New South Wales Auditor-General's Report
Performance Audit

Managing overtime

Rail Corporation NSW (RailCorp)
Roads and Maritime Services

audit
office
OF NEW SOUTH WALES

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

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

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Following a financial audit the Audit Office issues a variety of reports to agencies and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on agency compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

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Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General's Reports to Parliament – Financial Audits.

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In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **Managing overtime: Rail Corporation NSW, Roads and Maritime Services.**

Peter Achterstraat
Auditor-General
20 June 2012

Foreword

This report brings together audits on the management of overtime in two agencies, RailCorp and Roads and Maritime Services (RMS).

Both agencies are required to provide essential services across extensive networks in a way that minimises disruption to customers, especially during peak hours. Overtime allows the agencies to deliver essential services at all times, including outside 'normal' hours. However, it has become a significant cost for the agencies, adding approximately ten per cent to the cost of regular salaries.

The drivers for overtime come from both planned and unplanned events.

The audits found that the best opportunity for overtime savings is with planned activities such as track or road maintenance and train crewing. In these circumstances, reforms are likely to be more successful in reducing overtime if they revise traditional practices as part of wider initiatives that consider, for example, the relevance of underlying business models.

The audits found that solutions to reducing high levels of planned overtime include renegotiating awards to deliver new shift patterns. The solutions must also strike a balance between worker safety and fatigue, and adequate reward for shift work. In RMS it was possible to reduce overtime for traffic signal technicians by introducing new shifts through award negotiations in 2008. The audits recommend that reforms include consideration of the equally significant and related payments for penalties and allowances.

Unplanned activities include emergencies and gaps in staffing caused by poor rostering or sickness absence. Reducing overtime in these areas requires a strong management focus at all levels.

The audits make a case for the agencies to determine acceptable levels of overtime. And together with this, set targets to ensure that budgets are met and that performance is competitive with industry benchmarks.

The challenge for these transport agencies is to embrace reforms that will reduce operating costs, including overtime, and at the same time meet safety standards and satisfy customers.

I am continuing my focus on overtime with a further audit to examine practices in health agencies.

Peter Achterstraat
Auditor-General

Report One

Rail Corporation NSW (Railcorp)

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Executive summary

Introduction

High levels of overtime have been noted in recent Auditor-General's Reports to Parliament on a number of agencies. This includes overtime in Rail Corporation NSW (RailCorp).

A lack of any appreciable reduction in the levels of overtime in these agencies has led to more detailed performance audits of overtime management practices.

Overtime is an indicator of control over one of the most expensive components of agency costs, salary related expenses. It does not stand alone and reform or improvement in this area is part of a broader approach as to how resources are used in government agencies.

The audit's objective is to determine if there is effective management of overtime in RailCorp. In particular: Is the use of overtime justified and well controlled?

Conclusion

RailCorp needs to do more to manage overtime effectively. Acceptable levels of overtime for operational purposes need to be determined and overtime targets redefined at divisional and entity levels. Information analysis and reporting need strengthening to enable more effective control. To date, work place reforms initiated by RailCorp have resulted in limited success in reducing overtime. The challenge for RailCorp is to continue the success of reforms in station and rolling stock operations, and extend this to other areas.

Summary of supporting findings

Does the agency actively manage overtime?

Improved reporting on overtime and some reform are indicative of more active management of overtime. So far this has achieved limited success. To achieve more effective use of overtime RailCorp needs to determine acceptable levels for operational purposes and redefine overtime targets, including at division level. Enhanced reporting against these targets linked to key drivers of overtime is needed to improve control.

Is there sufficient information aiding the management of overtime?

RailCorp has improved its analysis and reporting of overtime. This has supported management's focus on controlling overtime, especially through reducing the numbers of high overtime earners. However, information and analysis have fallen short of that necessary for effective support of on–going reform. Overtime costs have increased over the past three years at a rate of 3.9 per cent which is consistent with award increases. Overtime in RailCorp was $133.7 million in 2010–11 or 11.8 per cent of base pay. Staff working overtime received average payments of $10,643 for the year. The related costs of penalties and allowances also remain at high levels. While a level of overtime is necessary to deliver everyday services with minimal disruption and maximum reliability, RailCorp has not determined what efficient levels of overtime are.

Has the agency introduced initiatives successfully to better manage overtime?

Reforms have reduced overtime but their scope so far has been limited. A significant reduction in overtime was achieved through station staff reforms. In 2010–11 this was $10 million. However, increases in other areas have offset the savings achieved by the reforms. Areas experiencing increases include train crewing (drivers and guards), infrastructure maintenance and infrastructure renewals operations. Currently, RailCorp is considering other saving opportunities that could reduce overtime in these areas.

Recommendations

RailCorp should:

1. determine acceptable levels of overtime for operational purposes (by 31 December 2012) – page 15

2. further investigate and report the impact of high levels of sick leave and job vacancies on overtime (by 31 December 2012) – page 16

3. revise its current overtime targets and introduce further targets that focus on overtime costs across all divisions as part of broader reforms (by 31 December 2012) – page 15

4. strive to achieve international benchmarks for train crewing to improve efficiency and reduce overtime. This should include better aligning shifts and rosters to meet demand (ongoing) – page 13

5. prepare a plan to accelerate the revision of work practices in infrastructure maintenance and renewals divisions, similar to rolling stock initiatives, to create greater flexibility and improve productivity (by 31 December 2012) – page 13

6. prepare a plan to include the equally significant allowances and penalties relating to work outside normal hours when reviewing overtime practices (by 31 December 2012) – page 14

7. further improve reporting to monitor the achievement of overtime targets across all divisions (by 31 December 2012) – page 16.

Response from Rail Corporation NSW

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Our Reference: D2012/50101

12 June 2012

Mr Peter Achterstraat
Auditor General
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Dear Mr Achterstraat

Thank you for the opportunity to provide a formal response to your Performance Audit on Managing Overtime.

As you note in your report RailCorp's operations run 24 hours a day, 365 days of the year. The use of Overtime is, under the current industrial arrangements, a key enabler to ensure that front line operations are staffed and that access can be obtained to infrastructure and Rollingstock assets outside of normal operating hours in order to perform necessary maintenance and construction which supports the delivery of customer service.

Staffing of our operations also utilises overtime to meet peak demands such as special events, increased project work and critical skill shortages. Obviously there is a trade-off between additional staff levels and the use of overtime, and our objective is to always optimise the least cost solution, within both the current industrial arrangements, as well as considerations of customer service, health, fatigue and safety.

