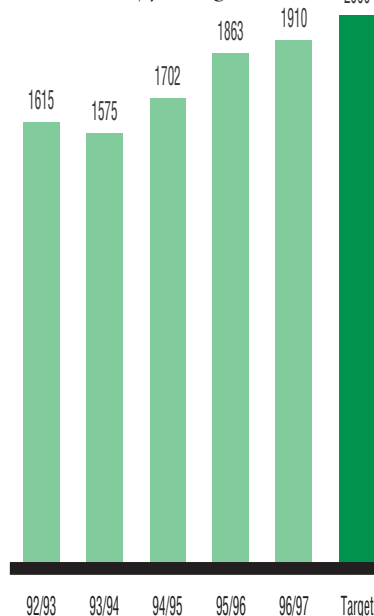
A major staff review was carried out to decrease the amount of overtime required for the operation of CRC. The review resulted in the conversion of 16 full-time staff positions into 32 permanent part-time positions allowing greater flexibility in peak time shift coverage. Overtime in CRC is projected to decrease by 25 per cent in 1997/98.

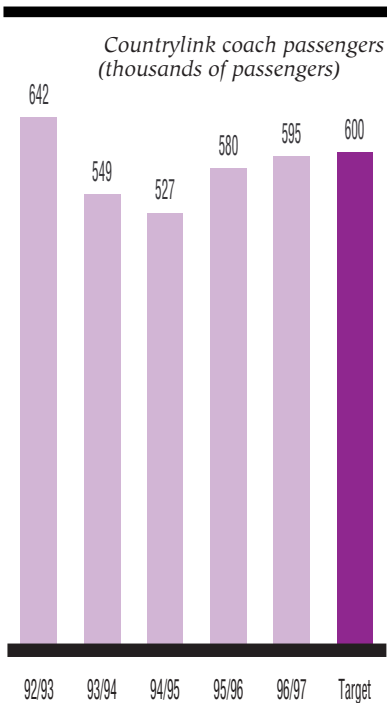
During the year each Countrylink Travel Centre was given the task of achieving profitability by June 1998. Each Travel Centre has been set an individual operating budget and aims to meet this through managing costs and increasing commissions earned through selling travel product.

Investing in staff

Countrylink continued to invest in its workforce with over \$392,000 spent on staff training during the year. In particular, all new on-board staff underwent an intensive induction program involving a four week training school followed by a further two weeks working on-board with an experienced member of staff acting as a mentor. The investment cost of this program alone was \$183,000 for the current year.

Countrylink rail patronage (thousands of passengers)





Key Issues

IPART Report

The Independent Pricing and Regulatory Tribunal (IPART) conducted a review into Countrylink's operations and released an interim report in March 1997. The purpose of the review was to examine the efficiency with which Countrylink services are provided, the costs of providing the services and the methods used to recover costs.

The interim report was critical of the costs of Countrylink operation and outlined a number of options for the NSW Government to achieve greater efficiency in the provision of transport to and from country NSW. The IPART recommendations included:

- **Withdrawal from Travel Centre operations**
 - The Government decided that Countrylink will continue to operate Travel Centres; however, Countrylink is working to ensure they can all operate profitably.
- **A reduction in staff levels**
 - Countrylink is undertaking a review of all its operations to meet IPART's recommendations on staff levels. However, Government policy is that there will be no forced redundancies.
- **Evaluate outsourcing opportunities for all non-core activities**
 - Countrylink already outsources its on-board catering and coach services. It is investigating an outsourced reservations system.
- **Target advertising to achieve greater value for reduced expenditure**
 - Countrylink will reduce its advertising spending and is planning a more targeted and tactical campaign in the coming year.
- **IPART supports a Pensioner Travel Voucher system with monitoring for the cost recovery improvements and any adverse effects on pensioners**
 - The quota system for PTV travel is in place and take-up rates are constantly monitored.



Countrylink has already adopted a number of IPART recommendations and will continue to incorporate these into planning decisions for 1997/98. A final IPART report is due to be released later in 1997.

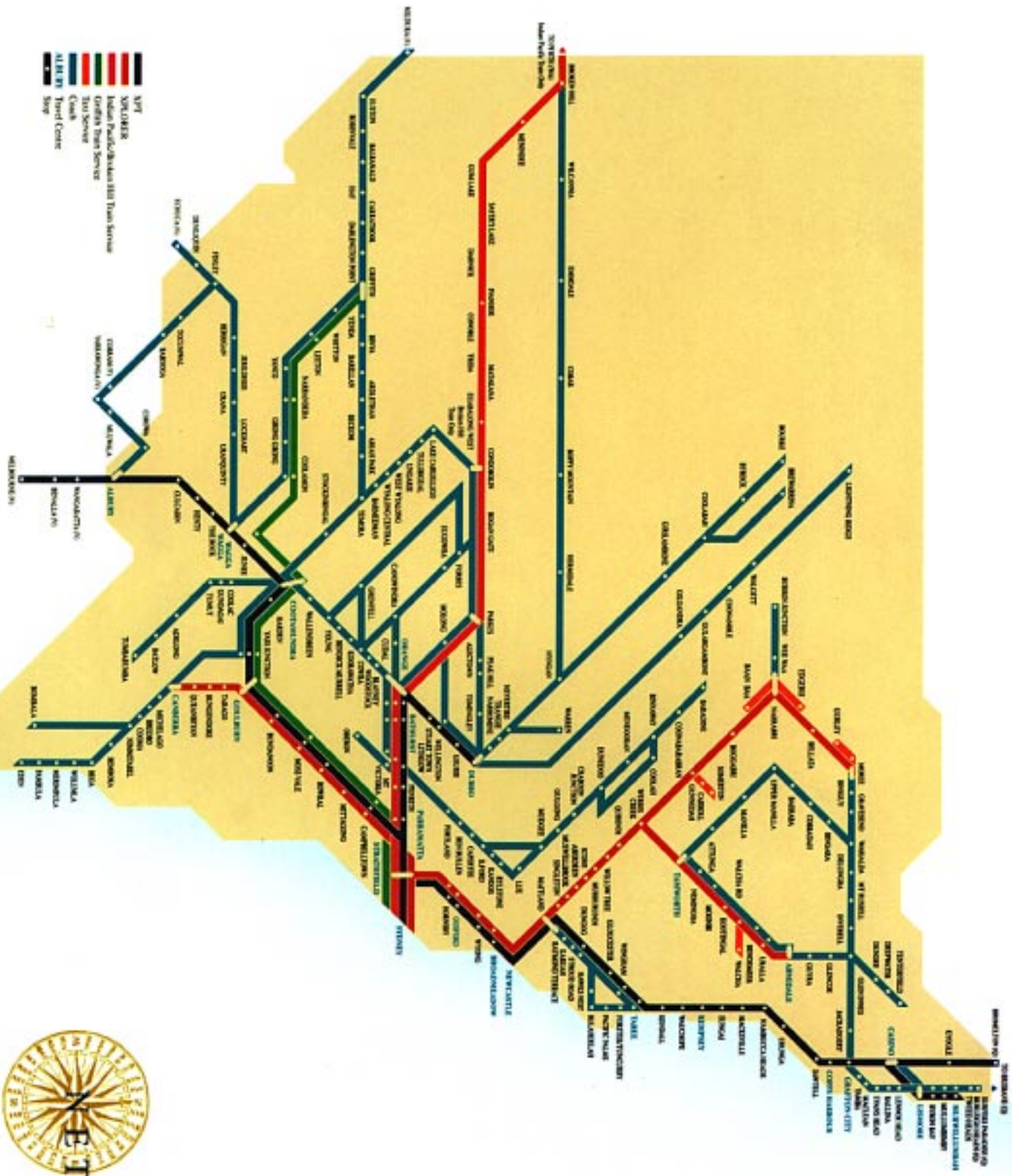
Capital works

The budget allocated for capital works and maintenance for the year was \$21.5 million, of which \$21.0 million was expended.

Countrylink's capital works during the year focused on the station upgrading program, with refurbishment work carried out on Sydney Terminal station, Kyogle, Coffs Harbour, Werris Creek, Junee and Tamworth stations. Other expenditure was directed towards improvements to XPLOER trains.

Next year, expenditure will be concentrated on train improvements, particularly on the installation of automatic central locking throughout the XPT fleet.

Making all the right connections: each year more than 590,000 passengers travel aboard Countrylink coaches linking our XPT, XPLOER and other services.



This is a schematic representation of our rail and coach services and should not be seen as an accurate geographic map. It should be used with the CountryLink timetable, as some of the smaller towns we service are not shown due to space limitations. Client 136



COUNTRYLINK
MAP

COUNTRYLINK

position only

Internal Audit

The mission of Internal Audit is to assist the State Rail Board and management to meet commercial objectives and statutory obligations by providing independent professional appraisal and advice regarding:

- the adequacy and effectiveness of the Authority's system of internal control, and
- the efficiency, economy and effectiveness of the implementation of management policies and practices.

Under the Transport Administration Amendment (Rail Corporatisation and Restructuring) Act, 1996, the State Rail Authority of NSW was reorganised on 1 July 1996 into four independent entities.

In response to that restructure, the Internal Audit branch continued to supply full internal audit services to State Rail and, under service agreements, to the Freight Rail Corporation (FreightCorp) until 31 December 1996 and to Railway Services Authority (RSA) until 30 June 1997. Rail Access Corporation (RAC) made arrangements for its own internal audit function.

Separate internal audit plans for 1996/97 for State Rail, FreightCorp and RSA were developed with executive management of each organisation and were demand-led rather than supply-driven. The State Rail plan will be completed in July 1997 while the audits for FreightCorp and RSA were completed during the year under review.

A total of 104 reports was issued during the year under review. In the case of State Rail 665 recommendations were made in which agreement was reached with management. A wide range of audits of operations, processes, and computer systems in development was completed.

Internal Audit provided a copy of each State Rail audit report to the Chief Executive, as well as the manager directly responsible, and reported separately to the Board Audit Committee on significant issues at three meetings.

In September 1996, Internal Audit proposed, and executive management approved, the preparation of a Risk Management Plan for State Rail. The goals of this project are:

- to identify risks across all business units;
- to prepare a risk management plan which includes:
 - evaluating controls in place to mitigate identified risks;
 - establishing clear management accountabilities, and
 - determining management training needs.

The Risk Management Plan will be completed in August 1997 and covers the following risk areas:

- Fraud and Corruption
- Asset Management
- Operational
- Legal and Compliance
- Commercial Environment
- Treasury
- Information Technology
- Environment
- Human Resources Management
- Management Information
- Security

The major outcome of this project will be to focus management attention on business risks and clearly allocate responsibility for managing those risks, while ensuring the controls in place to mitigate risks are operating. Internal Audit will undertake compliance auditing in respect of risk management to monitor the extent to which controls remain in place and are appropriate and economical. In addition, the Board has agreed that in future Internal Audit will focus on:

- operational audits using systems-based methodology to review systems common within State Rail and report on systemic problems, as well as testing compliance;
- management audits to highlight ineffective operations with regard to business objectives and inefficient or uneconomical processes, and
- EDP audits to undertake technical and application audits and write programs to extract data specified by operational auditors for CAATs (Computer-Assisted Auditing Techniques). CAATs will be used to highlight transactions or areas of high risk regarding unauthorised, inefficient or ineffective work.

Corporate Finance

The objective of Corporate Finance is to ensure that sound systems of financial planning and budgeting, financial reporting and control, financial information systems, and management of the assets and liabilities of State Rail and its business groups are in accordance with statutory requirements and the policies and standards directed by the Chief Executive and the Board.

Corporate Finance has been restructured into four functional streams, reporting to the group's General Manager, to provide clear lines of responsibility and accountability:

- Financial Accounting;
- Business Planning;
- Accounting Systems, and
- Treasury and Taxation.

Corporate Finance provides a rigorous focus in establishing plans and strategy, developing and implementing policy and standards, monitoring business group performance, and promoting the integrity of financial information on which management can make informed business decisions.

The MIMS management and financial systems will be implemented on 1 July 1997. This will include General Ledger, Projects, Payroll and Human Resources modules. A strategy to address each of the MIMS systems is underway. This will identify improvement opportunities and an action plan to address issues prior to 30 June 1998. This will be an ongoing commitment to ensure the integrity of financial information and reporting.

Following the restructure of State Rail, a significant number of personnel transferred to the new business entities and many State Rail functions became the responsibility of those entities. This has afforded the opportunity to review the corporate functions and identify the most effective organisational structure. Appropriate accounting functions will be devolved to the business groups to allow Corporate Finance to focus on its prime roles of planning, policy, control and reporting.

InterCity Tangaras deliver high standards of comfort and service to customers travelling beyond the CityRail suburban network.



Business Services

In accordance with the administrative arrangements applicable to the restructure of State Rail, the opportunity was also taken to restructure the Corporate Human Resources Division.

Under the new business entity of Business Services, the decision was made to provide a range of specialist services and customised products on a commercial fee-for-service basis, to the other new business entities.

This was established under service agreements negotiated not only with other divisions within State Rail, but also with the new Freight Rail Corporation and Railway Services Authority.

To ensure a more effective focus of specialised corporate business support, Rail Estate (State Rail's property function) and Information Technology (covering all IT maintenance and development including the introduction of the new fully-integrated management and financial system [MIMS]) were transferred to Business Services.

The following is a summary of the year's performance for the Business Services Division which covers these support areas:

- Australian Rail Training (formerly State Rail Training);
- Rail Cover;
- Rail Estate;
- Industrial Relations and Payroll;
- HR Services and Systems, and
- Information Technology.

Australian Rail Training

- creating your future through training

During the year, State Rail Training changed its name to Australian Rail Training to reflect its broader customer base, covering public and private rail operators and engineering contractors.

Australian Rail Training (ART) made significant progress implementing a national qualifications framework for the rail industry, introducing accredited, competency-based training based on national standards.

Thirteen certificate courses have been accredited, ensuring national recognition and portability.

This framework provides for upskilling and increased mobility for employees within the railways from entry to diploma level by building on qualifications they receive during their career. Employees can qualify in five streams eg Infrastructure, Passenger, Maintenance, Operations, and Management.

The focus during the year was on the integration of sound educational principles in the design and development of training courses, integrating on and off-the-job delivery, and incorporating competency-based workplace assessment.

Commercial performance

For the third successive year, Australian Rail Training achieved a commercial result with a net profit of \$749,000 and a contribution to State Rail revenue of \$1,277 million.

Business grew by 6 per cent, with student days increasing to 91,306, up from 86,253 the previous year.

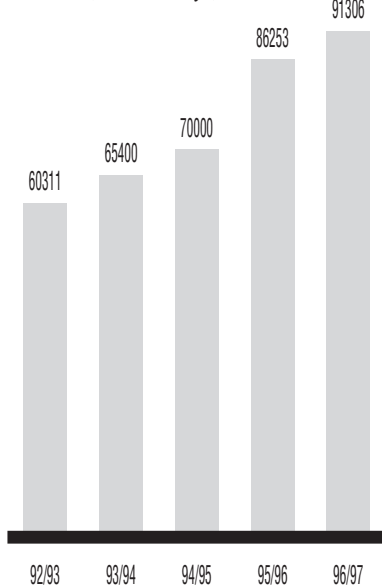
Staff productivity increased by 14 per cent over the same period .

Flexible delivery

A number of initiatives was implemented, continuing with ART's commitment to introducing flexible delivery of training,

A new CD ROM-based training package was developed to enable recognition of all the signalling systems operating on the NSW network. The package is available for use at home, on the job and in the workplace and will ensure knowledge can be regularly updated, with significant time and cost savings.

Business has grown by 51 per cent since 1992/93 (student days).



Several new self-paced video training packages have been developed. These include “Win that Job”, “Electrical Safety” and “Workplace Coaching”. All three training packages are designed to provide learners with a range of options in terms of where the training is delivered, and flexibility in terms of self-pacing and the learning experience.

National Train Drivers’ Project

This project established the first national qualification for train drivers in Australia. The curriculum was developed using a process of widespread consultation with rail personnel in each state. The course has been accredited by the Vocational Education and Training Accreditation Board (VETAB) and is available for Australia-wide implementation.

Safeworking review

A complete review of basic safeworking training was undertaken, resulting in a total revision of traditional training into a series of competency-based modules which incorporate modern assessment practices and learning theory.

Apprentices

ART received funding from the Department of Training and Education Coordination to implement training in the area of on-the-job support for apprentices.

A total of 231 participants was trained in the area of *Supporting Workplace Learners, Workplace Trainer Category I* and *Workplace Assessors*. The training has established a network of workplace coaches, trainers and assessors across rail organisations.

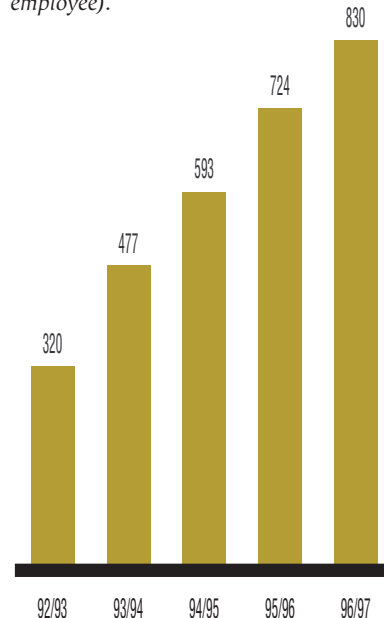
Language and Literacy

The past year has seen considerable extensions to distance learning, with a whole spectrum of vocational training to a larger pool of customers at intermediate level.

Another significant achievement was the extension of on-site classes at Passenger Fleet Maintenance, including the introduction of night classes.

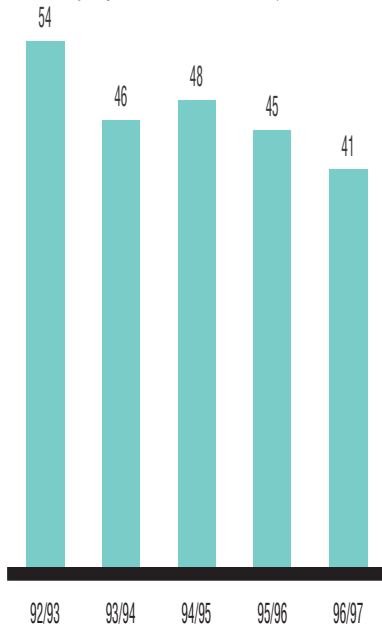


Staff productivity has grown by 162 per cent since 1992/93 (student days per employee).



A Countrylink XPLOERER photographed near Bowral in the Southern Highlands, bound for Canberra, the nation’s capital.

Long duration claims per thousand employees continued to fall.



RailCover

This year was the first for State Rail being responsible for the self-funding of Workers' Compensation liability for injuries incurred during the year. A service agreement was entered into with Treasury to manage and continue to fund claims prior to 1 July 1996.

Occupational Health and Safety

Communication networks were upgraded by placing the *Health Risk Management Guidelines* on the Intranet, and the establishment of a management performance system to provide feedback on claims experience to the executive and general management.

A *WorkCover* systems audit indicated 'continuing improvement' although more needs to be done in the operational areas.

Workers' Compensation claims

RSA and FreightCorp claims were administered by State Rail on a fee-for-service basis which terminated on 30 June 1997.

State Rail received 1144 claims during the year under review at an estimated total cost of \$4.7m.

Claims per hundred employees dropped from 19.5 in 1995/96 to 12.4 in 1996/97, mainly due to the rationalisation of high-risk business activities to the RSA and FreightCorp.

The average cost per finalised claim in the first year declined from \$1243 last year, to \$781.

The number of longer duration claims per thousand employees continued to fall as shown in the graph.

Rehabilitation

State Rail's rehabilitation program continued to improve. Various field programs have been undertaken to upgrade the delivery of rehabilitation services to injured employees. This work was recognised by *WorkCover* in its audit report of State Rail in 1997, which acknowledged the rehabilitation program to be one of the best-performing elements of the OH&S system.

