

The Parliament of the Commonwealth of Australia

Efficiency Audit Review
Australian National Railways Commission:
Commission Traffic

Report from the
House of Representatives Standing Committee
on Transport, Communications and Infrastructure

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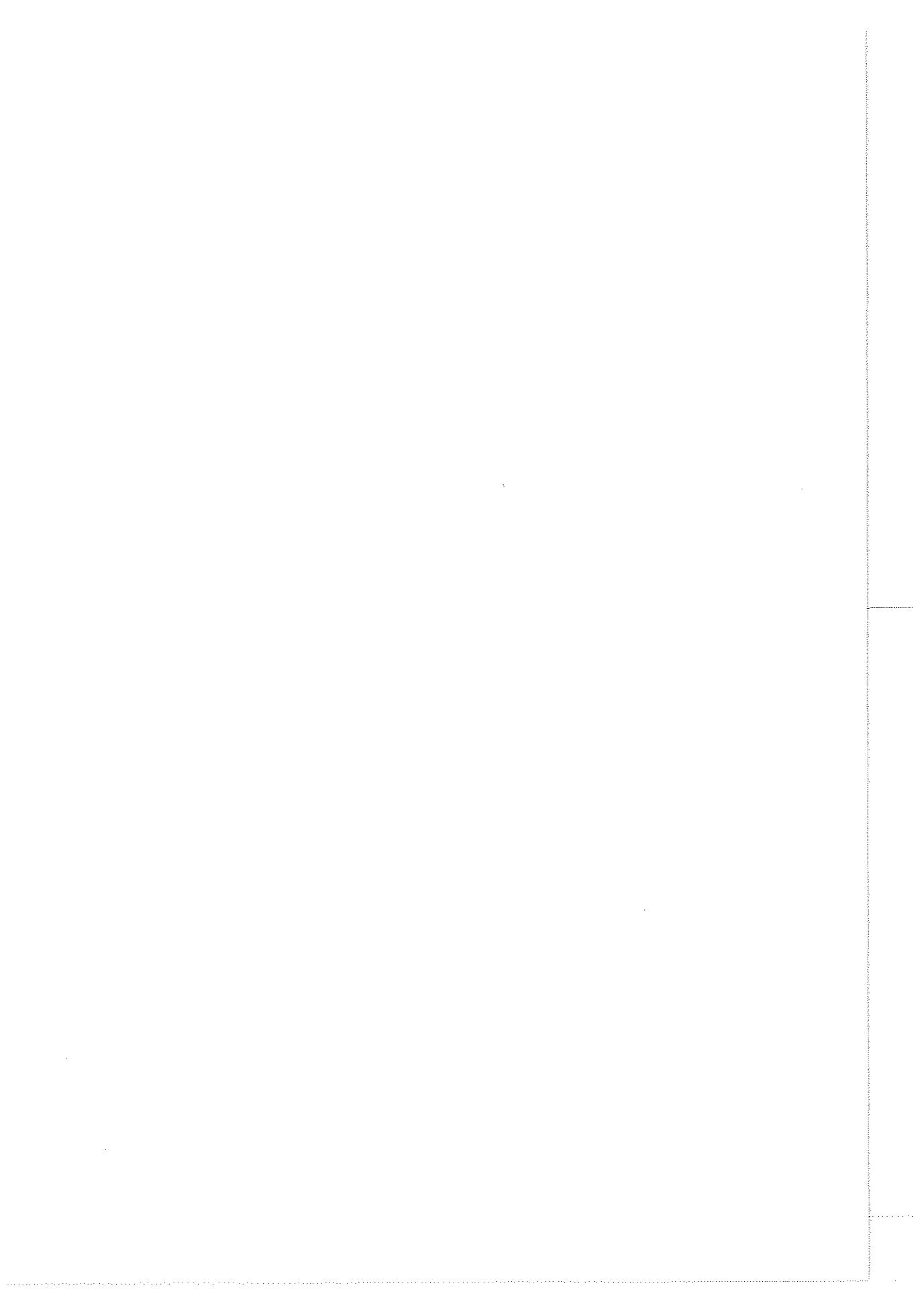
PREFACE

This report is a review of an Efficiency Audit by the Auditor-General on Australian National Railways Commission's Commission Traffic.