There is a strong focus on the management of overtime levels within my management team, with regular reporting to the executive. We note your recommendations for enhanced reporting and we will certainly adopt those recommendations.

While a strong focus on the reporting and management of overtime is important, it is the fundamental reform of work practices that can achieve a step change in overtime levels. You note in your report the success of recent workplace reforms including both station reform and the rollingstock maintenance reform and the impact they had on reducing overtime. We have had continuing programs of initiatives in other areas of the business to improve our efficiency and cost structure.

You note that the Minister for Transport announced on 15 May 2012 a major reform program for "Fixing the Trains". This reform program will address a wide range of our operations to improve customer service as well as improve efficiency. A number of your recommendations will be considered as part of that reform program.

A specific response to the individual recommendations follows:

Recommendations:

1. **RailCorp should determine acceptable levels of overtime for operational purposes (by 31 December 2012)**

    Further analysis and reporting of overtime will be undertaken that focuses on the drivers of the overtime to enable better transparency of the amount of overtime that is required for planned operations.

2. **RailCorp should further investigate and report the impact of high levels of sick leave and job vacancies on overtime (by 31 December 2012)**

    Analysis of overtime will be undertaken to identify how much is being driven by sick leave and job vacancies. In addition further initiatives are already in place to reduce the level of sick leave in the organisation.

3. **RailCorp should revise its current overtime targets and introduce further targets that focus on overtime costs across all divisions as part of broader reforms (by 31 December 2012)**
    In addition to current overtime budgeting and reporting, further reporting will be introduced focusing on overtime cost ratios and will extend to all significant divisions. As in the past all groups will have specific overtime budgets.

4. **RailCorp should strive to achieve international benchmarks for train crewing to improve efficiency and reduce overtime. This should include better aligning shifts and rosters to meet demand (ongoing)**
    RailCorp already has a number of initiatives in place to improve efficiency in train crewing. These will continue to be pursued and further opportunities will be considered, within the constraints of the current Enterprise Agreement, as part of the Fixing the Trains program.

5. **RailCorp should prepare a plan to accelerate the revision of work practices in infrastructure maintenance and renewals divisions, similar to rolling stock initiatives, to create greater flexibility and improve productivity (by 31 December 2012)**
    Consideration has been given to such work practice revisions and the planning of these will be progressed as recommended.

6. **RailCorp should prepare a plan to include the equally significant allowances and penalties relating to work outside normal hours when reviewing overtime practices (by 31 December 2012)**
    Penalty payments arrangements are specified in the current Enterprise Agreement and in many cases are a function of the timeframes in which operations are provided to the travelling public and the timeframes operational and maintenance activities can be performed without disrupting services.
    However, as part of ongoing reform, consideration will be given to rostering and work scheduling that minimise, to the extent possible, penalty payments.

7. **RailCorp should further improve reporting to monitor the achievement of overtime targets across all divisions (by 31 December 2012)**
    Targets will be established for separate operational areas based on the nature of their operations and reporting against these targets will be introduced.

Thank you for the opportunity to provide this information.

Yours sincerely

Rob Mason
Chief Executive

Supporting findings

1.   Background

1.1   RailCorp's functions and overtime

RailCorp provides rail services via a contract with the Director General of Transport for New South Wales. Eighty per cent of its funding is from government and 20 per cent from ticket revenue. RailCorp currently has three primary functions:

- **Passenger rail services** – RailCorp operates metropolitan, regional and intercity passenger services through CityRail and CountryLink.

- **Rail infrastructure functions** – RailCorp holds, manages and maintains rail infrastructure facilities, including train sets, stations, railway track, associated structures, power and communication systems.

- **Metropolitan rail area access functions** – RailCorp provides access to its rail network primarily for freight services by third-party operators.

RailCorp operations run 24 hours a day, 365 days a year. This includes delivering train services over 21 hours each day for up to one million passenger journeys. For these operations to occur frontline positions must be covered.

Staffing these services across the network requires careful planning and management within industrial awards that limit management flexibility to match supply of staff with demand. The awards include overtime and penalty payments, as an important means of providing that flexibility. The complexity involved in managing passenger rail services is illustrated in the following exhibit.

Exhibit 1: Managing train crews in CityRail

CityRail has four sectors – North and Western, South and South West, CBD and Illawarra. General Managers oversight each sector and are responsible for the allocation of 1,638 drivers and 1,310 guards who deliver some 2,300 services on a typical week day. Each train has a crew of one driver and one guard.

The train crews work out of 19 depots across three of the four sectors. Each of the three sectors has a Regional Crewing Manager. Thirteen Depot Managers cover the 19 depots. Pools of relief guards and drivers are located at every depot to cover gaps in rosters. Overtime is used if relief train crews are not available.

Underpinning the allocation of crews are master rosters for drivers and guards. The OpCrew rostering system is used to implement fortnightly rosters: to reschedule staff, manage relief lines, allocate overtime and calculate fatigue scores.

A report with crew names for each schedule is provided each day. Daily overtime reports are produced for each sector as well as monthly reports for meetings of sector General Managers. A condensed form of these reports is provided to the RailCorp executive. Both overtime hours and dollars are tracked.

A simpler system applies to the allocation of station staff across 303 stations. These staff are also the responsibility of the sector General Managers.

Source: RailCorp and Audit Office.

Overtime is used in RailCorp's infrastructure function to minimise the impact of maintenance and renewal on daytime passenger services. To achieve this, staff work planned overtime on nights and weekends. Overtime is also used to respond to unplanned emergencies.

Overtime supports additional services for special events.

Given the cost involved, such overtime needs to be monitored and managed closely if services are to be operated to maximum efficiency.

1.2   The audit

The audit examined overtime in the Service Delivery Group (providing passenger rail services) and the Asset Operations Group (providing rail infrastructure functions) where 95 per cent of overtime is worked. Areas reviewed include station operations, drivers and guards (largest components of CityRail), CountryLink, infrastructure maintenance, infrastructure renewals and rolling stock.

2.   Analysis of overtime data

Overtime costs remain at high levels with cost per hour increasing.

There is a focus on high overtime earners but most overtime is earned by staff receiving the equivalent of ten to 40 per cent of their base pay in overtime.

High earners of overtime have remained constant over the past three years.

2.1   Overtime across RailCorp

Finding: Overtime continues to be a significant employment cost for RailCorp with average overtime payments increasing.