A rehabilitation quality assurance system was introduced through a new post-injury monitor and feedback process which complements devolved responsibilities.

Industrial Relations

State Rail and rail unions have been involved in extensive negotiations concerning the next Enterprise Agreement. It is expected these negotiations will result in a 7 per cent wage movement for all State Rail employees, to be paid in three instalments.

As well, the Authority is endeavouring to change the focus of enterprise negotiations through the adoption of a performance-based agreement. It is appropriate for the EBA to be underpinned by all employees contributing towards organisational performance through improved on-time running and customer service, increased productivity and reduced absenteeism.

Major changes to State Rail's enterprise agreements and awards include:-

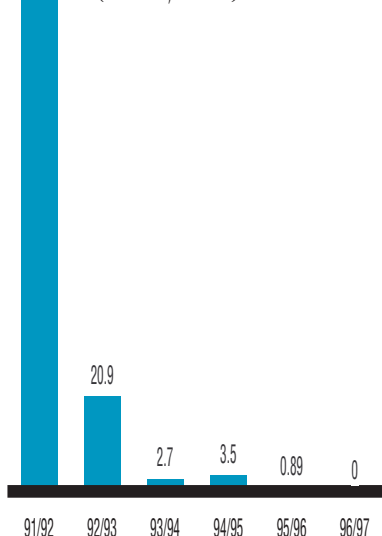
- the compression of Senior Officer Grades 8-15 into three levels;
- the restructure of Train Controller classifications, and
- the restructure of Professional Engineer and Professional Officer grades.

A number of work and job redesign projects was undertaken, delivering significant workplace reforms. Major exercises included the RSA Infrastructure project, telegraph/switchboard, Train Crewing Inspectors, Countrylink staffing, Signallers' Restructure, and the Fleet Maintenance Centre project.

Work value studies were conducted in major operational areas including CityRail drivers, guards and trainer guards, signallers, CityRail station staff, and automatic ticketing technicians.

An extensive review of clerical and senior officer classifications was undertaken on adopting compressed structures in both groups. Major restructuring was achieved in the Professional Officers' classification streams.

There was no time lost to industrial stoppages during the year under review (000s of hours).



The Industrial Relations Unit represented the Authority in a number of unfair dismissal cases and also provided an industrial relations service to RSA and FreightCorp during their first year of operations.

The success of the various consultative processes, involving management and unions, is highlighted by the fact that for the first time no time was lost due to industrial disruption.

Human Resources Services and Systems

Following the State Rail restructure, the focus of work undertaken by the HR Unit changed from one of a traditional head office approach involving monitoring and control processes, to a specialist HR support unit responsive to client needs.

The HR Services and Systems unit provided a wide range of specialist support on a “fee for service” basis, achieving delivery within agreed performance standards, despite a 24 per cent reduction in staff.

The range of clients included FreightCorp, Rail Access Corporation, Railway Services Authority and the State Rail Authority.

Human Resources Strategic Development

Policy and Planning

The Unit provides critical advice and direction for HR including the development of a broad range of human resource policies and strategies. Key initiatives during the year included:

- review and revision of the State Rail Employee Assistance Scheme;
- production of the comprehensive “*State Rail and You*” handbook detailing HR policies, staff entitlements and conditions of employment in a simplified format;
- release of a “*Passes Booklet*” detailing employee travel entitlements;
- restructure and revitalisation of the State Rail Suggestions Scheme;
- production of State Rail’s 1995/96 EEO Annual Report;
- management of the Chief Executive’s Aboriginal and Torres Strait Islander Scholarship Scheme, and
- management of “*Women in Transport Taskforce*” within State Rail - an initiative of the Premier to identify the barriers to women entering and advancing in the transport industry.

Management Development

State Rail Management Development was significantly enhanced by the design and implementation during the year of a Diploma in Applied Business Practice through the UTS. The diploma is the first rail industry-specific tertiary qualification offered by a university to employees in the railway industry.

The Management Development Program continued to improve the executive leadership, management competencies and the skills of senior and middle managers from across the rail industry by offering places on modules at Master’s and Diploma levels. A number of participants from the Roads and Traffic Authority enrolled at Master’s level. As well, a Mentoring System was introduced in 1996 which includes a Learning Contract, now involving 250 participants and 250 mentors in a participative and consultative development process for middle managers.

Overseas management development scholarships were coordinated through the program, with three rail industry employees (one of whom is from State Rail) winning prestigious awards, one of which was a State Government Travelling Fellowship to examine the recruitment, induction and training of personnel to support the conduct of the Sydney 2000 Olympic Games. This required visits in September to November of 1996 to Barcelona, Seoul, Los Angeles and Atlanta.

There were 410 participants in the Senior and Middle Management Program with 23 per cent and 32 per cent female participation respectively.

The unit facilitated the Executive Forum, an element of management development, as a platform for discussion by executives and senior managers of key issues which impact on the rail industry and its business environment.

HR Consultancy

The HR Consultancy unit offered a “one stop” customised consultancy service incorporating:

- major structural and organisation design reviews;
- job analysis and position documentation;
- senior executive recruitment services;
- job evaluations (694), and
- workforce reporting, analysis and processing statutory workforce reporting requirements.

These services were provided during a year highlighted by the establishment of the separate rail entities and the major effort required to establish the new structures and resource the business units within critical timeframes.

Grievance Resolution Service

The Grievance Resolution Service (GRS) expanded its service base to deal with an increased number of incidents which involved intensive case management. A staff awareness campaign for the GRS was also carried out.

Achievements during the year included:

- the processing of 370 cases of which approximately 25 per cent were complex matters requiring intensive case management, a significant increase on the previous year. Of the 370 matters, 214 related to State Rail (52 of which were complex cases), and 156 related to either FreightCorp or RSA (37 of which were complex cases). Conflict between individuals was the predominant issue (42 per cent of all matters), followed by queries or complaints about a range of employment conditions (28 per cent).
- Matters referred to GRS by management almost doubled, from 21 per cent in 1995/96 to 41 per cent in 1996/97.
- The expansion of the service base to include:
 - conflict resolution training within State Rail - including station managers and revenue protection officers;
 - external training and assessments for the State Transit Authority;
 - post-conflict mentoring programs for individuals;
 - assistance in the resolution of customer complaints;
 - facilitations between SRA representatives and public agencies, and
 - advising managers on a range of employee relations issues.
- The mailing of brochures to all units within State Rail as well as our customers to ensure all employees are aware of the service.

Redeployment and Retraining

The Redeployment and Retraining Unit operates on a transfer charging arrangement, providing advice, support and assistance to management and surplus staff across the rail industry.

Every effort is made to redeploy surplus staff into suitable positions but if this process is unsuitable the offer of voluntary severance could be an option in accordance with current policy.

There were no major redeployment or redundancy exercises carried out for State Rail staff during the year. However, downsizing and restructuring initiatives provided a regular program of work for the unit. The introduction of National Rail impacted greatly on staffing levels, particularly in country centres such as Broken Hill, Ivanhoe, Parkes and Albury.

Other areas affected by restructuring programs and staff reviews were freight centres at Chullora, Tamworth, Cootamundra and Dubbo, and the marshalling yards at Rozelle and Flemington Markets.

Ongoing support to staff accepting voluntary severance through the *Job Assist Scheme* has been successful. Statistics show 281 people registered for assistance in training and alternative employment or to start a business.

There were 348 voluntary applications processed for the following clients:

- Rail Access Corporation (1);
- Rail Services Authority (88);
- FreightCorp (157), and
- State Rail (102).

HR Inforlink

The unit was involved with the implementation of the MIMS System and provided the download of data from the Legacy System for processing and uploading to MIMS.

HR Inforlink is investigating methods for archiving the PERSY data to conform with Records Management requirements and provide enquiry access to the data bases. The unit provided management with special ad hoc reports from the legacy database to facilitate decision-making. These reports have been given high priority with an average of 24 hours turnaround.

Information Technology

State Rail's IT group became part of the new Business Services Group, resulting in an increased business focus. IT now serves external customers across the rail industry as well as internal customers. A wide range of IT services was provided to the new business entities during the year under commercial service level agreements.

The creation of the new rail entities had a significant impact on the implementation of the MIMS integrated system. This is replacing a number of older systems in the finance, supply, maintenance, project management, human resources and payroll areas. State Rail provided the overall management for the separate implementation of the system in each of the new entities. Full implementation will be achieved on schedule on 1 July 1997.

The MIMS system will provide more accurate information, eliminate duplicated data entry and improve decision-making. Post-implementation activities in the new financial year will maximise the benefits of the new system.

State Rail's new Wide Area data communications Network (WAN) continued to be rolled out during the year. There was a fivefold increase in the number of locations on the network and an additional 2000 work stations were connected. It is planned to complete the majority of the rollout during the next financial year. Planning also started for separation of the common communications network to the individual rail entities. The WAN is providing staff with access to a wide range of desktop facilities including electronic mail and document transfer. It is also being used in a pilot system to speed the distribution of train-running information to City Circle stations.

As well, the WAN provides access to a new State Rail Intranet which will streamline distribution of information within the organisation. Access is also being provided to the external Internet. An official State Rail Internet site has been inaugurated and this is now being expanded to provide more information to the public.

Rail Estate

Rail Estate's mission is to add value through the progressive management of State Rail's property holdings and heritage assets.

Rail Estate provides the professional management and supervision of one of State Rail's largest assets: its land and buildings, and is responsible for:

- the purchase and management of land used for railway operational purposes;
- third party properties comprising some 4500 tenancies;
- disposal of surplus property assets;
- geographical information systems (GIS) and land information, and
- railway heritage (the largest heritage resource in one ownership in Australia).

The beautifully-restored station building at Mudgee - a fine example of cooperation between State Rail and interested community groups to protect and conserve outstanding railway buildings for future generations.



Key achievements for the year

- the sale of 43 properties with a total gross value of \$5.341 million;
- total revenue of \$32.2 million;
- commercial lease vacancies maintained at less than 2 per cent; and
 - rental outstandings 1.1 per cent of total revenue.

Rail Estate was extremely successful in a difficult property market, achieving:

- an average turnover of debtors of three days;
- a contribution of 2.81 per cent above budget, (\$15.3 million), and
- progression of the transfer of old title documents to a new integrated GIS system.

Reviews were undertaken to ensure Rail Estate responds to customer service requirements in an efficient and cost-effective manner.

Segmentation of Rail Estate's business continued to reflect true operating costs and profit by the adoption of commercial accounting/reporting structures.

Rail Estate balanced the capitalisation of rental property (through the sales program) with that of increasing rental income to provide a strong return.

Rail restructure

Rail Estate provided significant input into the property aspects of the restructuring of the rail industry and overseeing its implementation. An active role was provided in the identification and transfer of property assets to the new rail entities (Rail Access Corporation, Freight Rail Corporation and the Railway Services Authority). Property portfolios to the value of \$83.6 million were formally transferred to the new entities during 1996/97. A program is underway to create separate title for all of the property transferred.

Heritage Unit

The Heritage Unit followed new management strategies in support of SRA business products. The unit also extended heritage and conservation management services to the new rail entities.

The unit completed upgrading of the Heritage and Conservation Register to reflect the vesting of assets under the new

legislation. The role of ensuring the recognition and protection of heritage items was given high priority.

A major task arising from the asset transfers was the identification and assessment of minor plant and equipment, and other moveable material of potential value, at locations throughout the state. The unit concentrated on categories of items considered to be the most vulnerable, such as track maintenance vehicles (trikes) and antique items of furniture and equipment.

The records culling team provided assistance to FreightCorp and RSA in the assessment and disposal of records at former Trackfast Depots and other FreightCorp and RSA sites during decommissioning.

Several notable achievements were made:-

- Agreement was reached with RAC and RSA to provide heritage, conservation and archives professional services.
- SRA regional centres were surveyed re surplus material and heritage items transferring to SRA.
- A range of promotional activities was undertaken in Heritage Week 1997.
- Major conservation works were completed at Tenterfield, Young, Gundagai, Colo Vale and Mudgee stations, and Junee Roundhouse.
- A new policy was introduced to accommodate preservation groups in rollingstock disposals
- Major reviews of the operations of the Rail Transport Museum and the Sydney Electric Train Society were undertaken to provide a framework of future management.
- Surveys of track maintenance vehicles were completed with volunteer support.
- Major studies of loco depots were initiated with volunteer support.
- The unit provided ongoing assistance to RSA Consulting and CityRail in major station redevelopment planning at Liverpool, Arncliffe, Bankstown, Chatswood and Ashfield.
- A strategy was developed for Eveleigh North and for the establishment of the Transport Heritage Park on the site.
- Planning and documentation were prepared for major works conservation works on the Casino Coal Stage, Large Erecting Shop, CME Building, Sydney Central Station and Meadowbank Bridge.



An artist's impression of the "people plaza" and station entrance planned for the proposed airspace development above St Leonard's station.

Passenger Fleet Maintenance report

Passenger Fleet Maintenance began operations as a separate division of State Rail on 1 July 1996. Services are delivered through three diesel service facilities (Sydenham, Eveleigh and Broadmeadow), and three electric maintenance centres (Hornsby, Flemington and Mortdale).

The group provides a commercial support service to Operations Division and Countrylink through its management of the repair, maintenance, presentation, delivery and recovery of serviceable diesel and electric passenger rollingstock.

Periodic maintenance is carried out under contract by MainTrain in State Rail facilities at Auburn. The Major Incident Management Group, which recovers rollingstock involved in derailments, collision, fire or other major damage, is located at Enfield.

Diesel Services also provides rollingstock maintenance and cleaning services to RSA for its track inspection and laboratory test vehicles, and to Australian National Railways for the refuelling of locomotives and emergency attention to the Indian-Pacific in the Sydney area.



An Intercity XPT goes through the wash plant at Sydenham's XPT Service Centre

The vision of Passenger Fleet Maintenance is:

- to be a leader in the provision of mass transportation train maintenance;
- to meet our customer's expectations in the areas of safety, cleanliness, reliability and availability, and
- to provide its services at a commercially-comparable cost.

During the year under review, Passenger Fleet Maintenance employed 1153 people and maintained passenger rollingstock to support the 2222 CityRail and Countrylink services each weekday.

The 1996/97 Corporate Plan covered the first year of operation and focused on the consolidation of passenger fleet maintenance business units devolved from CityRail and Countrylink into one cohesive unit supported by a compact head office group.

Key Result Areas strive for improvement in availability, reliability, safety, cleanliness and financial management.

The primary achievement for the first year was the sustained delivery of increased rollingstock availability from 88 per cent to the required 90 per cent. Other key initiatives focused on cost reductions and productivity improvements required to meet commercially-competitive benchmarks within the maintenance environment.

Financial performance

The budget for Passenger Fleet Maintenance for 1996/97 was \$10m (8 per cent) below actual expenditure in 1995/96. However, actual payroll and oncost expenditure were above expected budget forecast mainly due to the non-achievement of projected staff downsizing and the requirement to carry out customer-required modification programs.

Overtime expenditure was also negatively impacted particularly due to coverage of leave. Strategies for the timely recovery of overtime costs performed against capital works programs and a harnessing of absenteeism are already underway, and a marked improvement in performance is expected over the next 12 months.

Fuel expenditure was under-budgeted resulting in an over-expenditure of approximately \$2.1m during the year.

Contracts were also overspent due partly to major collision damage repairs in the XPLORE/Endeavour fleet and the establishment of Passenger Fleet Maintenance as a new division.

During the year Passenger Fleet Maintenance took a number of important steps toward achieving commercial practices in financial management with the introduction of full commercial reporting.

New MIMS accounts receivable and supply systems were introduced into all business units as part of State Rail implementation. It is expected these systems will become fully operational during 1997/98.

Skilled, committed and productive people

Particular emphasis was placed on Work and Job Redesign and consultative committees are working in both diesel and electric maintenance environments.

A Memorandum of Understanding covering non-trades, cleaning and shunting staff was signed at the XPT Maintenance Centre. All wages staff within Diesel Services are now working within the Structural Efficiency Principle (SEP) guidelines which have reduced the number of classifications and promoted broadbanding and multi-skilling.

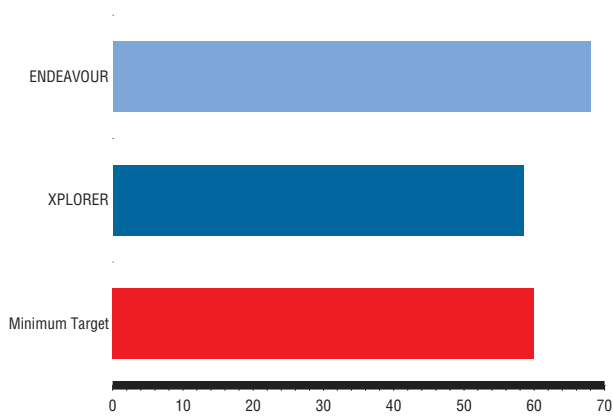
To support the implementation of new work models, a team of staff underwent the accredited Workplace Trainers' program and will provide an on-site mentoring role at the Maintenance facilities.

Training opportunities also extended to the 'Investment in Excellence' program, supervision, computer and OH&S training.

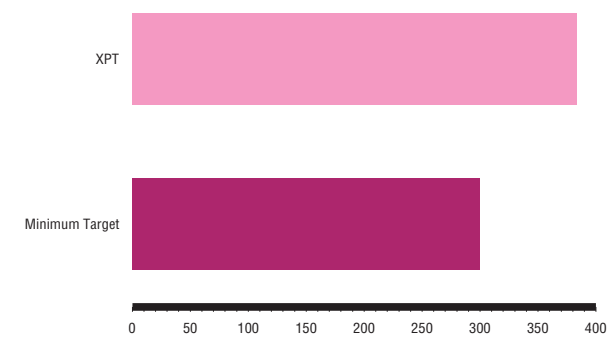
Language and Literacy classes for people of non-English speaking backgrounds were held at Mortdale, Hornsby, and Flemington Maintenance Centres to enhance communication and literacy levels of staff, particularly in the train presentation area.

Replacing a Tangara pantograph at the Mortdale Maintenance Centre.

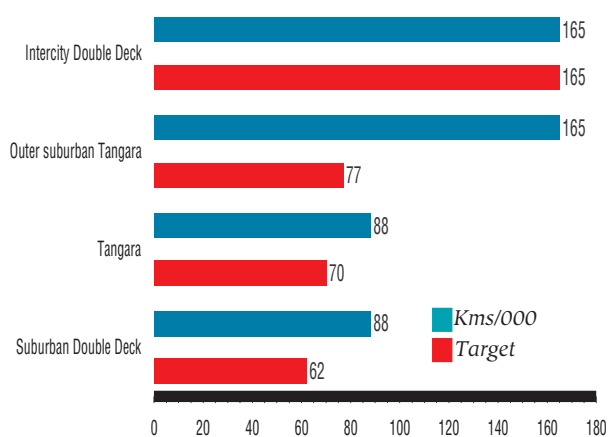




Thousands kilometres travelled per maintenance-related casualty 1996/97, for Endeavour and XPLOER rollingstock (above), and XPT rollingstock (below).



Thousands kilometres travelled per maintenance-related casualty 1996/97, for electric rollingstock.



Fleet maintenance (major periodic maintenance) and MainTrain contract performance

A total of 224 Component Change Outs (CCOs), against a forecast budget of 180, was processed under contract to Goninans. This is an increase of 44 (24 per cent) above budget forecast but still 16 below fleet requirement. This improvement is due to improved efficiency in Level 3 maintenance at MainTrain and alteration to engineering specifications and changeout policy.

Cars out of service due to Level 3 maintenance improved 13 per cent against a target of 34 with an average of only 30 cars out of service per day.

A revision of the heavy overhaul (12-year) scope resulted in improved cycle times coupled with a cost reduction of 11 per cent.

A Warranty Working Party (SRA/MainTrain joint venture) was established to facilitate the timely resolution of warranted claims and eliminate unnecessary claims.

Capital investment in facilities

Security fencing and closed circuit television cameras were installed and a new roof structure erected over the servicing roads at Mortdale Maintenance Centre.