The sub-committee would like to acknowledge the cooperation it received from AN's staff at all levels in the areas it visited. Staff went out of their way to be helpful and their assistance and the information they provided was greatly appreciated.

Lloyd O'Neil, MP
Sub-Committee Chairman

19 October 1988



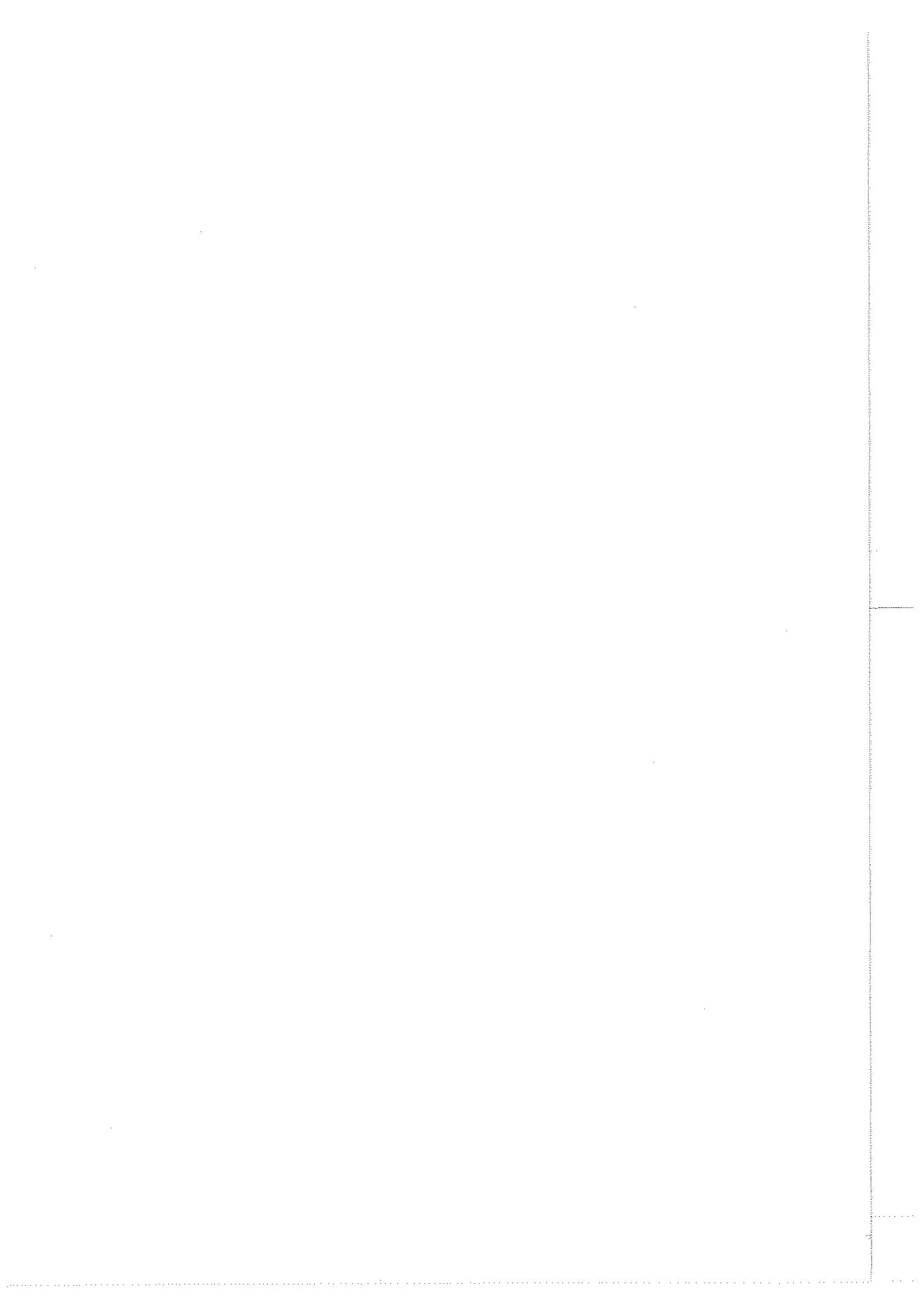
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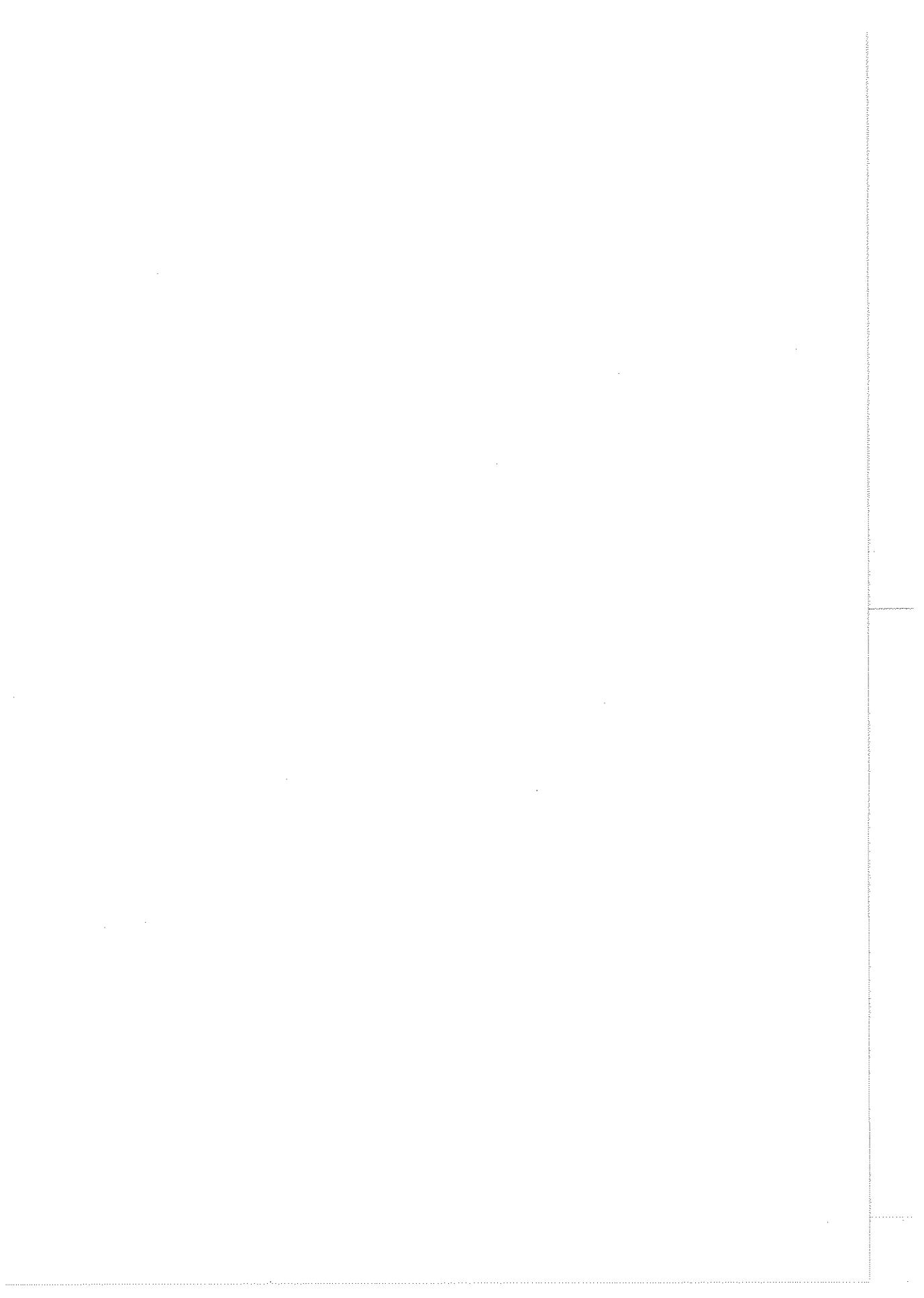
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<i>Secretary to the Sub-Committee</i>	Mr P M Regan	