Overtime for 2010–11 was $133.7 million, 11.8 per cent of base pay. The following exhibit shows that the cost of overtime has steadily increased. Total overtime costs increased at a compound annual growth rate (CAGR) of 3.9 per cent. The award increases were 3.5 per cent for 2010–2011 and four per cent for the three preceding years.

Over the last three years, the number of staff working overtime in RailCorp has increased by 500. Average overtime payments increased from $9,884 to $10,643, a CAGR of 2.5 per cent. The exhibit reveals that a smaller percentage of staff is working overtime but receiving larger average payments.

Overtime costs in RailCorp are high

Exhibit 2: Overview of RailCorp overtime

Year	Total overtime[1] $	Overtime increase %	Total staff[2]	Staff working overtime		Average overtime $ payment
				Nos.	%	
2007–08	119,198,000		15,045	12,060	80	9,884
2008–09	126,127,413	6	15,160	12,082	80	10,437
2009–10	127,601,352	1	15,757	12,326	78	10,352
2010–11	133,693,015	5	16,210	12,551	78	10,643
CAGR[3]	3.9%		2.5%	1.4%		2.5%

[1] Total overtime is the amount paid to employees during the year. It does not equal overtime expense recorded in the financial statements due to effects of accrual accounting, which recognises overtime 'earned' in the year. During 2010–11, the rise in payments is partly attributable to the Enterprise Bargaining Agreement award increases effective from April 2010 that were finalised in November 2010, resulting in a backpayment of entitlements for staff.

[2] Total staff is the total of all those who received salary/wages during the year. It differs from other measures such as headcount at the end of the year and equivalent full time (EFT) calculations.

[3] Compound annual growth rate for the last three years.

Source: Auditor-General's Reports to Parliament 2008–09 to 2009–10 and RailCorp payroll data 2010–11.

The following exhibit reveals that during 2010–11 and the first six months of 2011–12, 95 per cent of RailCorp's overtime was earned in the Service Delivery and Asset Operations Groups which have the vast majority of staff. Importantly, the exhibit reveals a significant drop in the percentage of overtime paid in station operations after 2008–09. There is also a small reduction in rolling stock. These two areas have been subject to recent reform. In most other divisions there are small increases.

Exhibit 3: RailCorp – percentage of overtime costs paid by group/division

	2008–09	2009–10	2010–11	2011–12 (6 months)	Total staff 2010–11[1]	Overtime staff 2010–11[2]
	%	%	%	%		
Service Delivery	**57.1**	**55.6**	**54.0**	**53.3**	**9,124**	**8,350**
CityRail – station operations	20.4	17.0	12.4	12.8	2,390	2,235
CityRail – drivers	13.0	13.1	14.9	14.0	1,662	1,641
CityRail – guards	7.5	9.3	9.1	9.5	1,337	1,315
CountryLink	4.6	4.8	5.2	5.1	696	618
Other	11.6	11.4	12.4	11.9	3,039	2,541
Asset Operations	**40.1**	**40.8**	**41.4**	**42.0**	**4012**	**3,286**
Rolling stock	10.6	10.6	9.3	9.0	856	751
Infrastructure maintenance	14.8	15.5	16.3	16.9	1,319	1,159
Infrastructure renewals	11.9	12.4	12.9	12.9	1,118	955
Other	2.8	2.4	2.9	3.2	719	421
Other divisions	**2.8**	**3.6**	**4.6**	**4.7**	**3,075**	**915**
Total RailCorp	**100.0**	**100.0**	**100.0**	**100.0**	**16,210**	**12,551**

[1] Staff receiving any salary/wage payment for 2010–11.

[2] Staff receiving overtime during 2010–11.

Source: RailCorp payroll data and Audit Office analysis.

2.2 Overtime hours

Finding: Fewer overtime hours worked in station operations have led to a small overall reduction in overtime hours for RailCorp. However, figures for the first half of 2011–12 suggest this may not be maintained.

Small decrease in overtime hours

The following exhibit indicates a small decrease in overtime hours across RailCorp over the past three years. However, in most divisions overtime hours have increased. Only in station staff operations and rolling stock have there been decreases.

The most significant decrease is attributed to reforms in station operations – this implication is discussed further in **Section 3 – Have reforms been successful?** However, year-to-date figures to 31 December 2011, included in the exhibit, suggest that the decrease may not be maintained, and, in particular, station operations' overtime hours have increased compared to the previous year.

Exhibit 4: Overtime hours by division

|	2008–09	2009–10	2010–11	July 11 to Dec 11 (6 months)
CityRail – station operations	605,711	481,265	338,407	182,621
CityRail – drivers	302,222	295,848	324,888	162,386
CityRail – guards	223,807	271,149	255,043	138,396
CountryLink	143,012	142,831	151,197	76,035
Rolling stock	263,469	254,148	213,940	106,885
Infrastructure maintenance	332,172	318,648	317,616	168,511
Infrastructure renewals	266,532	287,479	261,223	133,387
Other	386,718	393,738	429,793	211,537
Total RailCorp	2,523,643	2,445,106	2,292,107	1,179,758

Source: Extracted by Audit Office from RailCorp data

2.3 Overtime cost per hour

Finding: The cost per hour of overtime is increasing beyond award increases. This is likely caused by more overtime payments to higher graded staff.

Overtime on a cost per hour basis has increased steadily over the past three and half years. This is illustrated in the exhibit below. The trend line indicates that in July 2008 the cost of an overtime hour was around $48.50 compared to the cost of an overtime hour in December 2011 of approximately $59. Applying the annual salary increases from July 2008 results in a figure of $55.45 per hour for December 2011. The higher cost per hour can be attributed to a change in the mix of those receiving overtime, for example, more payments to higher graded train crew, and less to lower paid station staff.