Site maintenance at the Auburn MainTrain complex was enhanced by the investment of \$2.4m in the upgrading of water services, low voltage electrical supply, and upgrading of the Hegenscheidt Wheel Lathe and weigh road within the facility.

Hornsby Maintenance Centre upgraded external uncovered brake roads, and the wash shed roof at Flemington Maintenance Centre was replaced.

Fleet availability

One of the most significant challenges during 1996/97 was the requirement to increase the levels of fleet availability from 88 per cent to 90 per cent to meet new timetable requirements. This necessitated significant changes in maintenance work practices. Foremost in this achievement was the introduction of a 'wheel maintenance' strategy to optimise wheel life and provide greater car availability. Fleet availability from this initiative increased by 1.5 per cent, with potential cost savings of \$4m per annum

The wheel management initiatives and procedural changes in maintenance operations were delivered and maintained without any increase in operating costs.

The achievement of availability targets for XPLOER and Endeavour fleets is particularly notable as collision damage incidents sustained in June 1996 and March 1997 resulted in rollingstock being out of service for an extended period for repair.

Fleet reliability

A program to install new, higher-capacity batteries on electric rollingstock is underway. Coupled with new testing equipment and procedures, a significant improvement in battery reliability is expected to be delivered as well an estimated 50 per cent reduction in wastage.

A total of 29,736 periodic and 48,517 brake inspections was carried out on electric rollingstock over the 12 month period to ensure safety and reliability targets were met.

The InterCity double deck electric fleet met its reliability target for 1996/97. Improvements in reliability of all other classes of electric rollingstock were evidenced following the introduction of the 16 June timetable and are expected to be sustained during 1997/98.

Asset management, logistics and risk management

During 1996/97, all building and track work used by the Inspection Maintenance Centres was transferred to Passenger Fleet Maintenance. A project

to identify, record and value all assets was commenced and is expected to be completed together with a Major Periodic Maintenance (MPM) program by June 1998. Passenger Fleet Maintenance manages an asset portfolio in excess of \$300 million.

Rationalisation of stock on hand at MainTrain resulted in an inventory reduction of 14 per cent which represents \$6m. It is expected that further savings will be achieved next year.

A Logistics Business Plan was published with the objective being to deliver a total quality approach. Quarterly performance indicators are used to monitor progress toward cost-contribution savings, react to performance variations and enable benchmarking to be performed.

The inventory system at MainTrain was purged of obsolete stock valued at \$3.5m and a segregation of inventory items into consumables and capital spares will serve to streamline asset management and stock item management.

Stores and Componentry within maintenance facilities was rationalised to provide a cost-effective, best practice inventory service for the maintenance task.

A risk assessment exercise was completed and plans developed to address critical risks. These will be implemented throughout 1997/98.

Compliance - Rail Safety, Environmental and OH&S

During 1996/97 the System Safety Plan (SSP) was completely revised to take account of the Australian Standard (AS4292). The implementation phase (with a completion date of 30 September 1997) has commenced.

Environmental audits were carried out at all six Passenger Fleet Maintenance facilities and refuelling points: Sydenham, Eveleigh, Melbourne, Brisbane, Grafton and Murwillumbah. These have identified all environmental aspects against the new ISO14001 standard.

A separate fire and domestic water service was installed at the Mortdale and Hornsby Maintenance Centres. A new drainage system at Mortdale will eliminate environmental problems caused by effluent removal and discharge.

Environmental works at Flemington Maintenance Centre included the replacement of asbestos fibre pipes, construction of a pump room with sprinklers and hydrant pumps, and the installation of new stormwater downpipes. Wash shed floor drains were cleaned and new pipes installed to the effluent system.

An OH&S Manager was appointed to Passenger Fleet Maintenance. An OH&S review was also carried out at all maintenance and service centre sites as well as a review of all major lost-time injuries.

OH&S competencies for maintenance centre staff were identified and integrated into prepared job models during the SEP work and job redesign process.

Upgrading of fire hydrant hose reels and sprinkler amenities was carried out at Flemington and Hornsby Maintenance Centres

Existing service areas in an unsatisfactory condition at Flemington Maintenance Centre are being upgraded, renewing pits with solid concrete floor and walls, new light fittings, air and electrical outlets. This program will continue in 1997/98.

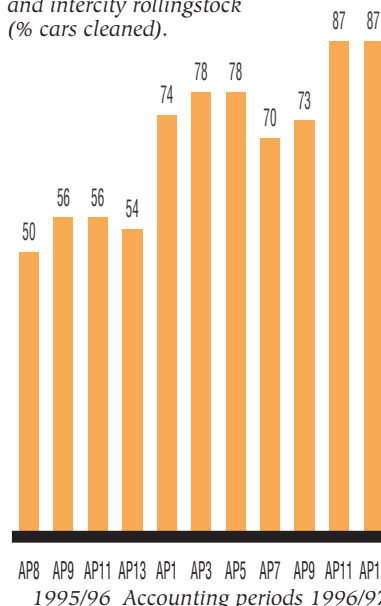
Asbestos roofing was removed and a new steel roof and guttering was installed at Mortdale Maintenance Centre.

Train presentation

Diesel Services met train cleaning targets, supplying exterior washing of Countrylink rolling stock prior to each departure and CityRail rollingstock each week.

All presentation targets for CityRail double deck suburban, Intercity and Tangara were also met, with an external wash carried out every nine calendar days. Spot and mega-cleans were undertaken at 90 days and interior daily cleaning of all carriages was carried out. Painting of seats to combat graffiti on double-deck suburbans was carried out every 90 days concurrent with general inspections. Carpets on Intercity trains were steam-cleaned four times per year.

Marked improvements were achieved in the cleaning performance of suburban and intercity rollingstock (% cars cleaned).



Market testing of train presentation services during 1995/96 highlighted the fact that significant restructuring was required to improve competitiveness in this area. December 1996 saw the introduction of 'best practice' train presentation techniques through job and work redesign. This included:

- a dedicated project team to manage and monitor improvements;
- implementation of a training support role;
- the introduction of new cleaning methods and materials;
- implementation of specific 'heavy clean' programs for Tangara seats, and
- removal of graffiti 'shadowing' from stainless steel carriages.

An improvement of 33 per cent was achieved in the total cleaning performance, with cleanliness rates rising from 52 per cent in 1995/96 to 85 per cent at the end of the year under review. Marked improvements were registered in the cleaning performance on both suburban and InterCity rollingstock.

Technology improvements

MIMS Maintenance and Accounts Payable modules were implemented at the XPT Maintenance Centre during the year. All Diesel Services units now use Maintenance, Accounts Payable, Stock Control and Inventory Management modules.

MIMS maintenance modules were installed at Flemington and the MainTrain contract office at Auburn to underpin the efficient data and cost capture for maintenance costing, scheduling and monitoring and support the generation of accurate profit and loss statements.

To support the roll-out of MIMS modules a major program of IT hardware and systems upgrading was undertaken. LANs were installed at Mortdale, Flemington, Hornsby and Auburn. All Passenger Fleet business units were integrated into the State Rail WAN which will enable the efficient transfer of data and information not only between the business units and Head Office but also with our customers in Countrylink and CityRail. Intranet access and Internet links are also being installed as part of the technology improvement programs.

Key achievements:

- delivery of 90 per cent availability and utilisation of metropolitan fleet achieved on 3 November 1996;
- Countrylink service availability sustained at 100 per cent of timetable requirements;
- completion of an industrial agreement committing to a competency-based workforce plan in line with National Competency standards;
- the implementation of self-directed work teams within the Metropolitan Fleet Maintenance function is being progressed, and
- the provision of fleet reliability performance to targeted outcomes.

In addition, improvement works for the Endeavour Service Centre at Broadmeadow were completed. The centre received a *'Highly Commended'* award in the category of site enhancement at the Environmental Awards sponsored by Newcastle City Council. The award recognised the upgrading which included new paved road access; landscaping works featuring Australian native plant species; improved, low maintenance sewer and water services; upgrading of signage, and installation of a new fuel storage facility.

The Technical Support and Supply unit achieved a major milestone by gaining quality accreditation to Quality Standard ISO 9001 series in October 1996. This was the first area of the new State Rail to achieve this standard. Accreditation means that quality processes and procedures are in place. They are independently audited every six months to international standards of 'best practice'.

Running tests and simulations were completed to allow the installation and operation of high speed turnouts required to manage the intense movement of trains for the Homebush Bay Rail Link.

The passenger fleet at 30 June 1997

ELECTRIC FLEET COMPOSITION	TOTAL
Tangara suburban	367
Outer suburban	80
Double deck Intercity	240
Rollingstock Double deck suburban	554
'K' Double deck suburban	160
'C' Chopper control suburban	56
TOTAL	1457

DIESEL FLEET COMPOSITION	TOTAL
XPT high -speed rolling stock	79
XPLORER multiple unit railcars	21
Loco-hauled rollingstock	9
Endeavour multiple unit railcars	30
620 Class multiple unit railcars	16
TOTAL	155



Operating the wheel lathe at the Flemington Maintenance Centre

Financial Statements

For the year ended 30 June 1997

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Beginning of Audited Financial Statements

RESTRUCTURE OF STATE RAIL

The State Rail Authority of NSW was restructured into four independent entities on 1 July 1996.

- (i) Freight Rail Corporation now operates rail freight services.
- (ii) Rail Access Corporation now owns the infrastructure and promotes and facilitates access to the NSW rail network.
- (iii) Railway Services Authority of NSW now provides infrastructure and rollingstock maintenance and construction services.
- (iv) State Rail Authority continues to operate rail passenger services.

The assets, rights and liabilities relating to the three new entities were transferred from State Rail during 1996/1997.

INCOME AND EXPENDITURE STATEMENT
For the year ended 30 June 1997

	Note	1997 \$000	1996 \$000
Revenue			
Freight		-	548,973
Passenger fares	4	402,438	368,215
On-board services		8,824	7,248
Social program revenue	2	507,501	421,052
Ancillary business		-	7,090
Other government contributions	3	413,578	680,939
Rent		25,495	24,981
Interest		1,367	6,522
Revenue from other rail organisations	4	137,608	105,933
Other	5	43,846	60,374
		<u>1,540,657</u>	<u>2,231,327</u>
Expenditure			
Payroll costs		422,259	756,101
Employee entitlements	1(o), 6(a)	145,151	259,611
Severance payments	1(o)	3,024	10,378
Workers' compensation	16(b)	38,727	64,325
Access fees	6(c)	419,047	-
Materials		61,582	230,311
Contracts		80,857	141,262
Consultants		1,403	1,800
Services provided by other rail entities	6(d)	28,537	-
Motor vehicle operating lease expenses		-	1,942
Other materials, contracts and services		10,635	29,999
Amortisation of leased assets		46,072	70,297
Depreciation of non-leased assets		144,567	520,798
Assets written off or sold		59,060	77,708
Other fixed asset costs		15	70
Interest		20,948	31,198
Finance charges on finance lease		-	20,203
Other financing expenses		1,915	6,443
Audit fees	6(e)	449	977
Board members' emoluments		159	172
Doubtful debts		170	17,321
Service payments to Motive Power Company Pty Ltd		-	10,819
Other		128,242	167,208
		<u>1,612,819</u>	<u>2,418,943</u>
Operating deficit before abnormal items		(72,162)	(187,616)
Abnormal items	7	<u>(11,756)</u>	<u>56,130</u>
Operating deficit		(83,918)	(131,486)
Accumulated surplus at the beginning of the year		717,483	822,473
Transfer of assets and liabilities following the restructure of State Rail on 1 July 1996 and other capital adjustments	18	(3,487,443)	-
Transfers from reserves	20	4,549,547	26,496
Accumulated surplus at the end of the year		1,695,669	717,483

The accompanying notes form an integral part of these financial statements

BALANCE SHEET
As at 30 June 1997

	Note	1997 \$000	1996 \$000
Current Assets			
Cash		19,959	25,968
Receivables	9	78,405	78,761
Investments	10	45,864	15,899
Inventories	11	41,468	142,283
Other	12	3,846	2,482
Total Current Assets		<u>189,542</u>	<u>265,393</u>
Non-Current Assets			
Receivables	9	180,200	-
Investments	10	3	1
Property, plant and equipment	13	4,249,530	12,123,406
Other	12	3,220	75,035
Total Non-Current Assets		<u>4,432,953</u>	<u>12,198,442</u>
Total Assets		<u>4,622,495</u>	<u>12,463,835</u>
Current Liabilities			
Borrowings	14	30,696	46,027
Creditors	15	178,866	238,198
Provisions	16	178,592	264,798
Total Current Liabilities		<u>388,154</u>	<u>549,023</u>
Non-Current Liabilities			
Borrowings	14	158,759	620,025
Provisions	16	662,680	1,332,743
Creditors	15	1,888	3,224
Other	17	1,839	2,698
Total Non-Current Liabilities		<u>825,166</u>	<u>1,958,690</u>
Total Liabilities		<u>1,213,320</u>	<u>2,507,713</u>
Net Assets		<u>3,409,175</u>	<u>9,956,122</u>
Capital Employed			
Capital	18	-	2,919,732
Deferred revenue	19	66,045	121,899
Reserves	20	1,647,461	6,197,008
Accumulated surplus		1,695,669	717,483
Total Capital Employed		<u>3,409,175</u>	<u>9,956,122</u>

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 30 June 1997

	Note	1997 \$000	1996 \$000
		Inflows (Outflows)	Inflows (Outflows)
Cash flows from operating activities			
Receipts from customers		591,408	1,064,992
Receipts for Social Programs		507,501	421,052
Receipts from Government for workers' compensation pre 1 July 1996		30,788	-
Payments to suppliers and employees		(1,217,379)	(1,600,556)
Interest received		1,342	19,566
Interest paid (SRA loans)		(22,991)	(47,172)
Interest paid on freight loans		(18,587)	-
Payments of interest on finance lease		-	(20,100)
Receipts from sale of surplus properties	(A)	4,471	8,076
Payments for property disposal costs	(A)	(147)	(2,387)
Receipt of rent from surplus properties	(A)	734	136
Payments to NSW Treasury from property sales	(A)	(734)	(5,912)
Net cash used in operating activities	(C)	<u>(123,594)</u>	<u>(162,305)</u>
Cash flows from investing activities			
Payments for investments		(475)	(163)
Receipts from redemption of investments		70	22
Payments for property, plant and equipment		(174,633)	(770,243)
Receipts from sale of plant and equipment		2,422	15,138
Net cash used in investing activities		<u>(172,616)</u>	<u>(755,246)</u>
Cash flows from financing activities			
Contribution towards workers' compensation and superannuation		12,500	-
Contribution towards finance costs		20,713	-
Contribution towards other finance costs	(A)	56	57
Contribution towards redundancy payments	(A)	15,000	65,000
Receipts from capital and MPM grants	(A)	241,510	595,854
Receipts of other government grants		41,387	-
Payment of unfunded accruals to Rail Access Corporation		(10,300)	-
Receipts from borrowings		272,000	114,000
Repayment of borrowings		(273,109)	(2,348)
Receipts from defeasance to lease		-	10,811
Payments for cross border leases		-	(18)
Payments of principal on finance lease		-	(11,942)
Payment of petty cash balances to new rail entities		(42)	-
Net cash provided by financing activities		<u>319,715</u>	<u>771,414</u>
Net increase/(decrease) in cash held		23,505	(146,137)
Cash at the beginning of the year		41,062	187,199
Cash at the end of the year	(B)	<u>64,567</u>	<u>41,062</u>

The accompanying notes form an integral part of these financial statements.

NOTES TO THE STATEMENT OF CASH FLOWS
For the year ended 30 June 1997

	Note	1997 \$000	1996 \$000
A) Reclassified Items			
<p>Government contributions and capital grants which were shown under the heading of Cash Flows From Other Government Funding in the 1996 Statements of Cash Flows have been reclassified as Cash Flows from Financing Activities. Also, receipts and payments relating to the sale of surplus properties previously reported under the heading of Cash Flows Under Deed of Arrangement For Property Management have been reclassified as Operating Activities.</p>			
(B) Reconciliation of cash			
Cash as shown in the Statement of Cash Flows is reconciled to the related items in the Balance Sheet as follows:			
Cash in Balance Sheet		19,959	25,968
Short term investments		<u>44,608</u>	<u>15,094</u>
		<u>64,567</u>	<u>41,062</u>
(C) Reconciliation of operating result to net cash used in operating activities			
Operating deficit		(83,918)	(131,486)
Receipts from asset sales		(2,422)	(15,138)
Assets written off or sold		59,060	77,708
Government contributions and grants		(413,148)	(680,808)
Government contributions workers' compensation pre-1 July 1996		30,788	-
Depreciation and amortisation		190,639	591,095
Freight Rail debt charges		(18,587)	-
Accrued revenue		(48)	-
Accrued expenses		14,485	1,056
Amortisation of loan premiums		(43)	(2,477)
Amortisation of loan discounts		1,583	946
Amortisation of deferred gain		(3,798)	(8,455)
Amortisation of deferred loss		332	5,497
Receipts from sale of surplus properties		4,471	8,076
Payments for property disposal costs		(147)	(2,387)
Receipt of rent from surplus properties		734	136
Payments to NSW Treasury from property sales		(734)	(5,912)
Abnormal items		11,756	(56,130)
Net movement in assets and liabilities applicable to operating activities			
(Increase) in receivables		(26,685)	(15,227)
Decrease/(increase) in inventories		4,362	(9,360)
(Increase)/decrease in other assets, current		(1,970)	1,321
Increase in creditors		63,883	2,508
Increase in provisions		<u>45,813</u>	<u>76,732</u>
Net cash used in operating activities		<u>(123,594)</u>	<u>(162,305)</u>

Note	1997 \$000	1996 \$000
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(D) Financing arrangements

Facilities available at year end were:

Full amount of facilities

NSW Treasury Corp loans

-	17,064
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Facilities utilised at year end

NSW Treasury Corp loans

-	17,064
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(E) Non-Cash financing and investing activities

(i) No locomotives were leased from Motive Power Company Pty Limited during the year (1996 \$0.261m).

(ii) Assets were received at no cost to State Rail from:

National Rail Corporation

-	9,086
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Dept of Transport

3(b) (i)	1,700	10,300
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State Government

3(b) (i)	121,668	-
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<u>123,368</u>	<u>19,386</u>
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(iii) During the year State Rail transferred net assets to the Freight Rail Corporation, Rail Access Corporation, Railway Services Authority and National Rail Corporation as detailed in note 18.

The above transactions are not included in the Statement of Cash Flows.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 1997

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted in the preparation of the financial statements are as follows:

(a) Basis of accounting

The financial statements have been prepared as a general purpose financial report in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views, the Public Finance and Audit Act 1983, the Public Finance and Audit (General) Regulation 1995 and specific directions issued by the Treasurer.

Generally, the historical cost basis of accounting has been adopted and the financial statements do not take into account changing money values or current valuations of non-current assets. However, most items of property, plant and equipment (and associated depreciation expenses) are measured at their current value and certain employee entitlement liabilities (and associated expenses) are measured at their present value. See Notes 1 (j) and 1 (o).

The accrual basis of accounting and the going concern basis have been used in the preparation of the financial statements.

Despite current liabilities exceeding current assets at year end, State Rail's continued operation and ability to pay its debts are assured because the annual Appropriation Act was passed before the end of the year, allocating funds for the Government to purchase rail services from State Rail during the ensuing year.

(b) Consistency of accounting policies

The accounting policies adopted are consistent with those of the previous year.

(c) Foreign currency

(i) Transactions

Foreign currency transactions are initially translated into Australian currency using the exchange rate in effect on the transaction date. Foreign currency monetary items remaining outstanding at balance date are translated to Australian currency at the exchange rate applying on that date.

(ii) Hedges

Where hedge transactions are entered into with the intention of hedging the purchase of specific goods or services, any costs or gains arising at the time of entering into the hedge transactions, together with any subsequent exchange gains or losses resulting from those transactions incurred up to the date of purchase, are deferred and included in the measurement of the purchase price of those goods or services. Where other foreign currency commitments are hedged, any exchange differences on those commitments are recognised as they arise. Costs or gains on the hedge contract are deferred and amortised over the life of the contract.