1 Replaced Mr L B McLeay MP (resigned) on 20.4.88



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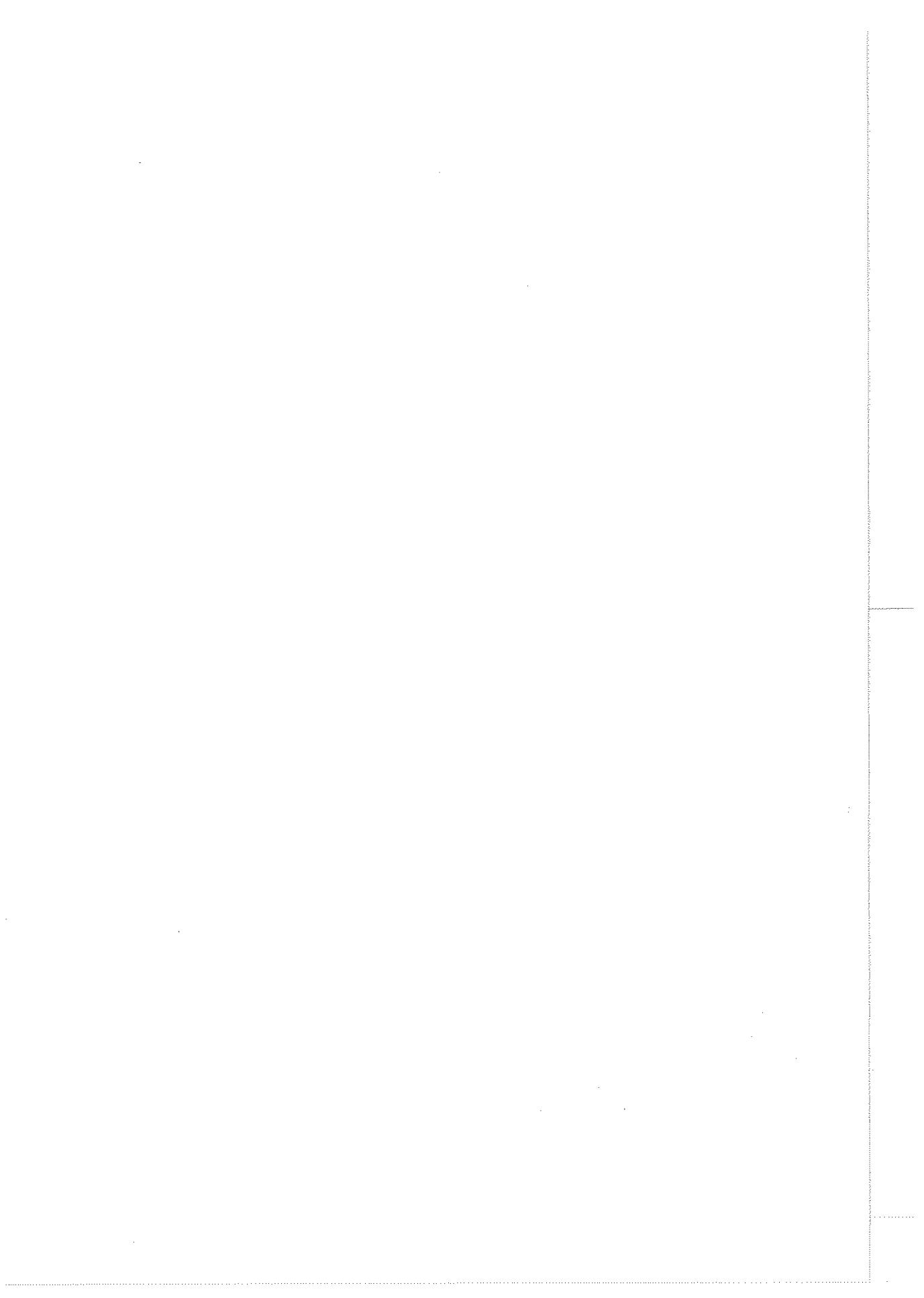
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RECOMMENDATIONS

The Committee recommends that:

- (1) The Parliament should be provided with AN's detailed response to the Efficiency Audit into Commission Traffic, including a program of completion by early in the autumn session of 1989, for each of its recommendations (paragraph 1.14).
- (2) Where an auditee accepts the proposals for change made by the Auditor-General in an efficiency audit report, the auditee should provide the relevant parliamentary committee with a timetable for implementation at the commencement of the parliamentary inquiry (paragraph 1.17).



1: REVIEW OF THE EFFICIENCY AUDIT

Introduction

1.1 On 24 March 1988 the House referred the Auditor-General's Efficiency Audit (EA) Report on the Australian National Railways Commission (AN): Commission Traffic to the House of Representatives Standing Committee on Transport, Communications and Infrastructure.