Cost per overtime hour is increasing

Exhibit 5: RailCorp overtime cost per hour
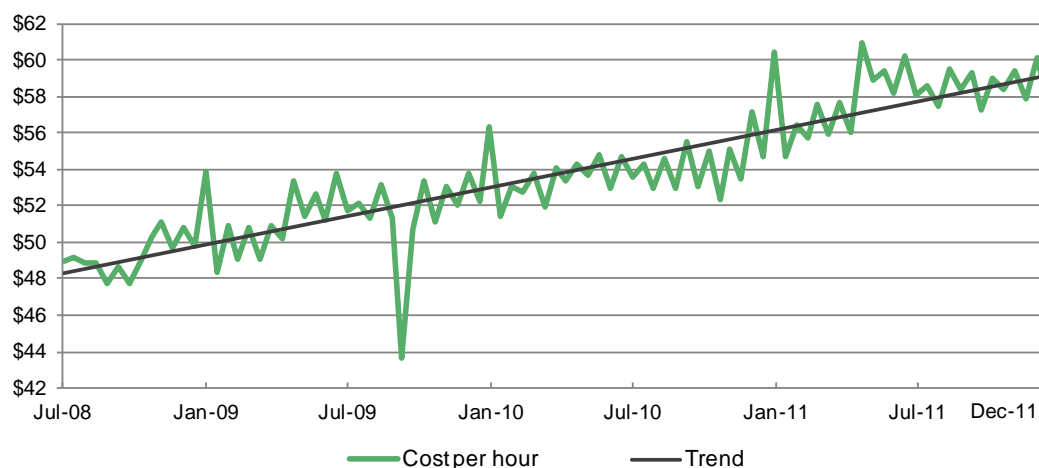
Source: RailCorp fortnightly payroll data and Audit Office analysis.

2.4 Who earns the overtime?

Finding: The greatest amount of overtime in RailCorp is earned by staff who receive the equivalent of between ten and 40 per cent of their base pay as overtime.

Most staff earn between ten and 40 per cent of base pay in overtime

Seventy-eight per cent of RailCorp staff worked overtime in 2010–11. Appendix 1 provides a detailed analysis of overtime in ten per cent bands of base pay and the related staff numbers. The following exhibit summarises the overall position for RailCorp.

Exhibit 6: Analysis of overtime for 2010–2011

% of base pay	>0% ≤ 10%	>10% ≤ 40%	>40% ≤ 100%	Total
Overtime $'000	13,213	85,279	35,201	133,693
% of total	10	64	26	100
Overtime staff	5,134	6,331	1,086	12,551
% of total	41	50	9	100

Note: The exhibit excludes those staff not earning overtime – see Appendix 1 for table of all staff.

Source: Audit Office analysis of RailCorp data.

The highest numbers of staff and overtime worked are in the ten to 40 per cent group. However, nine per cent of staff received overtime payments between 40 and 100 per cent of their base pay and these payments formed over a quarter of total overtime costs. RailCorp's recent focus has been on managing these higher earners.

2.5   Analysis of top overtime earners

> **Finding**: High earners of overtime have remained constant over the past three years, both on the basis of percentage of base pay and in absolute dollar terms.

High overtime earners persist

Analysis of high overtime earners over the past three years was carried out by the Audit Office. The range of the top 50 overtime earners on a percentage basis is shown in the following exhibit. The percentage range remains constant.

Exhibit 7: Top 50 overtime earners by division

	2008–09	2009–10	2010–11
CountryLink	15	14	27
Rolling stock	15	21	14
Infrastructure	10	13	6
CityRail – drivers	9	2	2
Other	1	0	1
TOTAL	50	50	50
Range of overtime to base pay for top 50	67% to 96%	68% to 88%	71% to 98%

Source: Audit Office analysis of RailCorp data.

The cause for high levels of overtime in CountryLink in 2010–11 included:

- extended shifts to cover lengthy intercity services – the RailCorp Enterprise Agreement stipulates shifts of seven hours and 36 minutes, but services to Melbourne and Brisbane require in excess of ten hour shifts. Poor track conditions have recently added to the journey time and overtime
- an unusually high number of vacancies (since filled) and staff absences.

Further analysis of the top ten earners by percentage of base pay and amount revealed that a number of employees have remained in the top ten across the three years. Appendix 2 provides more detail. Exhibit 15 reveals that, by percentage of base pay, six staff have been in the top ten for more than one year in the past three. Exhibit 16 shows that, on a dollar basis, seven employees have remained in the top ten in at least two of the three years.

To address work health and safety concerns, RailCorp management focus has been on staff who earn high levels of overtime; in particular, those working more than 60 hours overtime per four week period. This is highlighted in reports along with high fatigue scores, which are derived from computerised analyses of roster patterns and hours of work.

3. Work place reforms

Station staff reforms have reduced overtime and provide a basis for further reforms. Their success should be contrasted with higher levels of overtime elsewhere in RailCorp.

Industry benchmarking raises opportunities for reforms to reduce overall costs including overtime in train crewing.

Overtime reforms could extend to high cost penalties and allowances.

3.1 Station staff reforms and savings

The station staff reform program was conducted following consultation with the rail unions. The reforms were completed during 2009–10 following evaluation of staffing levels against requirements of safety, customer service and efficiency. This resulted in a reduction of established positions at stations by 161 and a small increase in the number of unmanned stations. Most of the excess station staff were redeployed elsewhere in RailCorp. Cleaning positions were transferred to Presentation Services Division within the Service Delivery Group. There were a number of redundancies.

As well as optimising staff levels at stations, work patterns were reviewed. New rosters embracing the changes were implemented at all stations by 6 December 2009.

RailCorp achieved the following savings:

- $20 million in 2010–11 with overtime savings of $11 million and base pay plus shift penalties savings of $9 million
- $13 million in 2009–10, comprising overtime of $6 million and base pay plus penalties of $7 million.

Finding: The significant savings from station staff reforms have been offset by increases in overtime payments, mostly above award increases within both the Service Delivery Group and the Asset Operations Group in RailCorp.

Within the Service Delivery Group, station operations overtime costs and hours have declined significantly over the past three years, with the impact of station staff reforms. In contrast, payments to train crews have increased a little above award increases. CountryLink overtime payments are at about salary/wage increases. The trends can be seen in the following exhibit.