(iii) Unhedged commitments

Where foreign currency transactions are not hedged, any exchange differences attributable to assets under construction are included in the cost of those assets. Otherwise, exchange differences are brought to account in the Income and Expenditure Statement

(d) Cash

For the purposes of the Statement of Cash Flows, cash comprises cash on hand, deposits held at call with banks and highly liquid investments which are used in the cash management function on a day-to-day basis.

(e) Doubtful debts

A provision is made for doubtful debts and reviewed at year end. Receivables are monitored during the year and bad debts are written off against the provision when they are determined to be irrecoverable. See Note 9.

(f) Investments

Investments are valued at cost which, because of the nature of the investments, is also the market value. In the case of funds invested in the NSW Treasury Corporation's "Hour Glass" facility, changes in market value during the year are brought to account as interest.

(g) Inventories

Inventories are valued at the lower of weighted average cost and estimated net realisable value on an item by item basis. Inventories issued are expensed or capitalised at the time of issue.

(h) Recoverable work in progress

Where construction or other works are performed for customers on a specific contract basis, work in progress is identified for each specific job and is carried at cost, less progress billings.

Cost includes labour and material directly related to the specific contract, and costs attributable to job contracting activities in general and that can be attributed to the specific contract on a reasonable basis. When it becomes probable that a contractually-specified minimum performance level will not be met, the estimated cost of any resulting penalty is also recognised as a cost attributable to the job concerned.

Profit is identified using the percentage of completion method, ie. in proportion to the work performed on the contract, and is identified separately for each specific job.

A profit on a fixed price contract is recognised when total contract revenues receivable and the costs attributable to the contract to date can be reliably measured, the stage of contract completion can be reliably determined, and costs to date can be clearly identified.

A loss on a contract, whether in relation to work completed or yet to be completed, is recognised as soon as it is foreseeable. The cost of work in progress is reduced to the amount recoverable and the loss is recognised as an expense.

If any amounts become recoverable from customers in respect of claims and contract variations, they are only recognised as revenue if there is reasonable assurance that the additional revenue will result and the amount recoverable can be reliably estimated. See Note 12.

(i) Properties held for resale

Properties acquired as a result of the transfer and resettlement of employees are valued at the lower of cost and net realisable value on a property by property basis. The actual cost of acquisition is assigned to each property. See Note 12.

(j) Property, plant and equipment

(i) Capitalisation

Property, plant and equipment is recognised as an asset if it is controlled by State Rail.

Expenditure on the acquisition, replacement or enhancement of property, plant and equipment is capitalised. Expenditure on the partial replacement of certain categories of network assets (such as computer networks) is also capitalised. A capital spare is recognised as an asset if it is a rotatable (ie. recyclable) spare or an insurance spare (ie. held to meet emergency requirements).

The capitalisation threshold is generally \$5,000. However, all land is capitalised regardless of its cost and some categories of property, plant and equipment have a capitalisation threshold greater than \$5,000. The capitalisation threshold for a capital spare is \$1,000.

(ii) Valuation

Property, plant and equipment purchased or constructed is initially recorded at historical cost. Construction cost includes the cost of materials, direct labour and attributable overheads. Property, plant and equipment acquired under a finance lease is initially recorded at the present value of the minimum lease payments. Property, plant and equipment acquired by grant is initially recorded at fair value.

Granted assets arise under sale and leaseback arrangements where State Rail participates but the NSW Government is the ultimate lessee. In such cases the NSW Government grants State Rail the right to use the assets. The fair value of such assets is assessed as either their book value immediately before the sale and leaseback arrangement commenced, or the present value of the minimum lease payments payable by the NSW Government at the commencement of the arrangement.

Spares purchased specifically for a particular plant asset, or class of plant assets, and which would become redundant if that asset or class was retired or use of that asset or class was discontinued, are considered to form part of the historical cost (or other value) of that asset or class.

As State Rail provides most of its services at less than full cost recovery, its assets are not acquired for the purposes of generating net cash inflows. Therefore, no item of property, plant and equipment has been written down to its recoverable amount.

(iii) Revaluation

Property, plant and equipment is revalued at least once every five years.

In accordance with NSW Treasury requirements, property, plant and equipment (except work in progress) was revalued during 1994/95 on the following basis:

- Land which would be replaced upon deposal is valued at the greater of its value in use and its current market selling price.
- Land which would not be replaced upon deposal is valued at the greater of the net present value of future cash inflows therefrom and its current market selling price.
- Property, plant and equipment (other than land) which would be replaced upon deposal is valued at its written down replacement cost.
- Surplus property, plant and equipment is valued at its current market selling price.

Revaluations are accounted for by separately restating the gross amount and the related accumulated depreciation of each asset within the revalued class. Revaluation increments are credited directly to the Asset Revaluation Reserve.

(iv) Depreciation

Each item of property, plant and equipment (except land and work in progress) is depreciated on a straight line basis over its estimated useful life commencing when the item is first put into use or held ready for use. A capital spare is depreciated over the useful life of the asset or class of asset to which it relates.

An item of property, plant and equipment acquired under a finance lease is amortised on a straight line basis over the periods which are expected to benefit from the item's use. Where there is reasonable assurance at the beginning of the lease term that ownership of the item will be obtained at the end of the lease term, the item is amortised over its useful life. Otherwise it is amortised over the lease term. See Note 1 (j) (v).

The cost of an improvement to or on leasehold property is depreciated over the shorter of the unexpired term of the lease or the estimated useful life of the improvement.

(v) Assets leased

Where State Rail is a lessor, the leased asset is recognised as property, plant and equipment and the associated rent is recognised as Rent Revenue in the period in which it is earned.

(vi) Disposals

Upon disposal or retirement, the book value of an item of property, plant and equipment is charged to Assets Written Off and any sale proceeds are credited to Asset Sales Revenue. Any related revaluation increment remaining in the Asset Revaluation Reserve in respect of the asset at the time of disposal is transferred to accumulated funds. Where rollingstock is refinanced under a sale and leaseback arrangement, the value written off is offset against the sale proceeds as disclosed in Note 8.

(vii) Capital work in progress

Work in progress comprises expenditure on incomplete capital works. It also includes expenditure on minor projects completed in the last month of the financial year. See Note 13.

(k) Borrowings

Borrowings are recorded at their face value after deducting any unamortised discount or adding any unamortised premium. Any discount or premium is deferred and amortised over the term of the borrowing on a straight line basis.

The face value of all principal amounts falling due within 12 months after the end of the year, and any unamortised discounts or premiums thereon, are recognised as current liabilities. All other principal amounts, and the related unamortised discounts or premiums are recognised as non-current liabilities.

(l) Leases

Leases, where the lessee assumes substantially all the risks and benefits of ownership of the leased property, are classified as finance leases. Other leases are classified as operating leases.

(i) Finance leases

Finance leases are capitalised by the lessee. A lease asset and a liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Contingent rentals are written off as an expense of the accounting period in which they are incurred. Lease assets are amortised on a straight line basis over the term of the relevant lease, or where it is likely the economic entity will obtain ownership of the lease asset, the life of the asset. Lease liabilities are reduced by repayments of principal. The interest component of the lease payments is treated as an expense.

(ii) Operating leases

Operating lease revenue and expense is recognised in the periods in which it is earned or incurred, respectively.

(iii) Long term leases

Long term leases are classified as operating leases if periodical rentals are paid over the lease term and substantially all of the risks and benefits remain with the lessor.

Any premiums or prepayments received under a long term lease which exceed 90% of the fair value of the land or property involved are recognised as asset sales revenue. The lease is treated as a sale despite legal title to the land or property being retained.

Any premiums or prepayments received (or paid) under a long term lease which are less than 90% of the fair value of the land or property involved are deferred and recognised as income (or expense) over the period of the lease or prepayment, respectively.

(m) Sale and leaseback of assets

Where an asset is sold and leased back under a finance lease, any gain (or loss) on the sale is deferred and amortised as revenue (or expense) over the lease term. See Notes 8 and 19.

(n) Property lease incentives

A lease incentive received (from a lessor) is recognised as a liability and progressively reduced by allocating lease rental payments between rental expense and reduction of the liability on a straight line basis over the term of the lease. See Note 17.

(o) Employee entitlements

Liabilities for wages and salaries, annual leave (including annual leave loading), long service leave, superannuation, pay in lieu of certain holidays worked and severance benefits are fully recognised in respect of services provided by employees up to balance date.

Contributions to employee entitlement provisions are expensed or capitalised as they accrue. The liabilities for superannuation, long service leave and pay in lieu of certain holidays worked are actuarially assessed. All other employee entitlement liabilities are assessed by State Rail officers.

(i) Wages, salaries and annual leave

The current and non-current liability is calculated at nominal (ie. undiscounted) amounts based on current wage and salary rates existing at balance date. See Note 16.

(ii) Long service leave

The liability for long service leave which is expected to be settled within twelve months of balance date is calculated at the nominal amount based on current remuneration rates existing at balance date.

The liability for long service leave which is expected to be settled beyond twelve months of balance date is discounted using the rates attaching to national government securities at balance date which most closely match the terms to maturity of the liability. See Note 16.

(iii) Superannuation

The unfunded superannuation liability is recognised in the Balance Sheet as part of provisions.

(iv) Pay in lieu of certain holidays worked

The current liability to pay employees in lieu of any public holiday, bank holiday or picnic day worked is measured at its nominal amount whilst the non-current liability is measured as the present value of the estimated future payments in respect of services provided by employees up to balance date. See Note 16.

(v) Sick leave and other entitlements

Liabilities for sick leave, maternity leave, adoption leave, family passes and retirement passes are not recognised. Sick leave liabilities (which are all non-vesting) are not recognised because experience indicates that, on average, the amount of sick leave taken each year is less than the entitlement accruing in that year, and as this experience is expected to continue, it is considered improbable that existing accumulated entitlements will be used by employees. Maternity leave and adoption leave liabilities are not recognised because they are immaterial. Family pass and retirement pass liabilities are not recognised as they are unquantifiable and do not result in any net marginal costs.

(vi) Severance benefits

A liability is recorded in the Balance Sheet for severance payments which have accrued during the accounting period but which are not payable until after balance date. The liability is based on the payments expected to be made and which have been formally advised to employees. All severance benefits are measured at their nominal amounts.

(p) Equity adjustments due to restructuring

During 1996/97, as a result of the restructuring of the State Rail Authority, many of State Rail's functions and assets were transferred to three new entities, ie. the Rail Access Corporation, the Freight Rail Corporation and the Railway Services Authority of New South Wales. The functions and assets remaining with State Rail relate mainly to passenger operations and passenger fleet maintenance. In addition, a number of assets was transferred to the National Rail Corporation pursuant to the National Rail Corporation (Agreement) Act 1991.

The transfer of net assets to other entities as a result of the restructuring is accounted for as a distribution to (ie. a capital withdrawal by) the New South Wales Government. Accordingly, the balances of Capital and Accumulated Funds were decreased by the amount of the net assets withdrawn. See note 18.

(q) Revenue recognition

Government contributions, capital grants and social program revenues are recognised when they are received. If, after being recognised as revenue, any such receipt is to be repaid because of a failure to meet specific conditions attaching to it, a creditor and an expense are recognised.

(r) Debt defeasance

Where the NSW Treasury assumes responsibility for the servicing requirements for a debt, the debt is considered to be extinguished by an in-substance defeasance and is removed from the Balance Sheet. When the carrying amount of an asset given up in defeasance of a debt differs from the carrying amount of the debt, the difference is recognised as a gain or loss on defeasance as at the date of entering into the defeasance arrangement. See Note 8.

(s) Severance

Contributions received from the Department of Transport during the year to fund payments to employees electing to take voluntary redundancy are recognised as Government Contributions Revenue. Severance payments and payments in lieu of notice are recognised as Severance Payments Expense. Payments for annual leave, long service leave, superannuation and pay in lieu of certain holidays worked which are paid on redundancy are charged to the respective provisions. See Note 16.

(t) Financial instruments

Financial instruments are contracts that give rise to both a financial asset of one entity and a financial liability (or equity instrument) of another entity. They include cash at bank, receivables, investments, creditors, borrowings, finance leases, property lease incentives, derivative financial instruments (interest rate swap contracts, forward foreign exchange contracts, and foreign currency option contracts), and financial guarantees.

Derivative financial instruments

(i) Hedge contracts

When goods are ordered from overseas, or when borrowings have floating interest rates, exposures to fluctuations in foreign exchange rates or interest rates arise. In order to mitigate the adverse effects of such exposures derivative financial instruments, in the form of hedge contracts, are used. The hedge contracts comprise interest rate swap contracts, forward foreign exchange contracts and foreign currency options.

Interest rate swap contracts are used to actively manage exposures to interest rate risk by enabling a floating rate interest obligation to be swapped into a fixed rate obligation, or vice versa. The difference between the two rates, calculated by reference to an agreed notional principal amount, is exchanged between the parties at specified intervals, usually semi-annually. These contracts normally entail a right to receive floating rate interest, which is offset by an obligation to pay fixed rate interest.

Forward foreign exchange contracts or foreign currency option contracts are used to hedge against fluctuations in exchange rates in relation to purchase orders denominated in a foreign currency. Up to 80% of such commitments are hedged in this manner. These contracts entail a right to receive a fixed amount of foreign currency at a specified future date, which is offset by an obligation to pay a fixed amount of domestic currency at that time.

(ii) Financial guarantees

Financial guarantees have been obtained from other parties to secure contractual payment or performance obligations to State Rail. Such guarantees take the form of deposits or bank guarantees. In the event of the financial guarantee becoming receivable due to the party's non-payment or non-performance, the deposit is retained, or the bank guarantee is collected, by State Rail.

A financial guarantee has also been given by State Rail to a financial institution to guarantee the due repayment of borrowings by Airport Link Company (in the event of a contractual default by State Rail in relation to the construction of the New Southern Railway).

(iii) Accounting treatment

All financial instruments (other than derivative financial instruments and financial guarantees) are recognised in the Balance Sheet when they are received, incurred or issued.

Interest rate swap contracts are not recognised in the Balance Sheet because the value of the floating rate component of each contract cannot be measured reliably until settlement date. At that time any realised gain or loss is recognised as revenue or expense respectively.

Forward foreign exchange contracts are not recognised in the Balance Sheet because they are intended to be held until maturity and the value of the foreign currency component of each contract cannot be reliably measured until that date. Upon maturity they are accounted for as outlined in Note 1 (c) (ii).

Financial guarantees receivable or payable are not recognised in the Balance Sheet because their realisation is contingent on the happening of future events which have low probabilities. Any realised financial guarantee receivable or payable is recognised as revenue or expense respectively.

(iv) Valuation

Financial instruments recognised in the Balance Sheet are measured at their historical cost, which, except in the case of borrowings, also represents their fair value.

The fair value of borrowings, derivative financial instruments, and financial guarantees is determined at balance date on the following basis:

- A borrowing is valued at the quoted offer price or the risk-adjusted market price of the instrument, less the transaction costs which would be incurred to settle it.
- An interest rate swap contract, forward foreign exchange contract or foreign currency option contract is valued at the amount quoted by a bank or the NSW Treasury Corporation to realise the contract (if it is favourable) or to settle it (if it is unfavourable).
- A financial guarantee is valued at its contractual amount.

All financial instruments are normally held to maturity rather than being traded. However, for the purpose of determining the fair values of borrowings, derivative financial instruments and financial guarantees, it is assumed that those financial instruments will be realised at balance date. See note 24.

(u) Private sector provision of public infrastructure

The following arrangements have been made with private sector companies for the provision of public infrastructure. The accounting treatment adopted or proposed for each arrangement is summarised below.

(i) Upgrading of Auburn Service Centre

Clyde Maintenance Facilities Pty Limited upgraded the maintenance workshop known as Auburn Service Centre. The company borrowed the necessary funds for the project. As State Rail assumed the majority of the risks and enjoys the benefits of the project, the financing for the upgrading has been recognised as a borrowing and the upgraded centre has been recognised as property, plant and equipment.

(ii) Construction and operation of stations on the New Southern Railway

Airport Link Company Pty Limited has agreed to construct and operate four stations on the New Southern Railway, which will run from Central to Turrella via Sydney Airport. The company will design, finance, construct and operate the stations for 30 years after which time the stations will be transferred to State Rail.

The line is to open in the year 2000. Revenue from passengers using the line will be shared between State Rail and the company on an agreed basis during the 30 year period. The majority of the risks and benefits of the construction and operation of the stations rest with the company.

State Rail will recognise its accumulating interest in the stations as an emerging asset progressively over the 30 year period, commencing in 2000.

(iii) Pymont Light Railway

The Pymont Light Rail Company Pty Limited has agreed to design, construct, operate, and maintain a light railway from Central to Wattle Street, Pymont, on land owned by (or to be acquired or leased by) State Rail. The line is to open in 1997 and will operate for thirty and a half years. State Rail's only involvement in the arrangement is to lease the land to the company at a nominal rental.

(v) Comparative figures

On 1 July 1996, the NSW rail industry was restructured and many of the functions, assets and liabilities of the State Rail Authority were transferred to Rail Access Corporation, Freight Rail Corporation or the Railway Services Authority of NSW. In addition, the format of the Income and Expenditure Statement has been revised to provide improved disclosure. Therefore, the previous year's figures for State Rail are not directly comparable with the current year's figures.

2. SOCIAL PROGRAM REVENUE RECEIVED FROM THE NSW GOVERNMENT	1997	1996
	\$000	\$000
Social Program revenue received	538,289	421,052
Receipts from government for workers' compensation pre-1 July 1996	(30,788)	-
	<u>507,501</u>	<u>421,052</u>
Freight services	-	121,107
CityRail passenger services	439,583	226,047
Countrylink passenger services	67,918	73,898
	<u>507,501</u>	<u>421,052</u>

Social program funding reimburses State Rail for revenue foregone in providing concession fares to specified classes of passengers as well as revenue shortfalls incurred in providing certain train services at the request of the government. The 1996/97 revenue of \$538.289m substantially reflects the introduction on 1 July 1996 of access charges payable to the Rail Access Corporation.

	Note	1997 \$000	1996 \$000
3. OTHER GOVERNMENT CONTRIBUTIONS REVENUE			
(a) Contributions received from the NSW Government			
Total transitional funding received	3(i)	74,600	-
Unfunded accruals/retention monies paid to Rail Access Corporation		(10,300)	-
Freight Rail debt charges paid by State Rail		(18,587)	-
Workers' compensation pre-1 July 1996		(12,500)	-
Transitional funding included in government contributions		33,213	-
Details of transitional funding:			
Interest paid on temporary loans		3,300	-
Interest paid on old Freight Rail debt		17,413	-
Workers' compensation and superannuation		12,500	-
Transitional funding as above		33,213	-
Interest paid on old SRA loans	3(e)	56	57
Redundancy	3 (f)	15,000	65,000
Total contributions		48,269	65,057
(b) Capital grants received from:			
(i) NSW Government			
Capital works	3(g)	122,618	584,348
Land sales proceeds		360	451
Blacktown bus/rail interchange		1,700	10,300
Major periodic maintenance		118,532	-
New Southern Railway and East Hills line amplification		121,668	-
Total NSW Government		364,878	595,099
(ii) Commonwealth Government (One Nation Program)		-	9,627
(iii) Commonwealth Government (Building Better Cities Program)		-	9,820
(iv) Roads & Traffic Authority, NSW		-	1,060
(v) NSW City Councils		-	145
Total capital grants		364,878	615,751
(c) Other subsidies received from:			
(i) Commonwealth Government			
Training schemes		386	70
Employment schemes		16	61
(ii) NSW Government			
Training schemes		29	-
Total other subsidies		431	131
Other government contributions revenue		413,578	680,939
(d) Unspent Government Funding			
Amounts received by State Rail but unspent at year end (carried forward to 1997/98)			
Redundancy funding		-	2,790
NSW Government capital grants		-	27,500
Building Better Cities Program		2,518	2,518
Australian Land Transport Development Act		104	104
		2,622	32,912

- (e) The contribution towards finance costs reimburses State Rail for the payment of interest and loan management fees made on borrowings.
- (f) The contribution towards redundancy payments meets the cost of termination payments to employees electing to take voluntary redundancy.
- (g) The capital works program is funded by grants from government. The grants are made on the condition that they are spent on the designated projects.
- (h) In accordance with Urgent Issues Group Abstract No. 11 “Accounting for Contributions of, or Contributions for the Acquisition of Non-Current Assets” capital grants have been treated as revenue and included in the operating result. In previous years’ financial statements this item was shown below the operating result.
- (i) The transitional funding contribution reimburse State Rail for costs relating to:
 - (i) Debt charges on old Freight Rail debt raised prior to 1 July 1996 and temporary loans received from the NSW Treasury during 1996/97.
 - (ii) Workers’ compensation and superannuation liabilities which were incurred prior to 30 June 1996.
 - (iii) Unfunded accruals and retention monies payable to Rail Access Corporation which were in existence as at 30 June 1996.