1.2 On 18 May 1988 the Committee resolved that a sub-committee consisting of Mr O'Neil (Chairman), Mr T A Fischer and Mr Hollis be appointed to inquire into and report to the Committee on the Efficiency Audit. On 8 and 9 June 1988 the sub-committee, accompanied by Mr Downer and Mr Scott, was briefed by AN management and inspected AN's facilities in the Adelaide area and at Port Augusta in South Australia. It also held discussions with union representatives at Islington and Port Augusta.

1.3 In carrying out this review, the Committee used the same objectives as does the House of Representatives Standing Committee on Finance and Public Administration:

- (a) to assess the content of the audit exercise and the quality of the EA report; and
- (b) to examine the response of the audited organisation.

Main Features of the Efficiency Audit

1.4 The EA examined the transport by AN of its own staff, stores and equipment, known as Commission traffic.

1.5 This area of AN's operations has received little management attention in the past. The Auditor-General believed Commission traffic has had a disproportionate influence on AN's operating performance.

1.6 The Auditor-General's findings related to:

- (a) AN's management controls;
- (b) the scope for improving productivity of rolling stock used for Commission traffic;
- (c) reducing costs of moving internal freight; and
- (d) lessening the impact of Commission traffic on revenue earning traffic, either by consolidating it on dedicated trains or by using road transport, where appropriate.

The Auditor-General noted that measures had been taken to manage Commission traffic more efficiently, but he also stated that some of these measures had not been well coordinated and some user branches had not been fully responsive to them.

EA Recommendations and AN's Responses

1.7 The Committee considered the EA Report and discussed it with AN executives during briefings on the organisation's operations. Members noted AN had agreed with almost all of the EA's recommendations; the Auditor-General had also acknowledged that position, on page vii of the EA. The EA's recommendations are in Appendix 1.

1.8 AN believed it was giving sufficient attention to the review, classification and disposal of surplus rolling stock.
(Recommendations, 1, 2 and 5)

1.9 It pointed out that there were three stages in the introduction into service of the Traffic Information Management System (TIMS); the second stage was being implemented, with the third just beginning to be introduced. AN believed the emphasis in the EA on TIMS was excessive, probably because it had not been able to locate some 200 wagons of a total of about 6,500 wagons. As the data base for TIMS was developed, such problems would be reduced. (*Recommendation 3*)

1.10 User hire charges would be levied internally from 1 July 1988 and AN's procedures had been revised in the direction of the Auditor-General's suggestions.
(*Recommendations 4, 6 and 7*)

1.11 AN accepted that Commission passholders had interferred with commercial traffic and, as stated in the EA, there were now restrictions on such travel. (*Recommendation 9*)

1.12 Action was being taken which was consistent with the Auditor-General's Recommendation 8 (*Commission freight requirements*), and Recommendation 10 (*evaluation of fuel oil tenders*).

1.13 Recommendations 11 and 12 relate to the operation of AN Retail which was seen by AN management as an essential means of supporting staff in isolated locations. Local purchase in settled areas was being examined.

The Committee's Comments

1.14 The Committee believes it would be appropriate for AN to provide the Parliament with a detailed response to the EA. This should include a program of completion, by early in the autumn session of 1989, for each of its recommendations.

Recommendation 1: The Parliament should be provided with AN's detailed response to the Efficiency Audit into Commission Traffic, including a program of completion by early in the autumn session of 1989, for each of its recommendations.

1.15 In its report 'An Efficient Organisation, or, an Efficient Audit?', the House of Representatives Standing Committee on Expenditure grouped responses of audited organisations into three broad categories:¹

- (a) where the organisation accepts the Auditor-General's recommendation, the Committee 'may not have to do much more than check implementations';
- (b) where the organisation disagrees with the Auditor-General's recommendations, the Committee could have to state which party has the stronger case; and
- (c) where the Committee can develop suggestions/recommendations made in an efficiency audit.

1.16 The Committee notes these views and observes that AN's response to the EA puts it in the first category.

1.17 It believes that, as a general rule, where the recommendations of an efficiency audit are accepted by the audited organization, it should provide a timetable for implementing changes to policy or practice to the parliamentary committee reviewing the audit. This would enable the committee to satisfy itself that both the EA and the parliamentary review are being taken seriously.