Station staff reforms reduce overtime but costs increase elsewhere

Exhibit 8: Service Delivery overtime payment trends
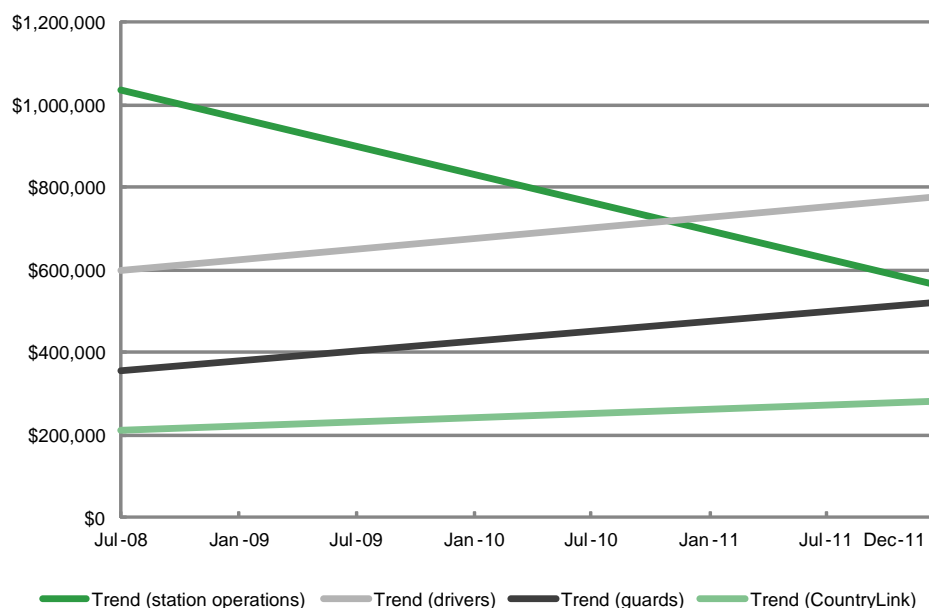
Source: RailCorp fortnightly payroll data and Audit Office analysis 1999– 2000.

3.2 Rolling stock reforms and savings

RailCorp commenced its rolling stock reform program in 2009 to achieve greater efficiencies, largely through multi-skilling and better planning practices in rolling stock maintenance. A review preceding the reform found that maintenance practices were contributing to fleet performance that was three times worse than the NSW private sector. The maintenance of the fleet is undertaken by a combination of RailCorp and the private sector.

Training programs to commence the multi-skilling of staff, and allow reductions in staff numbers, were implemented in March 2010. The reform program is to deliver annual savings of $10 million from 2013–14. The cost of implementing the reform program was estimated to be $25 million, mostly for funding information technology solutions for rostering and work order processes. The reform program is initially being rolled out in the Rolling Stock Division's electric depots before being extended to its diesel depots.

In the Rolling Stock Division, overtime payments have decreased since the introduction of reforms. In contrast, in the infrastructure maintenance and renewal divisions, where there were no reforms, overtime payments increased consistent with award increases over the three and a half years. During this time there was a significant increase in the amount of infrastructure project work.

Exhibit 9: Asset Operations overtime payment trends
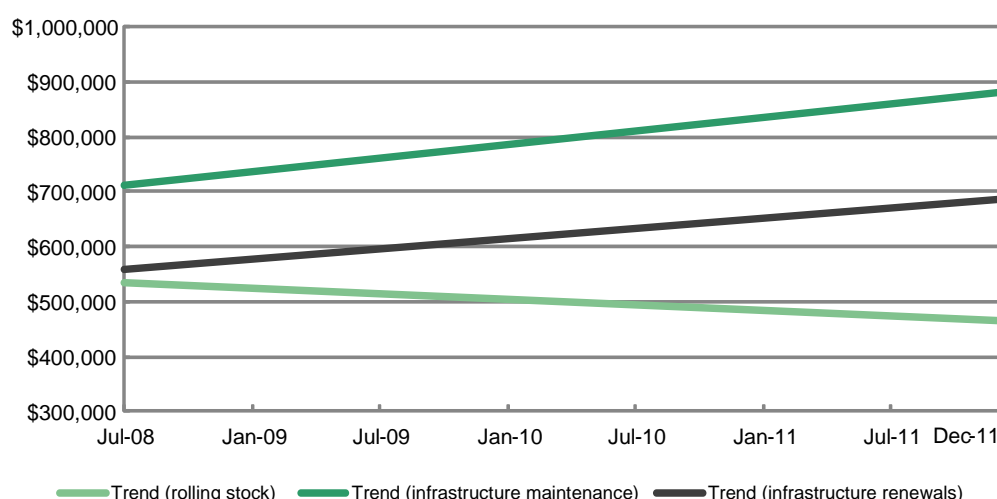
Source: Source: RailCorp fortnightly payroll data and Audit Office analysis.

RailCorp is considering reforms based on those in the Rolling Stock Division for the infrastructure maintenance and renewals divisions.

3.3 Further reform and its potential impact on overtime

Where overtime is planned or anticipated there is greater opportunity to arrange work practices and routines to match the service demands of customers.

> **Finding**: Recent workplace reforms in RailCorp demonstrate that significant decreases in overtime can be achieved. These reforms have the potential to be extended to other parts of RailCorp to reduce overtime further.

Overtime reforms can be extended across RailCorp

In the Service Delivery Group overtime is largely unplanned. However, the requirement for additional resources to back up shifts is well established. There are standing relief shift lines for drivers and guards to maintain the required crewing of trains without relying on overtime alone.

Vacancies in shifts are initially filled from relief teams situated at stations/depots around the CityRail network, and then any shortfalls are filled through overtime. Unavailability of drivers and guards is largely due to short-term recreation leave, sick leave, training and secondments.

The Audit Office reviewed roster summaries for drivers and guards and confirmed that relief lines are being supplemented by overtime shift lines. This indicates that current relief arrangements are not optimal. This is largely because the timing of standing shift lines and relief lines are governed by the award.

Train crewing has not been subject to large scale reform to the extent of station operations discussed above. Train crewing is currently being reviewed within the constraints of the current RailCorp Enterprise Agreement. The review aims to achieve savings of $48 million over the life of the agreement.

Other inefficient practices were raised in a recent international benchmarking report of CityRail's train services. These included:

- CityRail driver time at the 'footplate' (driving scheduled services) is lower than all other members of the benchmarking group. Only 28 per cent of driver hours were spent driving trains in revenue service with the balance of non-revenue service and related activities affecting results
- many peer organisations have driver only trains
- excessive time clocking on/off and preparing trains for morning and afternoon services
- shift change inflexibility, driving kilometre restrictions, paid breaks and irregular train operating patterns
- inefficiency on weekends due to the program of track work and weekend relief rosters under the Enterprise Agreement.

Source: Performance: Comparison to International CoMet/Nova Benchmarking Community Peers, December 2011.

Practices mentioned above are undertaken in accordance with the existing RailCorp Enterprise Agreement which runs until 31 March 2014. The solutions to most of the above can only be achieved through renegotiation of the agreement. These solutions could include:

- rosters and shifts based on expected demand rather than less flexible conditions currently included in awards
- increased pay scales incorporating some overtime penalty and allowance conditions.