4. REVENUE FROM OTHER RAIL ENTITIES

This comprises revenue received from Rail Access Corporation, Freight Rail Corporation, Railway Services Authority of NSW and other rail systems for services provided by State Rail. In the previous year’s financial statements, revenue received from other rail systems was shown under the heading of Intersystem Recoveries. Revenue received from other rail entities relating to employee travel passes has been included in Passenger Fares in the Income and Expenditure Statement.

5. OTHER REVENUE

This amount includes recoverable jobs revenue and amortisation of deferred gains which were shown under separate headings in previous years’ financial statements.

	Note	1997 \$000	1996 \$000
6. EXPENDITURE			
(a) Employee entitlements			
This amount includes superannuation contributions totalling \$9,489 (1996 \$9,000) made on behalf of non-executive board members to nominated superannuation schemes.			
(b) The components of superannuation expense included in employee entitlements were;			
Movement in balance of provision, superannuation guarantee levy and other payments		84,052	157,763
Charged to executive salaries		(2)	(48)
Charged to capital jobs		(239)	(5,407)
Transfers in from other schemes		(4,293)	126
Interest on superannuation fund		4,228	(902)
Normal Expense for the year		<u>83,746</u>	<u>151,532</u>
Abnormal credit	7	<u>(9,673)</u>	<u>-</u>
		<u>74,073</u>	<u>151,532</u>
(c) Access fees			
This is the amount charged by the Rail Access Corporation for access to and usage of railway infrastructure by State Rail.			
(d) Services provided by other rail entities			
This comprises payments to the Rail Access Corporation, Railway Services Authority of NSW and Freight Rail Corporation for services provided by these organisations.			
(e) Audit Fees			
Auditing the financial statements		320	595
Audit of the New Southern Railway Project		-	63
Other services		129	319
		<u>449</u>	<u>977</u>
7. ABNORMAL ITEMS			
Superannuation credit	7(a)	9,673	-
Recognition of user stores inventories		-	55,749
Gains on defeasance of rollingstock lease transactions	8	-	381
Crystallisation of deferred gains on sale and leaseback of rollingstock	7(b)	50,350	-
Crystallisation of deferred losses on sale and leaseback of rollingstock	7(b)	(71,779)	-
		<u>(11,756)</u>	<u>56,130</u>
(a)	The superannuation credit comprises adjustments made to State Rail's employer reserves by the Superannuation Administration Authority during the year.		
(b)	This item represents the balances of deferred gains and losses that arose from the sale and leaseback of rollingstock in previous years. As the rollingstock was transferred to the Freight Rail Corporation on 1 July 1996 the balances crystallised and were written off during the year. See Notes 12 and 19.		

	Note	1997 \$000	1996 \$000
8. ROLLINGSTOCK LEASE TRANSACTIONS			
Details of transactions entered into during the year were:			
Aggregate carrying amount of debt extinguished by defeasance		-	23,070
Aggregate carrying amount of assets given up for the purpose of defeasance		-	(22,701)
Gains on defeasance		-	369
Sale proceeds		-	23,070
Written down value of assets sold		-	(19,866)
Deferred gains on sale		-	(3,204)
Proceeds from sub-lease of locomotives to Motive Power Company (MPC)		-	19,866
Written down value of assets sub-leased to MPC		-	(23,070)
Deferred loss on sub-lease to MPC		-	3,204
Net expenses incurred		-	12
Gains on defeasance received by State Rail		-	381
9. RECEIVABLES			
Current			
Fares		6,817	12,870
Freight		-	62,534
Contract work		-	7,086
Rents		671	177
NSW Government - workers' compensation	9(a)	34,400	-
Other debtors and prepayments		39,187	13,769
		81,075	96,436
Provision for doubtful debts	9(b)	(2,670)	(17,675)
		78,405	78,761
Non-current			
NSW Government - workers' compensation	9(a)	180,200	-
(a) The NSW Treasury has undertaken to fund all workers' compensation claims incurred prior to 1 July 1996. The Treasury's funding undertaking has been treated as a receivable with a corresponding credit to Equity. See notes 16(b) and 18.			
(b) Bad debts totalling \$0.054m (1996 \$0.243m) were written off against the provision for doubtful debts.			
10. INVESTMENTS			
Current			
NSW Treasury Corporation			
Financial Accommodation Repayment Reserve	10(a)	330	343
Other		44,608	15,094
Bank deposits	10(b)	926	462
		45,864	15,899
Non-Current			
Bank deposits	10(b)	3	1
(a) The basis for the valuation of investments is explained in Note 1 (f).			
(b) Bank deposits comprise rental bonds and electricity deposits.			
11. INVENTORIES			
Gross value of inventories		44,468	145,283
Provision for obsolescence		(3,000)	(3,000)
		41,468	142,283

	Note	1997 \$000	1996 \$000
12. OTHER ASSETS			
Current			
Work in progress costs recoverable from other organisations	12(a)	1,755	946
Transfer and resettlement properties held for sale	12(b)	1,716	1,536
Prepaid superannuation contributions	16(a)	375	-
		<u>3,846</u>	<u>2,482</u>
Non-Current			
Deferred loss on sale and leaseback of rollingstock	1 (m)	4,050	81,436
Accumulated amortisation		(830)	(6,401)
		<u>3,220</u>	<u>75,035</u>
(a) Work in progress comprises contract work being undertaken by State Rail for government bodies and private parties but which had not been completed at balance date.			
(b) It is State Rail policy to purchase at market value, subject to certain conditions, the houses of employees in country areas who have been transferred to other areas of the state as a result of an organisational restructure. The properties are disposed of as soon as possible after purchase.			
13. PROPERTY, PLANT AND EQUIPMENT			
Land			
At historical cost		47,233	45,397
At fair value	13(b)	133	133
At valuation	13(b)	1,109,587	2,029,816
At market selling price	13(b), 13(c)	4,987	5,210
Total land		<u>1,161,940</u>	<u>2,080,556</u>
Buildings			
At historical cost		239,753	185,873
Accumulated depreciation		(16,503)	(5,676)
		<u>223,250</u>	<u>180,197</u>
At replacement cost		1,130,283	1,367,303
Accumulated depreciation		(662,078)	(771,249)
		<u>468,205</u>	<u>596,054</u>
At market selling price		<u>233</u>	<u>290</u>
At fair value	13(b)	11,896	11,364
Accumulated depreciation		(718)	(86)
		<u>11,178</u>	<u>11,278</u>
Total buildings		<u>702,866</u>	<u>787,819</u>
Trackwork and infrastructure			
At historical cost		40,430	518,580
Accumulated depreciation		(4,506)	(24,833)
		<u>35,924</u>	<u>493,747</u>
At replacement cost		495,025	12,548,188
Accumulated depreciation		(293,159)	(7,456,368)
		<u>201,866</u>	<u>5,091,820</u>
At fair value	13(b)	780	138,091
Accumulated depreciation		(18)	(3,116)
		<u>762</u>	<u>134,975</u>
Total trackwork and infrastructure		<u>238,552</u>	<u>5,720,542</u>

	Note	1997 \$000	1996 \$000
Plant and machinery			
At historical cost		166,788	176,551
Accumulated depreciation		<u>(38,211)</u>	<u>(27,556)</u>
		<u>128,577</u>	<u>148,995</u>
At replacement cost		85,617	347,955
Accumulated depreciation		<u>(67,985)</u>	<u>(249,605)</u>
		<u>17,632</u>	<u>98,350</u>
Total plant and machinery		<u>146,209</u>	<u>247,345</u>
Rollingstock (non-leased)			
At historical cost		118,721	103,942
Accumulated depreciation		<u>(8,683)</u>	<u>(4,232)</u>
		<u>110,038</u>	<u>99,710</u>
At fair value	13(b)	44,980	44,980
Accumulated depreciation		<u>(10,313)</u>	<u>(6,569)</u>
		<u>34,667</u>	<u>38,411</u>
At replacement cost		1,602,463	2,666,638
Accumulated depreciation		<u>(1,076,273)</u>	<u>(1,754,337)</u>
		<u>526,190</u>	<u>912,301</u>
Total rollingstock (non-leased)		<u>670,895</u>	<u>1,050,422</u>
Leased rollingstock			
At replacement cost		827,517	1,127,248
Accumulated amortisation		<u>(222,877)</u>	<u>(342,095)</u>
		<u>604,640</u>	<u>785,153</u>
At present value of minimum rentals		250,695	526,893
Accumulated amortisation		<u>(28,051)</u>	<u>(33,647)</u>
		<u>222,644</u>	<u>493,246</u>
Total leased rollingstock		<u>827,284</u>	<u>1,278,399</u>
Capital work in progress		<u>501,784</u>	<u>958,323</u>
Total property, plant and equipment		<u>4,249,530</u>	<u>12,123,406</u>

(a) Revaluation

Most property, plant and equipment was revalued on 1 July 1994 and subsequent expenditure is recorded at cost. See Note 1 (j) (iii).

Land under infrastructure (and held for continued use) was valued as at April 1995 by the Valuer-General's Office. Land under office buildings (and held for continued use) was valued as at 1 May 1995 by Stanton Hillier Parker Pty Ltd, registered valuers.

Surplus land and strata leased to tenants for air space development was valued as at 30 June 1993 by Hooker Frank Knight Pty Ltd, registered valuers. All other surplus land was valued as at August 1994 by State Rail officers.

Plant and equipment was revalued as at 30 June 1992 by Darroch and Co Ltd and subsequently by State Rail officers.

(b) Categorisation of certain property, plant and equipment

Land recognised 'at valuation' comprises all non-surplus land which is held for continued use and which has been revalued. Such land is valued differently, depending on whether or not it would be replaced if State Rail were to be deprived of it. Where the land would be replaced, it is valued at the greater of its value in use and its market selling price. Where the land would not be replaced, it is valued at the greater of the net present value of future cash inflows and market selling price. In practical terms, the resulting valuation is identical, regardless of whether or not the land would be replaced.

Assets recognised 'at market selling price' comprises all surplus land and buildings including strata leased to tenants for air space development. Assets recognised 'at fair value' comprise assets which have been granted free of charge. These are the only assets to be provided either free or at a nominal charge.

	Note	1997 \$000	1996 \$000
(c) Encumbrance of surplus land			

As part of a capital restructuring arrangement entered into in 1990, all surplus land is to be progressively disposed of and the net proceeds are to be paid to the Treasurer.

(d) Fully depreciated assets

Property, plant and equipment as at 30 June 1997 includes fully depreciated assets with gross replacement costs totalling \$184.0m (1996 \$995.6m).

14. BORROWINGS

Current

Borrowings (at face value)		30,762	38,368
Unamortised discount		(66)	-
Unamortised premium		-	871
Finance lease	21(b)	-	6,788
		<u>30,696</u>	<u>46,027</u>

Non-Current

Borrowings (at face value)		167,158	375,161
Unamortised discount		(8,589)	(18,790)
Unamortised premium		190	6,882
		<u>158,759</u>	<u>363,253</u>
Finance lease	21(b)	-	256,772
		<u>158,759</u>	<u>620,025</u>

Total borrowings

Borrowings (at face value)		197,920	413,529
Unamortised discount		(8,655)	(18,790)
Unamortised premium		190	7,753
		<u>189,455</u>	<u>402,492</u>
Finance Lease		-	263,560
		<u>189,455</u>	<u>666,052</u>

The finance lease relates to the supply of locomotives from Motive Power Company Pty Limited. This lease was transferred to Freight Rail Corporation on 1 July 1996 as a consequence of the restructure of State Rail.

15. CREDITORS

Current

Trade creditors		12,362	28,422
Capital works accruals		61,988	82,181
Other creditors and accruals		104,516	127,595
		<u>178,866</u>	<u>238,198</u>

Non-Current

Payroll tax applicable to non-current employee entitlement liabilities for wages and salaries, annual leave, long service leave and pay in lieu of certain holidays worked.		1,888	3,224
		<u>1,888</u>	<u>3,224</u>

16. PROVISIONS

Current

Unfunded superannuation liability	16(a)	73,312	109,818
Annual leave		38,963	76,880
Pay in lieu of certain holidays worked		746	910
Long service leave		9,946	18,604
Severance payments		475	1,120
Wages and salaries		19,360	14,466
		<u>142,802</u>	<u>221,798</u>
Total employee entitlements			
Workers' compensation		35,790	43,000
		<u>178,592</u>	<u>264,798</u>

	Note	1997 \$000	1996 \$000
Non-Current			
Unfunded superannuation liability	16(a)	389,799	981,742
Pay in lieu of certain holidays worked	1(o)	7,290	9,542
Long service leave		81,335	158,459
Total employee entitlements		478,424	1,149,743
Workers' compensation	16(b)	184,256	183,000
		662,680	1,332,743
Total provisions		841,272	1,597,541

Deferred employee entitlements relating to capital jobs and capitalised to the respective provisions were:

Annual leave	257	5,999
Long service leave	99	2,107
Superannuation	239	5,407
Wages and salaries	38	691
	633	14,204

(a) Superannuation

The NSW Government Actuary has assessed the gross superannuation liabilities for the defined benefit schemes administered by the Superannuation Administration Authority for the year ended 30 June 1997. The date of the last triennial review was 30 June 1994. The membership data bases used in the 1996/97 assessment are those as at 30 April 1997 for both State Authorities Superannuation Scheme and State Authorities Non-Contributory Superannuation Scheme and as at March/April 1997 for State Superannuation Scheme. The key assumptions adopted by the actuary were:

	1996/97 % pa	1997/98 % pa	1998/99 % pa	1999/2000 % pa	thereafter % pa
Rate of investment return (after tax and investment-related expenses)	9.0	7.0	7.0	7.0	7.0
Rate of general salary increase	3.0	3.7	4.0	4.5	5.0
Rate of increase in CPI (Sydney, All Groups)	4.0	2.1	2.5	3.0	3.5

During the year the NSW Treasury assumed the responsibility for unfunded pension liabilities estimated at \$208 million as at 30 June 1997. These liabilities relate to the State Authorities Superannuation Scheme and the State Superannuation Scheme.

The unfunded liability or prepaid contributions recognised in the Balance Sheet comprises:

	State Authorities Superannuation Scheme		State Authorities Non-Contributory Superannuation Scheme		State Superannuation Scheme		Total	
	1997 \$000	1996 \$000	1997 \$000	1996 \$000	1997 \$000	1996 \$000	1997 \$000	1996 \$000
Gross liability	391,449	1,005,905	44,040	83,380	5,560	6,937	441,049	1,096,222
Reserve Account	20,494	(956)	7,129	594	(5,935)	(4,300)	21,688	(4,662)
Unfunded liability/(prepaid contributions)	411,943	1,004,949	51,169	83,974	(375)	2,637	462,737	1,091,560

Expense recognised in the Income and Expenditure Statement for defined benefit schemes **78,414** **143,607**

Note	1997 \$000	1996 \$000
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The superannuation liability in the Balance Sheet comprises:

Gross liability	441,049	1,096,222
Reserve Account (Gross)	21,688	(4,662)
Prepaid contributions	375	-
Unfunded superannuation liability (current and non-current)	<u>463,112</u>	<u>1,091,560</u>

The Reserve Account is maintained with the Superannuation Administration Authority to finance employer contributions due on emerging superannuation benefits relating to State Superannuation Scheme. The other schemes had credit (ie overdrawn) balances at year end. Prepaid superannuation contributions are recognised as Other Assets in the Balance Sheet. See note 12.

(b) Workers' compensation

State Rail is a licensed self insurer for workers' compensation claims made under the Workers' Compensation Act 1987. As a condition of that licence State Rail maintains an 'Excess of Loss' (Workers' Compensation) insurance policy for any claims exceeding \$1.0m for any one occurrence. A provision is maintained to cover claims made or likely to be made by employees up to \$1.0m. The liability at year end has been actuarially assessed by Mr D A Zaman FIA, FIAA.

The NSW Treasury has agreed to fund the workers' compensation liability as at 30 June 1996. For legal reasons this liability continues to be shown in State Rail's Balance Sheet. See note 9.

- (c) An actuarial assessment of the non-current liability for long service leave and pay in lieu of certain holidays worked was carried out in July 1997 by Mr G McRae FIAA. Assumptions made were:

Increase in wage and salary rates (%)	5.0	5.0
Interest rate used for discounting (%)	8.5	8.5
Period used to measure present values of future payments (years)	<u>10</u>	<u>10</u>

17. OTHER LIABILITIES (NON-CURRENT)

Property lease incentives	1 (n)	2,360	4,865
Accumulated amortisation		<u>(521)</u>	<u>(2,167)</u>
		<u>1,839</u>	<u>2,698</u>

18. EQUITY ADJUSTMENTS DUE TO RESTRUCTURING

Adjustments made to Capital and Accumulated Funds, as explained in note 1(p), were:

Net assets transferred to Freight Rail Corporation, Rail Access Corporation and Railway Services Authority	6,409,111
Opening balance of capital	(2,919,732)
Excess of net assets transferred over capital balance	<u>3,489,379</u>
Transfer of assets to National Rail Corporation	59,494
De-recognition of land controlled by Rail Access Corporation	856,488
Workers' compensation to be funded by NSW Treasury (note 9)	(214,600)
Workers' compensation funded during the year by NSW Treasury	(43,289)
Superannuation pension liabilities assumed by NSW Treasury (note 16[a])	(208,000)
Superannuation liabilities assumed by NSW Treasury in relation to staff transferred to the new rail entities	<u>(452,029)</u>
Adjustment to opening accumulated surplus	<u>3,487,443</u>

	Note	1997 \$000	1996 \$000
19. DEFERRED REVENUE			
Gains on sale and leaseback of rollingstock	1 (m)	86,741	142,937
Accumulated amortisation		<u>(20,696)</u>	<u>(21,038)</u>
		66,045	121,899
20. RESERVES			
Financial Accommodation Repayment		329	343
Asset Revaluation		<u>1,647,132</u>	<u>6,196,665</u>
		1,647,461	6,197,008
Movements during the year:			
Financial Accommodation Repayment			
Balance at beginning of year		343	343
Transfers from reserve		<u>(14)</u>	<u>-</u>
Balance at end of year		329	343
Asset Revaluation			
Balance at beginning of year		6,196,665	6,130,749
Disposal of assets during the year		<u>(663)</u>	<u>(26,496)</u>
Revaluation adjustments during the year		-	92,412
Reduction in reserve in relation to transfer of assets to other entities during the year		<u>(4,548,870)</u>	<u>-</u>
Balance at end of year		1,647,132	6,196,665
(a) The financial accommodation repayment reserve funds the repayment of certain borrowings and is represented by investments as shown in Note 10.			
(b) See Notes 1(j), (iii) and (vi) for information relating to the Asset Revaluation Reserve.			
21. EXPENDITURE COMMITMENTS			
(a) Borrowings			
Payable not later than 1 year		30,762	38,368
Later than 1 year but not later than 2 years		1,304	64,515
Later than 2 years but not later than 5 years		83,403	104,419
Later than 5 years		<u>82,451</u>	<u>206,227</u>
Total face value	14	197,920	413,529
(b) Finance Lease			
Payable not later than 1 year		-	27,177
Later than 1 year but not later than 2 years		-	27,229
Later than 2 years but not later than 5 years		-	82,040
Later than 5 years		-	<u>345,243</u>
Total lease payments		-	481,689
Future finance charges		-	<u>(218,129)</u>
Principal lease liability	21 (e)	<u>-</u>	263,560
Current liability	14	-	6,788
Non-Current liability	14	-	<u>256,772</u>
Principal lease liability		<u>-</u>	263,560

	Note	1997 \$000	1996 \$000
(c) Operating Leases			
Rents contracted for at year end but not recorded in the Balance Sheet:			
Payable not later than 1 year		1,510	8,914
Later than 1 year but not later than 2 years		1,051	5,304
Later than 2 years but not later than 5 years		2,320	5,508
Later than 5 years		442	2,685
	21 (f)	<u>5,323</u>	<u>22,411</u>
(d) Other expenditure contractually committed at year end and not recorded in the Balance Sheet:			
Capital expenditure	21 (g)	425,183	692,364
Inventory		1,139	6,921
Motive Power Locomotives Maintenance	21 (h)	-	196,880
Purchase orders outstanding		10,314	77,007
Auburn Service Centre rollingstock maintenance	21 (i)	379,557	422,466
Other working expenditure contracts		<u>77,143</u>	<u>51,667</u>
(e)			
Finance lease commitments relate to the lease of locomotives from Motive Power Company Pty Limited. This lease was transferred to Freight Rail Corporation on 1 July 1996 as a consequence of the restructure of State Rail.			
(f)			
Operating leases are in respect of properties.			
(g)			
State Rail's capital works commitments comprise infrastructure and rollingstock contracts.			
(h)			
The commitment for Motive Power Locomotives maintenance costs is the responsibility of the Freight Rail Corporation from 1 July 1996.			
(i)			
In 1993 State Rail entered into a maintenance services agreement with A Goninan and Co Limited for an initial term of 10 years whereby the company will maintain passenger rollingstock at the Auburn Service Centre. The commitment amount comprises estimated maintenance charges over the remaining period of the agreement. The agreement with A Goninan and Co Limited includes a productivity sharing arrangement which maximises the gains of the partnering agreement for both the operator and the provider.			