1. House of Representatives Standing Committee on Expenditure 'An Efficient Organisation, or, an Efficient Audit?' paragraph 1.3, p.1.

Recommendation 2: Where an auditee accepts the proposals for change made by the Auditor-General in an efficiency audit report, the auditee should provide the relevant parliamentary committee with a timetable for implementation at the commencement of the parliamentary inquiry.

2: OTHER MATTERS

Issues raised in discussions

2.1 In the course of its inspection and discussions, a number of other issues were raised which, while outside the scope of the Efficiency Audit, the Committee believed were of sufficient importance to be raised in this review.

2.2 During discussions with union representatives, at both Islington and Port Augusta, the Committee was impressed by the commitment of the workforce to the future of AN. These representatives are not opposed to reductions in jobs, provided separations are, and continue to be, handled appropriately.

2.3 However, it was pointed out that, in their view, numbers had been reduced to the point where AN is finding difficulty in maintaining itself, where it is beginning to need to sub-contract some work out of the organisation. They also believe there should be more shop floor involvement in the restructuring program.

2.4 Union representatives were particularly concerned at the impact of reductions in the number of tradesmen and, consequently the number of apprentices who can be taken on. They drew attention to the consequential loss of skills within AN and views were expressed that the time had already come to begin to revitalise AN, rather than to reduce its capacities further.

2.5 Attention was also directed to the consequences of the divisions of railway systems between the States. The Committee understands discussions are continuing with a view to amalgamations with other existing State systems.

AN's East/West Freight Traffic

2.6 During the Committee's investigations and discussions, it emerged that the efficiency of AN's East/West freight operations is being seriously affected by the need to remarshal trains at such places as Parkes, Broken Hill, Port Augusta and Kalgoorlie.

2.7 It was submitted to the Committee that AN's efficiency would be greatly improved if its Eastern Terminal was relocated from Broken Hill to Parkes in NSW, thus eliminating at least one remarshalling point.

2.8 This option would involve Australian National taking over the operation and ownership of the Parkes - Broken Hill mainline from the State Rail Authority of NSW. It would allow unit train loads up to 2km long to operate from Parkes NSW to Perth WA without remarshalling, thus greatly boosting efficiency.

2.9 The terms of reference of the current review have inhibited the Committee from examining the Parkes option. Further, under Sessional Order 28B(b), the Committee can only inquire into and report on a matter referred to it by either the House or a Minister.

2.10 The Committee has therefore written to the Minister for Transport and Communications Support asking for the following reference:

Ways in which the efficiency of Australian National's freight operations can be improved, with particular reference to freight movements between East and West, including the transfer of the main link between Parkes and Broken Hill from the NSW Government to Australian National.

AN's Debt/Equity Ratio

2.11 During the briefing given to the Committee, the issue of AN's debt/equity ratio was discussed. AN stated that the current ratio (1.6:1) was high by comparison with its competitors in the transport sector. AN believes an increase in its equity capital would provide the flexibility it needs to compete more effectively within that sector. The Committee agrees with this view.

Conclusion

2.12 The Committee notes that the Auditor-General's Efficiency Audit covered only 'a small component of AN's operations'. That some of his comments were not favourable to AN's ways of operating its Commission traffic should not obscure the central fact that AN's commercial performance since amalgamation in 1978 suggests it is an organisation which has increased its efficiency.

JOHN SAUNDERSON, MP

Chairman

19 October 1988

8. AUDIT RECOMMENDATIONS AND AUSTRALIAN NATIONAL RESPONSES

8.1 Set out below is a list of the Audit recommendations made in the body of the Report together with Australian National's responses.

8.2 Audit considers that Australian National should give urgent attention to disposing of surplus service stock, reviewing the existing classification of service stock, purifying the TIMS database, improving the recording of Commission traffic and identifying the full costs of operating AN Retail (Recommendations 1, 5(a), 3, 6 and 12(a) respectively). Lesser priority should be given to reviewing road transport alternatives to Commission freight, fuel management co-ordination, passenger travel restrictions and options for AN Retail (Recommendations 8, 10(b), 9 and 12 (b) respectively). The remainder of the recommendations should be implemented over the longer-term.