Recommendations

RailCorp should strive to achieve international benchmarks for train crewing to improve efficiency and reduce overtime. This should include better aligning shifts and rosters to meet demand (ongoing).

RailCorp should prepare a plan to accelerate the revision of work practices in infrastructure maintenance and renewals divisions, similar to rolling stock initiatives, to create greater flexibility and improve productivity (by 31 December 2012).

3.4   Allowances and penalties

Finding: Allowances and penalties include payments for work outside normal hours and incur a similar overall cost to overtime.

Allowance and penalty payments are similar to overtime in that they can compensate staff for working outside normal hours. As indicated in the following exhibit they are significant. Penalties include rates of 250, 200 and 150 per cent of normal wage rates for working on public holidays, Sundays and Saturdays. Allowances include payments for meals, travel, etc. As with overtime, they are paid in accordance with the RailCorp Enterprise Agreement. Together, allowances and penalties and overtime, paid at similar rates, are a costly but sometimes unavoidable way of applying resources.

Total cost of allowances and penalties as great as overtime

Exhibit 10: RailCorp allowances and penalties

	2008–09 $	2009–10 $	2010–11 $
Allowances	24,713,573	26,491,758	27,587,101
Penalties	90,698,736	95,122,755	101,630,395
Total	**115,412,309**	**121,614,513**	**129,217,496**

Source: RailCorp general ledger.

Approximately 70 per cent of penalties are paid to those directly supporting customer services – drivers, guards, cleaners, station staff and security. The balance of penalties is mainly for the maintenance and renewal of infrastructure.

Recommendation

RailCorp should prepare a plan to include the equally significant allowances and penalties relating to work outside normal hours when reviewing overtime practices (by 31 December 2012)

3.5   Current savings review

Currently RailCorp is implementing savings initiatives to fund the difference between the previously negotiated award increase of 3.5 per cent and the government ceiling of 2.5 per cent. A total savings of $204 million is required over the four years from April 2010.

3.6   Fixing the trains initiative

On 15 May 2012, near the conclusion of the audit, the Minister for Transport announced a break up of RailCorp into Sydney Trains and NSW Trains to focus on intercity and regional services respectively. The principle aim of the initiative is to improve customer service and reduce costs. This report should assist with the latter aim.

4.   The agency's approach to overtime

New overtime targets are needed.

Levels of overtime to suit operational purposes need to be determined.

Expand overtime reporting to include performance against targets and its drivers.

4.1   Overtime targets

Finding: RailCorp is easily achieving its current overtime target which is nine per cent or less of total normal hours worked. In view of this, it should commit to a new stretch target.

Greater effort being made to manage overtime

In 2009–10 RailCorp introduced a target for total overtime hours as a percentage of total normal hours worked to be below or equal to nine per cent. In that year RailCorp achieved 8.95 per cent and in 2010–11 it was 8.07 per cent.

The following exhibit illustrates the wide range of performance against the target within RailCorp's divisions where overtime is significant.

Exhibit 11: Percentage of overtime hours to normal hours in 2010–11

RailCorp Group/Division	Percentage of total overtime hours/total normal hours worked
Service Delivery Group	7.3
CityRail – drivers, guards and station operations	8.0
CountryLink	7.5
Asset Operations Group	14.4
Infrastructure maintenance	16.0
Infrastructure renewals	14.4
Rolling stock	17.3

Source: Derived by the Audit Office from RailCorp HR Quarterly Report for 30 June 2011 (Table 3.3).

The current overtime target favours the status quo as it allows greater overtime as staff numbers and costs increase. Increased activity levels should not necessarily result in more overtime. Increases in staff can be used to reduce overtime, not increase it. Overtime targets with a constant or absolute basis are often more effective. A more realistic stretch target should be set.

An alternative target, used in Road and Maritime Services, is overtime cost as a percentage of base pay. In 2010–11, RailCorp's total overtime was 11.8 per cent of total base pay.

Exhibit 12 reveals the individual performance by operational groups. If RailCorp was to introduce this as a measure, individual stretch targets would need to be set.

Exhibit 12: Overtime as a percentage of base pay for 2010–11

RailCorp Group/Division	Percentage of overtime costs to base pay
CityRail – station operations	12.1
CityRail – drivers	18.2
CityRail – guards	16.0
CountryLink	16.4
Infrastructure maintenance	24.2
Infrastructure renewals	22.8
Rolling stock	22.0

Source: Compiled by Audit Office from data provided by RailCorp.

> **Finding**: There is limited focus across operational areas on RailCorp's overtime target. The main focus has been on reducing individual high earners.

A recent internal audit report found that there was no strategy for addressing overtime targets across the Assets Operation Group. Following this, the group introduced a target of 14 per cent for 2011–12. Although this is only marginally below their current achievement, it will help co-ordinate and focus actions within the group. The Audit Office supports the extension of this approach across RailCorp and accepts that this will continue to work alongside budget controls.

Overtime targets and reporting can be improved

Recommendations

RailCorp should revise its current overtime targets and introduce further targets that focus on overtime costs across all divisions as part of broader reforms (by 31 December 2012).

RailCorp should determine acceptable levels of overtime for operational purposes (by 31 December 2012).

4.2   Overtime reporting

Finding: RailCorp has made advances in the way it monitors and reports overtime, particularly in relation to high earning individuals. However, more reporting is needed in relation to performance against targets and understanding the drivers of overtime such as sickness and vacancies.

Over the last two years, RailCorp has increased its focus and reporting on overtime. Management receives regular overtime reports based on information extracted from payroll, roster and finance systems across its operations.

However, RailCorp needs to make better use of its information and improve the way it reports its performance against targets and co-ordinates reduction strategies.

RailCorp currently includes performance against its overtime target in its Annual Report. This practice should continue.

Recommendation

RailCorp should further improve reporting to monitor the achievement of overtime targets across all divisions (by 31 December 2012).

4.3   Sick leave and job vacancies

Finding: RailCorp has high levels of sick leave and job vacancy rates. Such high levels are likely to contribute to the level of overtime.

RailCorp's sick leave has been above its target for the past two years. Current overtime reporting does not analyse drivers of overtime such as sickness and vacancies. RailCorp is investigating whether there is a link between overtime, sick leave and vacancies.

Exhibit 13: Average sick days

Year	Average sick days per employee (excluding carers leave) – rolling 12 month average	Target
2009–10	10.6	≤ 9.5
2010–11	9.4	≤ 9.0

Source: RailCorp Annual Reports 2009–10 and 2010–11.