22. CONTINGENT LIABILITIES

Amounts not taken up in the financial statements:

(a)	Estimated amount of unsettled claims subject to litigation not covered by insurance.	39,492	48,704
(b)	Indemnity given to Motive Power Company Pty Ltd against default in the repayment of locomotive borrowings. These borrowings were transferred to the Freight Rail Corporation on 1 July 1996.	-	263,518
		<u>39,492</u>	<u>312,222</u>
(c)	State Rail has entered into an agreement with the private sector for the construction and operation of stations on the New Southern Railway. State Rail has an obligation to purchase the private sector's assets (ie the stations) in certain circumstances and, in the event of a default by State Rail, is also obliged to pay out the private sector's financier.		

The greatest liability would arise if the private sector participants terminated the agreement as a consequence of a default by State Rail. In these circumstances, State Rail would be obliged to acquire the station assets. The amount payable would be the aggregate of the development, design, construction and financing costs incurred up to the date of termination, plus financing and contract break costs and an amount of \$15m for lost profit opportunities. State Rail has also indemnified one of the parties to the arrangement against any income tax payable in relation to certain benefits arising thereunder. The indemnity is limited to \$1.6m.

23. CONTROLLED ENTITY

The Motive Power Company Pty Limited, a controlled entity of State Rail, became a controlled entity of the Freight Rail Corporation on 1 July 1996. State Rail did not have any controlled entities during 1996/97.

24. FINANCIAL INSTRUMENTS

(a) Interest rate risk

Cash at bank, investments, borrowings and interest rate swap contracts are exposed to interest rate risk, which is the risk that the value of the financial instrument will fluctuate due to changes in market interest rates.

The maturity (or contractual repricing) dates and average effective interest rates of financial instruments exposed to interest rate risk at balance date were:

Timing of Risk	Instrument	Average Interest Rate %		Principal Amount	
		1997	1996	1997 \$000	1996 \$000
1 year or less	Cash	4.56	5.25	19,959	25,968
	Investments	6.90	7.92	45,864	15,899
	Borrowings (a)	7.65	12.40	<u>30,696</u>	<u>38,965</u>
				<u>96,519</u>	<u>80,832</u>
1 to 5 years	Borrowings (a)	11.33	9.32	<u>84,110</u>	<u>165,298</u>
Over 5 years	Borrowings (a)				
	• Fixed Interest	7.30	8.77	74,649	181,854
	• Floating rate	-	-	-	16,375
	Lease liabilities	Floating	Floating	-	263,560
	Interest rate swaps				
	• Fixed Interest	10.14	8.77	36,000	213,000
	• Floating rate	-	-	<u>(36,000)</u>	<u>(213,000)</u>
				<u>74,649</u>	<u>461,789</u>
Total exposure				<u>255,278</u>	<u>707,919</u>

(a) Borrowings are net of unamortised discounts/premium

(b) Credit risk

Receivables, interest rate swaps, forward foreign exchange contracts and foreign currency option contracts are exposed to credit risk, which is the risk of financial loss due to another party to a contract failing to discharge a financial obligation thereunder.

The maximum credit risk exposure in relation to receivables is the carrying amount, less the provision for doubtful debts, as disclosed in the balance sheet.

The maximum credit risk exposure in relation to interest rate swap contracts, forward foreign exchange contracts and foreign currency option contracts is the fair value of the contracts, as disclosed in Note 24(c).

The only significant concentration of credit risk arises in respect of receivables from the Railway Services Authority of NSW, Freight Rail Corporation and Rail Access Corporation. Receivables from these entities totalled \$14.554m (1996 \$nil) at balance date.

It is considered that, despite the size of the credit risk exposure, the actual risk of financial loss is minimal due to the nature and general financial standing of the debtors concerned.

(c) Valuation of financial instruments

Financial assets and financial liabilities recognised in the balance sheet are carried at historical cost which, except in the case of borrowings, is also their fair value.

At balance date, the fair values for borrowings and for financial instruments not recognised in the balance sheet were:

FINANCIAL INSTRUMENT	NOTE	CARRYING OR CONTRACT VALUE		FAIR VALUE	
		1997 \$000	1996 \$000	1997 \$000	1996 \$000
Assets (Current & Non-Current)					
Favourable interest rate swap contracts		-	125,000	-	2,326
Financial guarantees receivable	(i)	<u>97,475</u>	<u>7,300</u>	<u>97,475</u>	<u>7,300</u>
Liabilities (Current & Non Current)					
Borrowings	14	189,455	402,492	209,236	422,643
Unfavourable interest rate swap contracts		36,000	88,000	(6,182)	2,711
Unfavourable forward foreign exchange contracts		-	13,157	-	11,554
Financial guarantees payable	(ii)	<u>-</u>	<u>430,583</u>	<u>-</u>	<u>430,583</u>

(i) Financial guarantees receivable by State Rail comprise security deposits, retention monies, fixed price contract deposits and contract bank guarantees. The amount of contract bank guarantees at 30 June 1996 is not available.

(ii) The 1996 financial guarantees payable relates to Motive Power Company Pty Limited outstanding borrowings at 30 June 1996.

(d) Derivative financial instruments

(i) Interest rate swaps

The notional principal amounts and remaining terms of interest rate swap contracts at balance date were:

Remaining term of contract	1997 \$000	1996 \$000
1 to 5 years	-	-
5 to 6 years	-	75,000
6 to 8 years	36,000	36,000
8 to 10 years	-	102,000
Total value of swap contracts	<u>36,000</u>	<u>213,000</u>

As a consequence of the restructure of State Rail on 1 July 1996, interest swaps amounting to \$177.000m were transferred to the Freight Rail Corporation.

(ii) **Forward foreign exchange contracts**

At balance date \$3.434m (1996 \$34.378m) of overseas purchase orders were exposed to fluctuation in foreign exchange rates. The amount of these purchases hedged was:

Forward foreign exchange contracts

Contract Currency and Time to Maturity	Average Exchange Rate		Contract Value (\$A)	
	1997	1996	1997 \$000	1996 \$000
Deutschemarks				
Less than 3 months	-	1.1999	-	1,380
3 to 12 months	-	0.9619	-	7,201
			<u>-</u>	<u>8,581</u>
French Francs				
Less than 3 months	-	3.7666	-	2,920
3 to 12 months	-	3.7016	-	1,081
			<u>-</u>	<u>4,001</u>
Japanese Yen				
Less than 3 months	-	83.80	-	575
			<u>-</u>	<u>13,157</u>
Total hedged			<u>-</u>	<u>13,157</u>

There were no unrecognised losses on forward foreign exchange contracts as at balance date (1996 \$1.603m). Such losses are brought to account when they are realised which is within 12 months after balance date.



Dominic Staun BA(Acc), MCom (Hons), CPA
**GROUP GENERAL MANAGER
CORPORATE SERVICES**

16 October 1997

END OF AUDITED FINANCIAL STATEMENTS

STATEMENT BY MEMBERS OF THE BOARD

For the year ended 30 June 1997

Pursuant to Section 41C (1B) and (1C) of the Public Finance and Audit Act 1983, Section 14(1) of the Public Finance and Audit (General) Regulation 1995 and in accordance with a resolution of the members of the Board of the State Rail Authority of New South Wales, we declare on behalf of the State Rail Authority of New South Wales that in our opinion:

1. The accompanying financial statements, read in conjunction with the notes thereto, exhibit a true and fair view of the financial position of the State Rail Authority of New South Wales, as at 30 June 1997, and transactions for the year then ended; and
2. The financial statements have been prepared in accordance with the provisions of the Public Finance and Audit Act 1983, the Public Finance and Audit (General) Regulation 1995 and the Treasurer's directions.

Further, we are not aware, as at the date of this statement, of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.



M G Sexton
CHAIRMAN



David Hill
CHIEF EXECUTIVE

16 October 1997



BOX 12 GPO
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

STATE RAIL AUTHORITY OF NEW SOUTH WALES

To Members of the New South Wales Parliament and Members of the Board of the State Rail Authority

Scope

I have audited the accounts of the State Rail Authority of New South Wales for the year ended 30 June 1997. The preparation and presentation of the financial report consisting of the accompanying income and expenditure statement, balance sheet and statement of cash flows, together with the notes thereto, and the information contained therein is the responsibility of the Board of the Authority. My responsibility is to express an opinion on this financial report to Members of the New South Wales Parliament and Members of the Board of the Authority based on my audit as required by sections 34 and 41C(1) of the Public Finance and Audit Act 1983.

My audit has been conducted in accordance with the provisions of the Act and Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates.

In addition, other legislative requirements which could have an impact on the Authority's financial report have been reviewed on a cyclical basis. For this year, the requirements examined comprise: Fringe Benefits Tax on motor vehicles; payroll tax on employer's superannuation contributions; SES contracts and performance appraisals; prompt payment of accounts and disaster recovery plans.

These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with the requirements of the Public Finance and Audit Act 1983, Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) so as to present a view which is consistent with my understanding of the Authority's financial position, the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion the financial report of the State Rail Authority of New South Wales complies with section 41B of the Act and presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements the financial position of the Authority as at 30 June 1997 and the results of its operations and its cash flows for the year then ended.

A T WHITFIELD, FCA
ASSISTANT AUDITOR-GENERAL

(duly authorised by the Auditor-General of New South Wales
under Section 41C(1A) of the Act)

SYDNEY
16 October 1997

SUMMARY OF LAND

As at 30 June 1997 State Rail owned or occupied the following land:

Classification	Note	\$000
Land under infrastructure	(a)	1,739,052
Land leased to tenants for airspace development	(b)	8,215
Residential sites	(c)	6,428
Surplus land	(d)	<u>177,950</u>
	(e)	<u>1,931,645</u>

- (a) Land under infrastructure was valued as at April 1995 by the Valuer-General in accordance with NSW Treasury guidelines for the valuation of land and heritage assets in the NSW public sector. The 1995 valuation was indexed by the Valuer-General for periods to June 1996 and June 1997 and adjusted for disposals and acquisitions during those periods.
- (b) Land leased to tenants for airspace development was valued as at 30 June 1996 by Herron Todd White Pty Ltd and indexed for the period to 30 June 1997.
- (c) Residential sites were valued as at 30 June 1996 by the Australian Valuation Office and indexed for the period to 30 June 1997.
- (d) Surplus land is valued at the estimated value in the 1997/98 sales program.
- (e) The value of land comprises all land owned or occupied by State Rail. It differs from the value of land shown in the Balance Sheet because the Balance Sheet value excludes land under infrastructure, which, though owned by State Rail, is controlled by the Rail Access Corporation.

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1. State Rail performance

Year ended 30 June	Notes	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Finance (\$M 1996/97):											
State Rail											
Operating expenditure	1	2230.0	2071.7	1909.4	1862.8	1756.9	1719.5	1694.3	1614.2	1569.2	1276.1
Customer revenue	1	1432.2	1298.1	1333.1	1290.6	1228.5	1249.0	1279.6	1190.8	1153.0	615.2
Capital Works outlay	1	554.2	459.1	504.2	554.7	588.5	735.7	755.2	722.9	843.0	194.0
Cost efficiency (\$M 1996/97):											
CityRail											
Operating cost (\$/PJ)	1, 2	3.1	3.0	2.8	2.7	2.7	2.8	2.7	2.5	2.3	3.2
Countrylink											
Operating cost (cents PK)	1	23.2	25.2	22.3	22.9	18.4	17.8	16.6	14.8	15.2	13.4
Output:											
CityRail											
Passenger journeys (mill)	3	242.6	246.1	248.4	251.6	243.8	229.8	234.8	249.6	256.4	268.2
Suburban OTR 3 mins		86.4	83.1	84.0	86.6	90.3	92.0	92.2	90.8	88.7	86.4
Suburban OTR 5 mins		92.1	87.3	87.9	90.3	93.2	94.8	94.9	93.8	92.0	90.7
InterCity OTR 5 mins		88.4	81.5	82.7	87.5	91.5	92.1	93.1	92.2	91.9	90.1
Countrylink:											
Passenger kms (billions)	4	1.37	1.12	1.15	1.02	.82	.85	.83	.91	.96	1.00
Passenger journeys (mill)	5	4	3.2	2.7	2.6	2.3	2.2	2.1	2.2	2.4	2.5
OTR (% -10 mins)	6	88.8	83.6	66.8	76.8	84.8	87.9	84.8	86.3	89.0	87.0
State Rail staff	7	36,717	33,113	28,842	26,602	24,467	22,803	21,270	20,186	19,742	9,370
Train stock											
Passenger cars		2122	2068	2035	2012	1881	1724	1680	1676	1703	1612
Locomotives	8	673	625	599	599	599	555	574	425	416	1
Employee productivity											
CityRail											
Pjs/employee	9	16,619	18,694	20,788	22,146	23,012	22,510	23,448	29,956	30,973	49,399
Countrylink											
PKs/employee ('000)		774	701	970	980	776	820	925	832	867	1158

Note: On 1 July 1996 the NSW railways were restructured and many of the functions, assets and liabilities of the State Rail Authority were transferred to Rail Access Corporation, FreightCorp or the Railway Services Authority. Therefore, the results for 1996/97 are not consistent with the previous year's figures for State Rail and are not directly comparable.

- Financial figures have been prepared on the basis of funds provided by government to supplement the operations of State Rail ie cash basis. Accordingly a number of items of a non-cash nature are excluded from these figures. All financial figures have been adjusted to 1996/97 dollars for comparison purposes.
- The 1996/97 CityRail operating cost (\$/pj) is higher than in previous years despite the devolvement of Network Control and the Railway Services Authority from CityRail from the beginning of 1996/97 due to the introduction of access charges to the Rail Access Corporation this year. An adjusted passenger journey figure of 264.7 million to reflect 52 weeks for 1996/97 has been used in the calculation of this indicator for comparison purposes.
- This figure is based on 53 weeks. On a 52-week basis the figure is 264.7 million passenger journeys.
- Countrylink passenger kilometres are based on kilometres for rail, intercity coaches and peak period coaches only.
- Countrylink passenger journeys include all rail, intercity coach, peak period coach and feeder coach services.
- Countrylink on-time running statistics are train on-time running only, not feeder coach services.
- The drop in State Rail staff in 1996/97 is due to the formation and separation from State Rail of the separate rail entities of FreightCorp, the Railway Services Authority and the Rail Access Corporation.
- The substantial drop in the number of locomotives for 1996/97 is due to the devolvement of FreightCorp from State Rail.
- The apparent increase in employee productivity (1997 on 1996) is due to the devolvement of staff to RSA, Passenger Fleet Maintenance and Network Control.

2. Additional financial information

COMPARISON OF OPERATING INCOME AND EXPENDITURE	1996/97 ACTUAL \$000	1997/98 BUDGET \$000
OPERATING INCOME		
Passenger Revenue	411,262	441,155
Other	<u>208,316</u>	<u>166,551</u>
Total Customer Revenue	619,578`	607,706
Total Government Contributions	<u>921,079</u>	<u>937,000</u>
TOTAL INCOME	1,540,657	1,544,706
EXPENDITURE	<u>(1,612,819)</u>	<u>(1,484,871)</u>
OPERATING (DEFICIT)/ SURPLUS BEFORE ABNORMAL ITEMS	(72,162)	59,835
ABNORMAL ITEMS	<u>(11,756)</u>	<u>0</u>
OPERATING (DEFICIT)/ SURPLUS	<u>(83,918)</u>	<u>59,835</u>

Notes: The above table is an Income and Expenditure Statement which is not comparable to the Cash Operating Budget format shown in the 1995/96 Annual Report.

3. Accounts Payable performance

The following information is provided in accordance with the requirements of the Annual Reports (Statutory Bodies) Regulation 1995, and Treasury Circular No G1992/12.

Period from 1 July 1996 to 30 June 1997:	
Total dollar amounts of accounts paid: (1)	\$1662.78m
Total dollar amounts of accounts paid on time	\$1557.95m
Percentage of accounts paid on time	91.24

(1) Does not include payments of workers' compensation claims or third party payments out of revenue.

	Paid on time	Up to 30 days overdue	31-60 days overdue	61-90 days overdue	Over 90 days overdue	Total value \$m
1st Quarter 1996/97						
Number of accounts (%)	88.86	10.27	0.57	0.11	0.19	
Value (\$m)	636.75	27.66	0.02	0.17	0.06	664.66
2nd Quarter 1996/97						
Number of accounts (%)	90.90	7.89	0.93	0.14	0.14	
Value (\$m)	301.43	22.68	0.32	0.02	0.03	324.48
3rd Quarter 1996/97						
Number of accounts (%)	94.07	5.30	0.33	0.16	0.14	
Value (\$m)	366.07	28.64	0.39	0.23	0.02	395.35
4th Quarter 1996/97						
Number of accounts (%)	91.57	7.91	0.29	0.09	0.14	
Value (\$m)	253.70	24.03	0.35	0.15	0.06	<u>278.29</u>
						<u>1662.78</u>

4. Late payment of accounts

There were no penalty interest payments made by State Rail to suppliers of goods and services under clause 18 of the Public Finance and Audit (General) Regulation 1995 during the 1996/97 financial year.

5. Rate of return on investments

In accordance with the Public Authorities (Financial Arrangements) Act 1987, the Authority is required to invest all available funds in the "Hour Glass Investment Facilities" offered by the NSW Treasury Corporation.

State Rail's investment performance was therefore the same as that achieved by the NSW Treasury Corporation. In accordance with clause 12 (1) of the Annual Reports (Statutory Bodies) Regulation 1995, the return was:

Facility	Actual Return %	Benchmark %
Cash	6.90	6.77

6. Five-year comparative Income and Expenditure statement

This comparative table can no longer be reproduced due to the impact of the redesign of Income and Expenditure Account descriptions and the non-relevance of a number of expenditure items, following the restructuring of the Authority on 1 July 1996.