<i>Recommendation</i>	<i>Response</i>
1. The disposal of rolling-stock no longer required should follow write-off more promptly than is the case at present (see section 2.6.5) because of the significant costs of holding surplus rolling-stock longer than six months (2.6.13).	Storage space is available for periods of up to six months in many locations in AN's system at nil or minimal cost. Based on tenders received from time to time for scrapping contracts, AN will continue to decide on a commercial basis whether it is worthwhile waiting up to six months for higher scrap prices.
2. The rolling-stock review group place greater emphasis on reducing the size of the service stock and that, as a first step, all service stock users be requested to complete their assessment of their rolling-stock requirements as a matter of priority (2.6.16).	Agreed. Since the recommendation was made the Chief Civil Engineer has completed a list of wagons not required by Civil Branch. Write-off recommendations were completed in January 1988. This process of assessment is on-going.
3. Greater effort should be made to rectify deficiencies in the TIMS database. In particular, priority should be given to purifying the records of wagons of unknown location (2.7.13).	Agreed. Rectification of the TIMS database is occurring by means of on-site yard inspections and other procedures.
4. User hire charges should be applied to all service stock to provide a cost incentive to users to return or dispose of wagons not in use (2.7.22).	Agreed in principle. Appropriate 'demurrage charges' are being considered.
5. (a) The classification of service stock should be reviewed to remove all general purpose stock not necessary for Commission purposes. (b) The use of specific purpose service stock in the custody of user branches should be reviewed periodically by the Operations Manager with a view to disposing of surplus rolling-stock (2.8.9).	Agreed
6. Consignment notes should be raised for the movement of all Commission freight including less than car load (LCL) freight but excluding parcel freight. (3.5.12).	Agreed. This review is proceeding in conjunction with the review mentioned in Recommendation 2.

<i>Recommendation</i>	<i>Response</i>
7. (a) Wagon charges should be based on the additional costs incurred by the use of the wagons.	Agreed. The appropriate price is one which encourages users to choose external contractors when it is cheaper to do so in the time frame over which AN's performance is measured (ie one year); provided that other measures exist which adjust the resources available for internal traffic in the longer term.
(b) To ensure the application of user charges encourages a more efficient use of AN resources, user branches should be allowed to use commercial road transport services where lower cost arrangements are available (3.5.18).	Agreed. Branches now make use of commercial road transport where AN transport is not readily available. It is expected that this practice will increase.
8. A working party, similar to the rolling-stock review group, be established to identify overall Commission freight requirements and evaluate transport options (3.6.15).	Agreed. Other mechanisms, however, may be suitable. This issue has been addressed, to some extent, through existing working parties and the Track Review Group.
9. Existing restrictions on passholder travel should be reviewed to see whether there is a need to increase restrictions on trains where passholders are known to compete with fare-paying passengers (4.3.18).	Agreed. Restrictions have for some time applied to passholder travel on trains where passholders frequently compete with fare-paying passengers.
10. (a) The evaluation of tenders for fuel oil and other stores should take account of the full costs of transport.	Agreed. Evaluation of tenders for fuel now takes account of transport costs.
(b) Fuel management should be better co-ordinated and particular attention should be given to reviewing AN's fuel storage depots with a view to reducing their number (5.2.16).	Agreed. The inter-branch Fuel Committee now reviews AN's use of fuel and fuel management practices.
11. AN should consider savings to be made by increasing the volume of direct or local purchases of general stores in settled areas thereby reducing the volume of stores to be moved by rail (5.4.10).	Agreed. Scope exists to extend local purchases in settled areas. Examination of the matter is being undertaken in conjunction with the investigation of transport options (Recommendation 8). Due regard is being taken of the need for tight control of expenditure under local expenditure authorities.
(a) The full costs of operating AN Retail should be identified and disclosed publicly; for example, in a Note to AN's published annual financial statements or in AN's annual report.	AN advised initially that the performance and function of AN Retail had been addressed a number of times and the Commission had seen fit not to change the basic operations. AN made no further response to the draft report.
(b) Future options for AN Retail should be reviewed again in the light of a full costing of its operation (5.5.12).	

Canberra, A.C.T.
23 March 1988



D. J. Hill
Acting Auditor-General