The average annual job vacancy rate (after contractors) in Asset Operations Group for 2010–2011 was 5.3 per cent of budgeted staff positions. This high level of vacancies, particularly in engineering, is likely to be contributing to the high levels of overtime in the group.

Recommendation

RailCorp should further investigate and report the impact of high levels of sick leave and job vacancies on overtime (by 31 December 2012).

4.4 Special events

Finding: Special or major events place an additional workload on RailCorp, much of which is met through the use of overtime.

There are approximately 600 special events each year. About half of the special events require alteration to the standard timetable. In 2010–11 there were 172 special events that required additional passenger services.

Under the user charges policy administered by the Department of Premier and Cabinet, RailCorp is unable to fully recover the costs for major events because they are government sponsored. RailCorp must fund the costs of special events, in excess of recovery from ticket sales, from within its budget.

RailCorp estimates that $6.7 million or nine per cent of the 2010–11 Service Delivery Group overtime was due to special events.

Appendices

Appendix 1: Who works the overtime?

The following exhibit shows overtime in bands determined as a percentage of base pay, together with the related staff numbers. The exhibit is summarised in section 2.4 Exhibit 6.

Exhibit 14: Analysis of overtime for 2010–11

	Data	0%	> 0% ≤ 10%	> 10% ≤ 20%	> 20% ≤ 30%	> 30% ≤ 40%	> 40% ≤ 50%	> 50% ≤ 60%	> 60% ≤ 70%	> 70% ≤ 80%	> 80% ≤ 90%	> 90%	Grand Total
Station operations	Staff	155	1,094	641	317	137	37	8	1				2,390
	$	0	2,699,332	5,099,774	4,274,577	2,627,892	911,793	241,618	58,631				15,913,617
Drivers	Staff	21	397	580	459	163	29	7	4	1	1		1,662
	$	0	1,395,322	5,703,950	7,394,415	3,632,084	875,677	264,099	190,748	55,656	59,299		19,571,250
Guards	Staff	22	366	555	295	82	13	4					1,337
	$	0	1,329,286	4,541,801	4,001,197	1,591,385	340,365	127,475					11,931,508
CountryLink	Staff	78	262	143	50	52	32	31	21	20	5	2	696
	$	0	600,707	1,323,088	754,725	924,404	739,298	829,877	676,541	748,708	226,727	96,434	6,920,508
Infrastructure maintenance	Staff	160	218	178	203	237	182	102	31	6	1	1	1,319
	$	0	683,994	1,908,669	3,457,247	5,433,922	5,341,585	3,854,950	1,372,693	318,378	58,522	72,103	22,502,063
Infrastructure renewals	Staff	163	182	123	150	218	215	60	7				1,118
	$	0	592,949	1,200,881	2,606,307	4,942,294	5,907,082	1,988,120	258,321				17,495,954
Rolling stock	Staff	105	200	128	129	118	77	51	32	14	1	1	856
	$	0	472,755	1,160,489	1,990,741	2,638,993	2,337,229	1,769,707	1,364,278	599,513	50,481	57,221	12,441,407
Other	Staff	2,955	2,415	765	422	186	59	24	5	1	0	0	6,832
	$	0	5,438,996	7,022,213	6,743,360	4,304,109	2,035,167	1,084,372	235,370	53,119	0	0	26,916,707
Railcorp	Staff	3,659	5,134	3,113	2,025	1,193	644	287	101	42	8	4	16,210
	$	0	13,213,341	27,960,865	31,222,569	26,095,083	18,488,196	10,160,218	4,156,582	1,775,374	395,029	225,758	133,693,015
Average Payment			$2,574	$8,992	$15,419	$21,873	$28,708	$35,401	$41,154	$42,271	$49,379	$56,440	

Source: RailCorp payroll data and Audit Office analysis.

As seen in the light green shaded area of the exhibit, 54 staff earned more than the equivalent of 70 per cent of their base pay as overtime. This supports RailCorp's recent focus on high earners, although limited to a small group of staff.

The largest number of staff earning overtime is in the dark green shaded area. They earn the equivalent of an extra ten to 40 per cent of their base pay in overtime. These 6,331 staff earned 64 per cent of total overtime paid for the year.

Appendix 2: Analysis of top earners

This appendix supports commentary on top earners in section 2.5.

Exhibit 15 provides analysis of the top ten earners of overtime as a percentage of base pay for each year. The colour coding identifies the six employees who are in the top ten for more than one year.

Exhibit 15: Top ten overtime earners by per cent – 2009 to 2011

2008–09			2009–10			2010–11		
Overtime $	Base pay $	OT/Base %	Overtime $	Base pay $	OT/Base %	Overtime $	Base pay $	OT/Base %
52,869	55,053	96.0	36,748	41,819	87.9	43,949	45,012	97.6
65,668	68,970	95.2	48,723	56,595	86.1	52,485	54,422	96.4
61,988	66,632	93.0	48,046	56,595	84.9	57,221	62,004	92.3
51,825	56,595	91.6	35,434	41,869	84.6	72,103	79,500	90.7
53,259	63,694	83.6	40,900	48,822	83.8	40,100	45,012	89.1
66,847	80,747	82.8	41,725	50,561	82.5	43,704	49,074	89.1
45,529	55,053	82.7	46,468	56,595	82.1	58,522	67,525	86.7
53,597	66,632	80.4	34,085	41,819	81.5	46,800	54,422	86.0
39,072	48,822	80.0	38,778	47,595	81.5	50,481	59,259	85.2
32,800	41,819	78.4	44,215	55,053	80.3	52,425	61,937	84.6

Note: Payroll records for 2009–10 did not include the award increase because of a timing issue attributable to the Enterprise Bargaining Agreement award increases effective from April 2010. These were finalised in November 2010 and resulted in a backpayment of entitlements for staff.

Source: Audit Office analysis of RailCorp payroll records 2008–09, 2009–10 and 2010–11.

The top ten earners of overtime by amount are shown below. The seven highlighted employees have remained in the top ten for more than one year.