Relevant information is contained in the Income and Expenditure Statement on Page 43.

7. Disposal of properties

The sale of 43 properties producing gross proceeds of \$5.341 million was completed during the year. Of these sales, 22 were sold by public auction, 20 by private treaty and one by selective tender. There were no family connections associated with approvals to sell property. The private treaty sales, none of which exceeded \$5 million, were conducted in accordance with State Rail policy in the following circumstances:

- to government authorities - four sales;
- to adjoining landowners - two sales;
- to tenants of State Rail residential sites - eleven sales, and
- other - three sales.

As part of the financial restructuring of State Rail undertaken in 1989/90, beneficial entitlement to the net proceeds from the disposal of all surplus property was transferred to Treasury in consideration for which it assumed responsibility for most of State Rail's accumulated borrowings at that time. In addition to net sales proceeds, net rent from the Wynyard Centre is also payable to the Treasury.

Applications for access to documents containing details of properties sold during the year may be made in accordance with the Freedom of Information Act 1989.

8. Risk management and insurance

State Rail, under its commercial charter, has an obligation to manage and minimise its exposure to risk. Risk management involves a total approach to achieve maximum efficiency at minimum cost for the protection of State Rail's assets, earnings, personnel and operations and to the person and property of third parties against predictable and unpredictable losses. In February State Rail engaged KPMG to conduct a risk analysis. This risk analysis is being conducted in two stages:

- Stage I - the identification of inherent risks facing State Rail, and
- Stage II - the review of the controls in place to manage those risks.

Stage I was completed in April 1997 and Stage II is due for completion in August 1997.

During the year State Rail's insurance broker, Alexander & Alexander, reviewed and placed State Rail's Catastrophe Insurance Program. The insurance policies contained in the Catastrophe Insurance Program are:

- a general public liability policy of \$500 million covering each and every event, with an excess of \$5 million. The excess under this policy is limited to \$10 million in the aggregate in a policy year.
- An industrial special risks policy of \$400 million covering any one event with an excess of \$5 million for State Rail's key strategic property assets. This policy includes an insurance cover of \$100 million for stationary rollingstock located at key property assets and cover for rollingstock in motion of \$50 million; with an excess of \$5 million on each cover. The excess under this policy for the property and rollingstock is limited to \$5 million in the aggregate in a policy year.

Other external insurance policies cover the significant risks to State Rail for comprehensive damage to the State Rail motor vehicle fleet, third-party motor vehicle damage and injuries, excess Workers' Compensation claims and claims against directors and officers.

9. Liability management performance

Section 13 of the Annual Reports (Statutory Bodies) Regulation 1995 requires State Rail to report its debt management performance in accordance with guidelines issued by the NSW Treasury. The generalised cost of funds for the year was 16.82 per cent against a benchmark of 15.37 per cent.

10. Committees

Board Committees

Membership of board committees is determined by the State Rail Authority Board.

Audit Committee

Members:

M G Sexton (Chairman)

L Harper (Mr Hill replaced Mr Harper)

D Hill - Chief Executive

J L Menadue - Board Member

J O'Brien - Board Member

The committee reviewed and considered:

- the Internal Audit Charter;
- the Strategic Audit Plan;
- the Annual Work Plan;
- the audit results, audit resources utilised on the review and, as appropriate, individual audit reports noting specific areas of concern;
- the results of investigations of suspected corrupt conduct and fraudulent activities; and
- matters affecting the audit function including proposals for future action submitted by the Director Internal Audit and the resourcing of the audit functions.

The committee met on three occasions.

Appointments & Remuneration Committee of the Board

The Appointments & Remuneration Committee held its inaugural meeting in June 1997.

Members:

M G Sexton (Chairman)
J L Menadue - Board Member
M Alt - Board Member

The committee considered the appointment of a Chief Executive Officer and met on one occasion only.

Management Committees

Environmental Policy Committee

Members:

Len Harper - Chief Executive (Chairman)
Richard Middleton - Group General Manager CityRail
Margaret Brazel - General Manager Countrylink
Kim Finnimore - General Manager Business Services
Arthur Smith - General Manager Passenger Fleet Maintenance
Robert Nakhla - General Manager Network Control
Gil Elliot - Environmental Manager State Rail (Secretary)
Fenn Hinchcliffe - Environmental Services Manager Rail Estate
Colin Bruce - Manager Dangerous Goods

The committee reviewed environmental policy, strategies and management procedures and monitored progress within State Rail. Appropriate actions were taken to address environmental issues and concerns.

The committee met on four occasions during the year.

Heritage Committee

The Heritage Committee centralises and coordinates the management of State Rail heritage which includes buildings, rollingstock, infrastructure, machinery and artefacts. It provides advice and guidance on the management, conservation and restoration of heritage assets, in particular, buildings. The committee liaises with the external community in regard to heritage and technical matters.

Members:

K Finnimore - General Manager, Business Services, SRA
G Brooks - Institute of Architects
K Brooks - National Trust of Australia NSW
D Fraser - Institute of Engineers
D Hagarty - Association of Railway Preservation Groups
J Templeman - Heritage Council of NSW
D Ellsmore (secretary) - Manager, SRA Heritage Unit

The committee met on four occasions during the year. There were also numerous technical subcommittee meetings.

11. Chief and senior executive officers

The following information is provided in accordance with Section 14, Parts 1 and 2 of the Annual Reports (Statutory Bodies) Regulation 1995.

Number and level of CES/SES positions at 30 June 1997.			
Level	SES Band	Total CES/SES positions 1995/96	Total CES/SES positions 1996/97
CES 8	4	2	1
SES 6	3	9	2
SES 4	2	27	12
SES 2	1	48	14
TOTAL		86	29
Women in CES/SES positions		7	5

Performance statements for SES Officers Band 3 (lower) and above.

The following information is provided in accordance with Section 11 of the Annual Reports (Statutory Bodies) Regulation 1995.

David Hill,

Chief Executive, State Rail - SES Band 4 (upper). Period in position: 21 April 1997 to 30 June 1997.

Responsibilities and targets:

David Hill was appointed for a six-month term with specific tasks set by the Government. The main task was to restore reliability to Sydney's rail services. Other tasks were to advise on future rollingstock requirements, ensure budgetary requirements were met and to maintain a consultative industrial relations program.

Summary of achievements against tasks set by Government:

- immediate improvements to on-time running achieved with the introduction of a new timetable in June 1997. Record levels of on-time set to be achieved in 1997/98.
- Tenders called for new fourth-generation train to replace older-style double deck carriages. The first of these carriages are scheduled for delivery for the 2000 Olympics.
- A complete review of resources was commenced to match efficient service delivery against budgetary targets. This is being achieved with no reduction in services or safety of the rail system.
- Service unions and staff have been briefed on change program with ongoing liaison as program develops.

Arthur Smith

Chief Operations Manager - SES Band 3 (upper). Period in position: 15 May 1997 - 30 June 1997.

Responsibilities and targets:

Responsible for the management, direction and provision of leadership of the Operations Division to ensure a high quality, safe and efficient passenger rail service which delivers customer satisfaction while operating on a sound commercial basis.

As a direct report, assist the Chief Executive in the directing of the long-term positioning of State Rail into a world-class rail system as well as achieving immediate improvements to on-time running.

Reporting to the Chief Operations Manager are:

- **Manager, Network Operations**, responsible for the effective management of all signals operational staff and incident management in the Sydney metropolitan area.
- **Manager, Train Control**, responsible for the effective management of all train operations throughout NSW including train control centres and country signals operations staff.
- **Manager, Operations Coordination**, responsible for the efficient scheduling of the CityRail passenger fleet to meet the requirements of the timetable.
- **Manager, Customer Service**, responsible for the effective station management of the various business sectors as well as revenue protection services.

- **Manager, Projects and Communications**, responsible for major projects such as the fourth-generation train and for managing rail communications and possessions.
- **Manager, Business Development**, responsible for developing and managing all aspects of CityRail's business and market development.

Summary of key achievements against performance criteria:

- introduced June 15 timetable with reliability improvement of metropolitan service delivery lifting from 81 to 93 per cent.

Paul Poynton

General Manager Customer Services, CityRail - SES Band 3 (lower). Period in position: 1 July 1996 - 30 June 1997

Responsibilities and targets:

Responsible for the provision of high-quality, safe and efficient customer services, improving customer satisfaction, increasing customer patronage and revenue, and management of station assets.

Summary of key achievements against performance criteria:

- empowered station staff to deliver improved customer services;
- carried out job and work redesign of station operations to improve service and efficiency;
- increased passenger journeys by 4 per cent to 268 million;
- increased net ticket revenue to \$348.6 million - 2.2 per cent above budget;
- completed Easy Access works and major station upgrades and extensive minor works (see CityRail section of Operations report);
- continued station security enhancement program with a forecast completion of 62 stations in 1998/99. A total of 19 of these locations now have comprehensive CCTV coverage. Enhanced lighting is being trialled at Cabramatta, Mt Druitt and Sydenham stations to significantly improve security.

12. Overseas travel undertaken during the financial year

Name and position	Country/city/duration	Purpose of visit
Asher Jarvis Public Relations Coordinator Countrylink	HONG KONG 12-14 August 1996	To coordinate journalists' trip to Hong Kong to promote a Countrylink/Cathay Pacific sales initiative.
Steve McInnes, Sales Manager Countrylink	NEW ZEALAND - Auckland, Dunedin Invercargill, Christchurch 25 August - 3 October 1996	To promote Countrylink's range of products to the international market.
Tim Poulter Sales and Marketing Manager Countrylink	UNITED STATES - Los Angeles, Palm Springs, Atlanta CANADA - Montreal, Toronto, Vancouver 21 October - 8 November 1996	To promote Countrylink's range of products to the international market.
Michael Ulhig Senior Engineer, Bogie Standards Network Control Division	UNITED STATES - Pueblo, Granite City, Chicago 7 - 19 October 1996	To inspect the Association of American Railroad's test procedures and facilities and in particular to witness the calibration and application of a Strain Gauged Wheelset.
Kim Finnimore General Manager Countrylink	CANADA - Vancouver, Edmonton, Calgary, Toronto, Ottawa, Montreal 2 - 16 November 1996	To represent SRA passenger operations on a trade mission of the Australian Rail Sector as organised by the Canadian Government.
Murray Tate Manager, Systems and Projects Network Control Division	ENGLAND - London, Poole SWEDEN - Stockholm 22 November - 8 December 1996	To inspect timetabling systems in the British Rail and Swedish Rail systems and to oversee the train radio test.

13. Consultants - contracts for \$30,000 and over

Contract description	Consultant	1996/97 expenditure \$
Environmental audit	Hamble Partners	110,000
Organisational management - job evaluation project	TMG International	91,000
Elasticity study	DJA-Maunsell Pty Ltd	83,900
Value management	John Bushell Value Management	74,000
Organisational management - job evaluation project	Organisation Consulting	64,000
Impact statement	Jackson Teece Chestern	57,000
Market survey and research	Marketing Research Association	53,000
Development applications	Rust PPK Pty Ltd	51,000
Review of SRA's Corporate Support	Peter Lidbetter	48,000
Production design etc	Devine Erby Mazlin Australia	45,000
Review contracted road coach operations	GHD Transmark	44,000
Review of State Rail OH&S and rehabilitation systems	Macquarie Human Resources	40,000
Service reviews	Symonds Travers Morgan reassigned to Booz-Allen & Hamilton	37,260
Evaluation of "rostering" system	Opcom Pty Ltd	36,000
Engineering appraisal	Booz-Allen & Hamilton	34,000
Identify strategic issues and develop organisational design criteria	Len Brandon & Associates	31,700
Number of contracts of \$30,000 or more	16	899,860
Number of contracts under \$30,000	38	503,070
Total	54	\$1,402,930

14. Number of employees by category

YEAR	SALARIED/ PROFESSIONAL	TRADESPERSONS	NON-TRADESPERSONS	TOTAL
1987/88	9432	5897	21,388	36,717
1988/89	9008	4611	19,494	33,113
1989/90	7953	3942	16,947	28,842
1990/91	7416	3638	15,548	26,602
1991/92	7127	3251	14,089	24,467
1992/93	6966	2952	12,885	22,803
1993/94	6863	2323	12,084	21,270
1994/95	6781	1792	11,613	20,186
1995/96	6993	1588	11,161	19,742
1996/97*	5038	776	3530	9344

*The drop in staff levels compared to the previous year is the result of the separation from State Rail and the formation of the new business entities of FreightCorp, Rail Access Corporation and Rail Services Authority.

15. Equal Opportunity Employment

The 1996 Corporate Plan included the key strategy “Providing equal opportunity in the workplace”. Focus was given to these areas :

- increasing the participation rate of women, and
- increasing the participation rate of Aboriginal and Torres Strait Islanders to 2 per cent by the year 2000.

In addition attention was focused on the following activities:

- conducting the EEO data collection survey to meet new reporting requirements;
- promoting awareness of equity responsibilities to employees and managers, and
- supporting the objectives of the Women in Transport Task Force.

Overview of outcomes

The percentage of women increased to 15.1 per cent, achieved by positive recruitment strategies for station staff but mainly due to the redistribution of the workforce as a result of the reorganisation of State Rail . The increase is still below expectations and the Authority has a policy commitment to increase this figure. One way to achieve this is to ensure all intakes for guards’ schools, all new recruits to station assistants, and all future trainee signallers achieve a target of 50 per cent women .

The focus on Aboriginal and Torres Strait Islander recruitment resulted in 12 Aboriginals employed in customer service positions.

The Women in Transport Working Group in State Rail reviewed data from focus groups of female employees and conducted workshops of senior and middle managers to draft strategies for increasing female participation in the workforce.

The EEO Survey was completed in early 1997. Thirty-one per cent of employees provided valid information.

Eighteen employees attended Skillmax training. Language Literacy and Numeracy courses were attended by 163 employees. This also includes distance learning programs.

KeepSafe training (a self-protection program on anticipating and avoiding danger, improving safety and confidence) was introduced primarily for women working in customer service positions, 96 women attending. More programs will be scheduled for male and female customer service officers. The program has been incorporated in station and train crewing induction training programs.

Attention was focused on increasing the number of Spokeswomen in the organisation. Twenty-eight women participated in the former State Rail (which included Freight Rail and Railway Services Authority). The new State Rail now boasts 30 spokeswomen and includes two from Aboriginal and Torres Strait Islander backgrounds.

The Aboriginal Contact Officer network continued to be promoted with five members participating. The network assisted in increasing and evaluating EEO survey respondents as well as providing special assistance and advice regarding the recruitment of Aboriginal and Torres Strait Islanders .

A deafness awareness pilot program was conducted by the Deaf Society of NSW, focusing on customer service requirements for the deaf, hearing impaired and elderly using our services. Outcomes included establishing an impairment awareness session at all induction programs for customer service officers.

Strategies being considered for the next reporting period include:

- increasing representation of women to target 20 per cent of full-time staff by the year 2000;
- introducing a family care information and resource service for SRA employees;
- attracting the skills and labour power of potential employees with a disability;
- increasing representation of Aboriginal and Torres Strait Islanders to 2 per cent by the year 2000;
- eliminating direct and indirect discrimination from workplace policies, procedures and practices, and
- ensuring the language and cultural skills of employees are utilised to improve customer service.

Table 1 Percent of Total Staff by Level

Subgroup as Percent of Total Staff at each Level

LEVEL	TOTAL STAFF	Staff responding to EEO data form (respondents)	Men	Women	Aboriginal & Torres Strait Islander people	People from racial, ethnic, Ethno-religious minority groups	People whose first language spoken as a child was not English	People with a disability	People with a disability requiring adjustment at work
<\$21,995	264	29	61	39	0.8	8	9	3	0.8
\$21,995 - \$32,295	5449	28	83	17	0.6	9	9	2	1.0
\$32,296 - \$40,869	2396	29	91	9	0.3	6	6	3	1.1
\$40,870 - \$52,850	732	46	89	11	0.0	12	10	6	2.2
>\$52,850 (non SES)	379	64	87	13	0.0	17	13	7	1.8
SES	34	44	85	15	0.0	6	6	0	0.0
TOTAL	9254	31	85	15	0.4	9	9	3	1.2
Subgroup totals		2900	7860	1394	38	809	791	282	107

SRA total staff figure of 9254 is at 31 March 1997. This figure does not include casuals, contractors or staff on secondment from other agencies to comply with ODEOPE reporting requirements.

Table 2 Percent of Total Staff by Employment Basis

Subgroup as Percent of Total Staff in each Employment Category

EMPLOYMENT LEVEL	TOTAL STAFF	Staff responding to EEO data form (respondents)	Men	Women	Aboriginal & Torres Strait Islander people	People from racial, ethnic, Ethno-religious minority groups	People whose first language spoken as a child was not English	People with a disability	People with a disability requiring adjustment at work
Permanent									
- full time	8918	31	86	14	0.4	9	8	3	1.2
- part time	75	37	25	75	-	9	9	7	1.3
Temporary									
- full time	227	34	67	33	0.9	11	12	2	0
- part time	-	-	-	-	-	-	-	-	-
SES	34	44	85	15	0	6	6	0	0
Casual	1	0	0	100	0	0	0	0	0
Other	0	-	-	-	-	-	-	-	-
TOTAL	9255	31	85	15	0.4	9	9	3	1.2
Subgroup totals		2900	7860	1395	38	809	791	282	107

SRA total staff figure of 9255 varies from the total figure in Table 1 as it includes casual staff in accordance with ODEOPE reporting requirements.

16. Freedom of information

The Freedom of Information Act came in to effect on 1 July 1989 with the new Freedom of Information (Amendments) Act 1992 taking effect on 1 July 1992. The State Rail Authority has an obligation under the Act to provide access to members of the public and employees to information held. The following information represents the status of applications received and subsequently processed by the Authority during the 1996/97 financial period. A slight decrease in the total amount of applications received for the 1996/97 period, follows the rationalization of the rail structure on 1 July 1996.

F.O.I. INQUIRIES		1996/97	1995/96
Staff		64	52
Public		72	47
	Total		136
			99
F.O.I. APPLICATIONS			
Applications carried forward:	Personal	9	9
	Business	2	2
	Total	11	11
New Applications:	Personal	58	89
	Business	54	49
	Amend Records	0	1
	Total	112	139
	GRAND TOTAL	123	150
REVIEWS & APPEALS			
Brought Forward		1	4
Internal Review		2	5
Ombudsman		0	1
District Court		1	0
	Total	4	10
	Completed	3	9
	Carried Forward	1	1

All matters seeking internal review were on the basis of exempt material. All three reviews were upheld. The matter before the District Court pertains to exempt matter and is pending hearing. There were no matters referred to the NSW Ombudsman.

RESULTS OF COMPLETED APPLICATIONS			
Full access granted		52	92
Part access granted		28	29
Complete access refused		1	0
Documents not held		2	11
Not proceeded with		5	11
	Total	88	143

PROCESSING TIME				
0 - 21 days	82	22 - 35 days	2	> 35 days
				4

Matters which proceeded beyond 35 days were of a nature requiring clarification from the respective applicants.

ANCILLARY INFORMATION		
Matters requiring formal consultations		4
Transferred out	20	
Fees received	\$3360	
Applications receiving discount (financial hardship)		24

OUTSTANDING APPLICATIONS			
Personal		9	2
Business		6	5
	Total	15	7

17. Legal services

A wide range of services is provided by the legal unit which is part of the Corporate Secretariat function. The legal unit comprises a small number of solicitors who provide initial advice and manage the outsourcing of legal work.

Following the reorganisation of the State Rail Authority into the four rail entities, State Rail has retained responsibility for pre-July 1, 1996 matters (personal injury and commercial disputes).

The range of legal matters includes commercial advice and litigation, employee disputes, environmental matters, property damage, workers' compensation and occupational health and safety matters. The largest component of the workload is personal injury claims (approximately 600 active matters at June 30th, 1997).

The performance improvement focus in 1996/97 was on cost containment of personal injury claims. Initiatives to better manage the personal injury workload included development of benchmarks against which to measure the performance of providers, increased use of techniques to promote timely settlement (mediation, pre-trial conferences) and enhanced reporting arrangements.

18. Fraud Prevention and Internal Investigations

The Internal Investigations Unit is one part (the others being Audit, Corporate Secretariat and Line Management) of State Rail's organisational response to reducing fraud.

The Internal Investigation Unit is located within the CityRail Protective Services Unit and provides the initial investigation of allegations of fraud and corruption.

In the year ended 30 June 1997, 137 allegations were received and 26 were reported to the Independent Commission Against Corruption (ICAC). Of the 137 allegations assessed and investigated by State Rail, approximately 74 were substantiated.

19. Corporate Governance

Since the restructure of State Rail considerable progress has been made with improving corporate governance. Corporate Governance is the way corporate entities are governed as distinct from the way the businesses within a corporate entity are managed.

Three reports assisted with the implementation of improved corporate governance arrangements:

- Internal Control at the State Rail Authority (Audit Office, May 1996);
- Accountability and Internal Review Arrangements at State Rail (Audit Office, Dec. 1996), and
- Improving Corporate Governance at State Rail (Mallesons Stephen Jaques).

An improvement in corporate governance and internal control was brought about by the following actions:

- clarification of ministerial, Board and management responsibilities;
- an induction process for Board members;
- development of a job description and code of conduct for Board members;
- a comprehensive risk assessment of the new organisation;
- strengthening of internal audit function, and
- board review of senior executive performance agreements.

The risk assessment work gives the Board the framework and the information to enable effective monitoring and supervision of management because the Board is aware of and can monitor areas of high risk. The risk management approach will become institutionalised as it is integrated into the business planning process.

The recent inquiry by ICAC has resulted in an increased focus on reducing fraud and corruption, particularly in the areas of procurement and the management of overtime which were identified as high exposure areas. Fraud and corruption reduction will be a significant part of the internal audit work program and will receive a focus in the introduction of a revamped code of conduct for staff.

The need for improved corporate governance will continue to receive a focus at State Rail as stakeholder expectations change with the emergence of new issues.

20. Internal control

The 1996 Auditor-General's Report on "Internal Control at the State Rail Authority" included the following key recommendations:

- a risk assessment of the new organisation should be completed, and
- more cost-effective (and risk-effective) controls should be built into line management processes, rather than rely on external compliance checks.

In response to that report the State Rail Authority called open tenders and let a contract in January 1997 for the preparation of a risk management plan. The objectives of the project are:

- to establish the strategic, organisational and risk management context;
- to identify all material risks to State Rail;
- to analyse risks, categorise and prioritise the risk;
- to prepare a risk management plan (by facilitation with State Rail managers) including:
 - controls to mitigate identified risks;
 - establish clear management responsibilities and accountabilities;
 - determine training needs; and
 - establish a process to monitor controls and the risk management framework.

The risk analysis process required the identification of all business risk within State Rail through a two-stage process involving a series of workshops with management and staff.

Stage I results:

- a systematic approach to Risk Management was proposed;
- broad risk areas within State Rail, i.e. fraud and corruption, legal and compliance, security, asset management, operational, environmental, human resources management, information technology, management information, commercial environment and Treasury were identified, and
- State Rail business centres responsible for each specific risk were determined.

Stage II involved:

- presentation of the specific risks and controls to State Rail business units responsible for the management of each risk;
- assessment of the effectiveness of the controls in place to manage those risks;
- development of actions to improve major control weaknesses identified, and
- development of the process of managing and reporting of risk within State Rail.

On completion of the risk analysis in August 1997 and approval by the Board, responsibility will be assigned to specific managers for the management and reporting of identified risks and controls.

The 1996/97 Corporate Plan focused on the accountability of State Rail's senior managers for achieving targets through their performance contracts. Five Key Result Areas (KRAs) were specified for performance improvement efforts:

- customer satisfaction;
- staff productivity and job satisfaction;
- high community and shareholder support;
- efficient growth, and
- improved financial performance.

The emphasis on the accountability of managers for an appropriate system of internal control was reiterated to the ICAC hearings in April 1997 by the then Chief Executive. The Risk Management Plan will further specify the particular accountability of relevant managers.

21. Code of conduct

This defines the conduct required of all people employed by State Rail. The Code is listed in Part 13 of the Authority's Human Resource Manual and also in the Employee Handbook. It contains principles of conduct and guidelines for behaviour, and the responsibilities of employees, contract employees and consultants.

A concerted effort was made to familiarise staff with all conditions of service such as the Code of Conduct by mailing a copy of the Handbook to each employee at their home address. Each new employee is provided with a copy at their induction. In addition, a review of the Code and its Anti-harassment Policy is being undertaken.

22. Guarantee of services

CityRail

Safety - all services to meet world class safety standards.

Met

Customer satisfaction - to exceed our customers' expectations and achieve an overall satisfaction index greater than 90 per cent by the year 2000.

On track with 74 per cent satisfaction (average over the year with a peak of 79 per cent achieved).

Reliability - at least 99 per cent of all scheduled CityRail services to operate.

Met - 99.4 per cent.

Punctuality - suburban at least 92 per cent of peak suburban services to arrive at destination within three minutes of schedule.

Not met - 86.4 per cent, but new timetable introduced June 1997 with immediate improvements achieved in on-time running.

Punctuality - InterCity at least 92 per cent of peak suburban services to arrive at destination within five minutes of schedule.

Not met - 90.1 per cent, but again new timetable provided improvement.

Cleaning - train interiors and stations to be cleaned daily. All trains to be free of graffiti before entering revenue services. Train exteriors to be washed fortnightly.

Met

Information - CityRail InfoLine to answer all calls within three rings. Announcements to be made at staffed stations and on trains. Timetables to be displayed at all stations.

Met - all standards met.

Customer with special needs

CityRail is continuing its Easy Access Program to improve access to station for customers with mobility constraints including people with disabilities, the aged and people with small children.

1996-97 saw Easy Access improvements completed at Campbelltown, Kogarah, Parramatta and Strathfield. In total 15 stations have been upgraded to full easy Access standards and another 11 stations have had substantial improvements carried out.

CityRail is also undertaking the "CityDecker" carriage refurbishment program in which wheelchair accommodation is being provided in every second carriage in suburban trains. Work is also in progress to modify InterCity trains to accommodate wheel chairs.

Countrylink

Safety - all services to meet world class safety standards.

Met - the majority of 1996/97 objectives of the Countrylink system safety plan have been met with the exception of five areas related to compliance and hazard reporting. These items will be covered at a joint State Rail level, and are expected to be completed by December 1997. In the interim, overview reports are provided by RAC through the Executive Safety Liaison Committee from the data base held in that area.

Reliability - at least 99 per cent of scheduled services to operate.

Met - if a service cannot operate, coaches or an alternate means of transport is provided.

Punctuality - at least 85 per cent of services to arrive at their destinations within ten minutes of the advertised time table.

Met - Countrylink met the guarantee of service by attaining 87 per cent. The target of 90 per cent was not achieved due to floods in the northern coastal areas and track upgrading in Victoria.

Cleaning - all Countrylink train interiors to be cleaned daily; exteriors at least every second day.

Met - adjustments to the automatic wash plant were made to recognise the type of car being washed, either an XPT or an XPLOER which improved the quality of cleaning.

Information - Countrylink Reservations Centre to answer 80 per cent of calls within 30 seconds. Announcements to be made at all staffed stations and on all country trains.

Outcome - 55 per cent of calls answered within 30 seconds.

Response - conversion of 16 full-time positions to 32 part time improved responsiveness marginally in the last quarter of the year. The full impact of these reforms will be felt in the next year (1997/98).

23. Customer complaints

CityRail

There were 13,593 complaints reported either by phone through the "Your Say Line" on 131 500, or by ministerial and executive-addressed correspondence through the CityRail Government Relations Unit. A small number of complaints may have been recorded in both systems.

Complaints this year increased by 16.8 per cent compared with the previous year (11,638). A significant increase was evident following the introduction of the 3 November 1996 timetable with its associated on-time running difficulties. The sharp increase immediately following the timetable change subsided to a sustained higher level of complaints throughout the rest of the year compared with the period before the new timetable was introduced. The timetabling and on-time running difficulties were addressed with the introduction of the enhanced version of the pre-November timetable on 15 June 1997; just two weeks prior to the end of the year under review.

Service aspects most complained about in 1996/97 (%)

Reliability (OTR)	20
Timetabling	17
Staff	13
Inadequate information	11

Service aspects most complained about in 1995/96 (%)

Reliability (OTR)	15
Staff	14
Inadequate information	9
Ticketing difficulties	9

Staff attitude and conduct, and inadequate customer information continue to be ranked prominently in attracting customer complaints. These areas continue to be addressed.

An agreement was finalised with the unions during the year completing the empowerment process for station management and progressing the job and work redesign process for all station staff.

The ability to satisfy customer demands for perceived adequate information from station announcements was stretched beyond limits by the ongoing circumstances of service reliability complications at short notice for the greater part of the year. However, this service aspect required greater attention to ensure its further improvement.

Countrylink

Customer feedback on our services is actively encouraged. The Customer Relations Unit received 2027 complaints from travellers during 1996/97 compared with 2143 in 1995/96 - a decrease of 116 (5.4 per cent). The unit plays a vital service in responding to travellers inquiries and complaints. The information is used to assist in developing and providing better service in meeting customer needs.

Service aspects most complained about in 1996/97 (%)

Staff	18
Train facilities	12
Operations	10
Fares and ticketing	10
Information	8
Luggage	8

Service aspects most complained about in 1995/96 (%)

Staff	13
Information	12
Fares and ticketing	12
Booking difficulties	11
New services	10
Train facilities	10

The Customer Relations Unit also received 301 compliments regarding Countrylink staff and services in 1996/97 compared to 317 in 1995/96 - a decrease of 16 (5 per cent).

These were broken down into two categories:

	1996/97	1995/96
Staff (%)	87	80
Services (%)	13	20

24. Research and development

There were no major programs carried out during the year.

25. Capital works in progress to 30 June 1997

Expenditure to date on projects with a total value of \$500,000 or more was:

	Expenditure to date (\$000)	Completion (financial year)
Rail Estate commercial development program	2308	2002
Australian Rail Training - purchase of computer training equipment	103	2002
Australian Rail Training - college upgrading	133	2003
Australian Rail Training - consolidation of training colleges	298	2003
Australian Rail Training - computer-assisted learning development	159	2002
Eveleigh Advanced Technology Park - relocation of services	2409	1999
Integrated Software Project	57,317	1998
Information Technology - software site licence	696	2002
Acquisition of 21 XPLOER cars	61,059	1998
Countrylink Train Radio	2084	1999
Purchase of 5 Tangara cars	12,189	1998
Double deck intercity rollingstock - speedo upgrade	25	2000
Double deck intercity rollingstock - installation of locking door motors	4044	1999
Double deck suburban rollingstock - PA systems and locking door motors	8048	1999
Double deck suburban rollingstock - speedo sensors stages 1 and 2	18	2000
Double deck suburban rollingstock -main refurbishment program, stages 1 to 3	47,016	2000
Double deck suburban rollingstock - conversion AC gas to R134a	727	2000
Double deck suburban rollingstock - replace ratchet with spring-activated brakes	20	2001
Endeavour car purchase	78,384	2000
Provision of train radio on Endeavour trains	219	1999
CityRail train radio	18,271	1998
Liverpool Station - major upgrade stage 2	151	2000
CityRail station passenger information network installation	5,245	2003
Station passenger information - major periodic maintenance program	111	2002
Automatic ticketing	2,681	2003
CPTED implementation Stage 1	2,844	2001
Epping station - platform raising and reconstruction	1,664	1998
Merrylands station - platform raising and reconstruction	504	1998
Sydenham station - platform raising and reconstruction	53	1998
Leumeah - new footbridge	43	1999
Springwood station - Easy Access	163	1999
Strathfield station - Easy Access	4,190	1998
Bankstown station - Easy Access	208	1999
Ashfield station - Easy Access	337	2001
Kogarah station - Easy Access	6,446	1998
Booking office modifications - major station upgrading	621	2002
Ashfield station - major upgrading	291	2000
Campbelltown station - major upgrading	2,739	1999
Rockdale station - major upgrading	191	1999
Wollongong station - major upgrading	989	1999
Allawah station - major upgrading	201	1999
Finance processing system - GRM01	362	1998
Construction of New Southern Line	343,535	2001
Fire and Life Safety in city underground tunnels	509	1999
Wombarra (Clifton-Austinmer) drainage works	7,517	1999
Sydney Central Station sandstone restoration	2,267	1999
Town Hall and ESR station upgrading	124	2000
Wynyard station upgrading - Stages 2 &3	2,629	2000
Various stations - Honeywell fire management services - stage 1	14,154	1999
Operations Systems Integration - (OPS 10)	700	2001
Timetable automation (OPS 05 IT strategy)	218	2000

Particulars of significant cost overruns in major works or programs are available from the Authority.

26. Funds granted to non-government organisations

The following grants were made during the year under review:

Grant to NSW Transport Authorities Retired Employees' Association	\$2500
Grant to the Railway Band	\$3000

27. Pricing policy

CityRail

CityRail's fares increased for 1996/97 on 21 July 1996. In nominal terms the weighted average increase amounted to 5.20 per cent. At the same time CityRail introduced a number of changes to the fare charging structure. The changes included:

- The introduction of new fare distance bands that better reflect passenger movement density.
- Moving toward a calculated adult single fare that comprises of a flagfall (fixed) component and a distance travelled (variable) component which then forms the basis for the calculation of all other fares.
- Directly linking the adult off-peak return fare to the single fare.
- Progressing toward linking the adult weekly fare to the adult single fare.
- Reducing the incidence of one fare for a longer distance being more expensive than the sum of two shorter distance fares to cover the same distance.

The Independent Pricing and Regulatory Tribunal released its final report on its Inquiry into the Pricing of Public Passenger Transport Services during October 1996. The major recommendations for CityRail's medium term pricing objectives were:

- A 15 per cent real increase in fares to be phased in over four years. IPART believes this increase is both equitable and sustainable.
- Outer suburban fares to increase in line with suburban fares.
- The tribunal to continue to conduct annual fare reviews.

In February 1997 CityRail prepared and delivered its annual fare review submission to IPART. The broad intentions of the submission were to continue the phased in transition to the new fare structure and to achieve a moderate fare increase.

IPART released its annual determination for CityRail fares on 29 May 1997. The outcome of the determination for CityRail was:

- Fares to increase by only the level of CPI.
- Fares did not increase across all distance bands.
- Some single fares increased by between \$0.20 and \$0.60.
- Most off-peak fares increased by between \$0.20 and \$1.00.
- Some weekly fares increase by between \$0.20 and \$2.00.
- Red and Green TravelPass fares increased by \$1.00. All other TravelPass fares remained at their current level.

The new fares commenced on 29 June 1997.

Countrylink

Countrylink's fare levels are set by Government each year, and include a range of concession fares for pensioners, senior citizens, students and other groups. These fare levels range from free travel to discounts of up to 50 per cent of the normal published fare.

Separately, Countrylink offers discounts from the published fares in order to attract non-concession traffic. These discounts are offered in the off-peak periods between the school holidays and are yield-managed to ensure that the fares offered attract additional revenue rather than dilute revenue.

28. Publications

The following publications were produced for internal and/or public distribution:

CityRail:

- Student passes brochure
- CityRail network map brochure
- "Way to Go" staff newsletter
- School Education Program brochures
- "Let CityRail take you on a great day out" (tourist tickets)
- Accessing CityRail brochure

Children's activity book
"Welcome to CityRail" brochure
"How to put your career on track" brochure for station staff and train crews
Timetable booklets, November 1996 and June 1997.

Countrylink

On-board magazine "escape"
Holiday package brochures
Travel Club brochures
Advertising posters
Fare and timetable booklets
Holiday update leaflets
Feature articles "On the Rails".

State Rail Corporate Display Unit

Despite a significant reduction in staffing levels, a high public profile for State Rail was maintained by the Display Unit which designed and installed 152 displays throughout New South Wales and interstate, covering venues such as travel shows, field days, open days, shopping centres, upgraded station openings, and events of historical significance. Major projects were the State Rail exhibit at the Royal Easter Show, holiday and travel shows in Brisbane and Melbourne, the opening of the Cumberland Line, UITP exhibition, and a number of special events such as the celebrations for 150 years of rail services in Orange, and 110 years of mainline rail services at Hornsby. As well, a number of displays was organised for special government and rail industry occasions.

Clients included Countrylink, CityRail, FreightCorp, and the Department of Transport.

29. 1996/97 Annual Report

Number of copies printed: 1500. Average cost per copy: \$16.
Printed by The Pot Still Press, Artarmon, New South Wales.

30. Responses to significant issues raised by the Auditor-General

The following significant issues were raised by the Auditor-General in his 1995/96 report under Section 43(2) of the Public Finance and Audit Act 1983:

Inventories

The main inventory management issue raised by the Auditor-General related to the existence of user stores which were not recorded or incorrectly recorded in the balance sheet.

Response:

An extensive user stores rationalisation program to remedy the problem was conducted during the past few years and was nearing completion at 30 June 1996. The Auditor-General acknowledged the significant progress made each year in identifying, recording and cataloguing user stores. All user stores remaining with State Rail after the restructure on 1 July 1996 of the NSW rail industry will be reflected in the 30 June 1997 balance sheet and will be supported by adequate records.

Overtime payments and accrued leave

The Auditor-General expressed concerns regarding significant payments of overtime to certain employees and excessive accumulation of leave entitlements.

Response:

On the question of overtime, the number of staff earning excessive overtime has been reduced, instructions have been issued to management to reduce the incidence of overtime and an overtime reduction strategy implemented. The strategy includes:

- identification of essential positions;
- increasing relief positions;
- recruitment in anticipation of attrition;
- improved control over absences, and
- coverage of shifts by lower-graded staff.

In regard to accumulated leave entitlements, State Rail's employee enterprise bargaining agreement contains provisions for the clearance of accumulated leave which accrued at any time more than one year before the commencement of the agreement. Targets have been set to reduce the leave liability and progress is monitored monthly.

31. Principal offices and hours of business



State Rail Authority of New South Wales

Level 2, Sydney Central Station
PO Box K349, Haymarket NSW 1238 Australia
Telephone (02) 9379 3000, facsimile (02) 9379 5310
Internet <http://www.staterail.nsw.gov.au>
Business hours: 8.00am - 5.00pm Monday to Friday (except public holidays).

Operations Division

Level 2, Sydney Central Station
PO Box K349 Haymarket NSW 1238 Australia
Telephone (02) 9379 4548, facsimile (02) 9379 2870
Business hours: 8.00am - 5.00pm Monday to Friday (except public holidays).



CityRail Customer Service

Level 2, Sydney Central Station
PO Box K349, Haymarket NSW 1238 Australia
Telephone (02) 9379 5221, facsimile (02) 9379 5225
Business hours: 8.00am - 5.00pm Monday to Friday (except public holidays).

CityRail InfoLine - timetable and service information
Telephone 131 500 (6.00am - 10.00pm seven days a week)

Passenger Fleet Maintenance

327 Wilson Street, Chippendale NSW 2008 Australia
Telephone (02) 9379 4862, facsimile (02) 9379 2044
Business hours: 8.00am - 5.00pm Monday to Friday (except public holidays).



C O U N T R Y L I N K

Countrylink

Level 1, Sydney Central Station
PO Box K349, Haymarket NSW 1238 Australia
Telephone (02) 9379 1298, facsimile (02) 9379 4836
Business hours: 8.00am - 5.30pm Monday to Friday (except public holidays)

Countrylink timetables and bookings:

Telephone Tour Packages 13 28 29 and/or Group Bookings (02) 9379 1606
Business hours: 6.30am - 10.00pm every day.

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