Exhibit 16: Top ten overtime earners by dollar – 2009 to 2011

2008–09			2009–10			2010–11		
Overtime $	Base pay $	Business unit	Overtime $	Base pay $	Business unit	Overtime $	Base pay $	Business unit
66,847	80,747	Rolling stock	59,492	89,093	Infrastructure	72,103	79,500	Infrastructure
65,668	68,970	Driver	59,236	93,962	Net.control	70,839	100,195	Infrastructure
62,319	82,261	Rolling stock	58,182	93,962	Net.control	70,169	100,340	Infrastructure
61,988	66,632	Driver	56,226	86,388	Infrastructure	65,383	92,987	Infrastructure
60,350	92,332	Infrastructure	56,223	73,856	Infrastructure	62,310	110,258	Corporate
57,945	97,196	Rolling Stock	54,995	93,962	Net.control	62,025	101,140	Net.control
57,820	73,856	Infrastructure	54,896	80,747	Rolling stock	61,484	101,140	Net.control
55,622	93,962	Net. control	53,988	91,220	Cust. service	60,158	101,140	Net.control
54,938	97,196	Corporate	53,867	99,812	Rolling stock	59,428	101,140	Net.control
53,823	80,747	Rolling stock	53,247	66,632	Driver	59,299	71,722	Driver

Note: Payroll records for 2009–10 did not include the award increase because of a timing issue attributable to the Enterprise Bargaining Agreement award increases effective from April 2010. These were finalised in November 2010 and resulted in a backpayment of entitlements for staff.

Source: Audit Office analysis of RailCorp payroll records 2008–09, 2009–10 and 2010–11.

Three staff appear in all three years. They are located within the Penrith train crew, Hornsby signal box and Blacktown electrical depot.

Report Two

Roads and Maritime Services

Contents

Executive summary

Introduction

High levels of overtime have been noted in recent Auditor-General's Reports to Parliament on a number of agencies, including the Roads and Traffic Authority (RTA), now Roads and Maritime Services (RMS).

A lack of any appreciable reduction in the levels of overtime in these agencies has led to more detailed performance audits of overtime management practices.

Overtime is an indicator of control over one of the most expensive components of agency costs, salary related expenses. It does not stand alone and reform or improvement in this area is part of a broader approach as to how resources are used in government agencies.

The audit's objective is to determine if there is effective management of overtime in RMS. In particular: Is the use of overtime justified and well controlled?

Conclusion

RMS needs to do more to manage overtime effectively. Acceptable levels of overtime for operational purposes need to be determined and overtime targets redefined at divisional and entity levels. Information analysis and reporting need strengthening to enable more effective control. To date, work place reforms initiated by RMS have resulted in limited success in reducing overtime. The challenge for RMS is to continue reforms in its Road and Fleet Services branch and extend reform through to other areas.

Summary of supporting findings

Does the agency actively manage overtime?

Improved reporting on overtime and some reform are indicative of more active management of overtime. So far this has achieved limited success. RMS has focused its attention on managing high overtime levels in RFS where the majority of overtime is worked. More ambitious overtime targets for all business units are needed.

Is there sufficient information aiding the management of overtime?

RMS has improved its analysis and reporting of information on overtime. This has supported a focus on reducing the number of high earners. However, information and analysis have fallen short of that necessary for effective control. Audit Office analysis of overtime information revealed that overtime costs have increased over the past three years at a rate above award increases. The ratio of overtime to base pay has remained between nine and ten per cent. In 2010–11 overtime cost $49.2 million. Staff working overtime received average payments of $9,325. More extensive analysis of overtime related information would support improved control. While a level of overtime is justified to deliver and maintain services with minimum disruption to users, RMS has not determined what efficient levels of overtime are.

Has the agency introduced initiatives successfully to better manage overtime?

Reforms have had a small impact on the level of overtime but their scope has been limited. The introduction of night shifts in one area within RFS has achieved only small decreases in overtime from 2008. However, this provides a basis for further reforms in work practices and awards needed to improve efficiency and reduce overtime. In 2011, internal analysis of RFS work practices identified changes with the potential to improve efficiency and reduce overtime. The challenge for RMS is to realise these potential benefits. Further review is to be undertaken within RFS. There are some encouraging signs. Overtime cost for the first six months of 2011–12 is less than the same period last year. However, much of the reduction in cost is likely being offset by increased use of sub-contractors and may not continue in the second half of the year.

Recommendations

RMS should:

1. determine acceptable levels of overtime for operational purposes (by 31 December 2012) – page 35

2. further investigate the extent of overtime caused by sick leave and develop strategies to address problem areas (by 30 June 2013) – page 38

3. revise its overall overtime target of ten per cent to reflect its commitment to reducing overtime and disclose performance in future annual reports (by 31 December 2012) – page 35

4. ensure that individual overtime targets are set for all major branches, consistent with achieving the overall agency target (by 31 December 2012) – page 35

5. maintain a continuing focus on high earners of overtime as part of its strategy to reduce overtime (ongoing) – page 34

6. make better use of its systems to analyse overtime trends as suggested in recent internal reviews. This will support its understanding of the required levels of overtime and assist monitoring of performance against targets (by 31 December 2012) – page 34

7. identify opportunities for savings in overtime resulting from changes to work practices suggested in recent internal management reviews of RFS and timetable their implementation (by 31 December 2012) – page 37

8. before implementing initiatives, such as the increased use of sub-contractors in place of overtime, assess the overall net benefits leading to improved efficiency (by 31 December 2012) – page 36

9. regularly monitor performance, including overtime levels, against established industry benchmarks (by 31 December 2012) – page 37

10. include allowances paid for work outside normal hours when reviewing work practices and reforms in future (by 31 December 2012) – page 38.

Response from Roads and Maritime Services

Transport
Roads & Maritime
Services
NSW GOVERNMENT

CE12/0661

Mr Peter Achterstraat
Auditor-General
GPO Box 12
SYDNEY NSW 2001

Dear Mr Achterstraat

Roads and Maritime Services (RMS) response to the *Performance Audit Report –*
Managing Overtime in Roads and Maritime Services **(dated 25 May 2012)**

I refer to the Performance Audit Report prepared on Managing Overtime in the former
Roads and Traffic Authority (RTA), now Roads and Maritime Services (RMS) that
examines whether there is effective management of overtime in the organisation.

As noted in the *"Background"* section of the Report, RMS has a genuine operational
requirement to incur overtime in the delivery of its road works program and network
management services. In order to minimise the disruption to traffic flow during peak
weekday periods and manage congestion in metropolitan areas, a significant and growing
proportion of road work is executed at night and on weekends. State significant special
events typically occur outside normal working hours especially on weekends and/or at
night and RMS provide a Saturday customer service offering in our motor registries. Also,
the Transport Management Centre (TMC) resource a 24/7 traffic and network operations
monitoring room and RMS resources provide 24/7 emergency response and incident
management call out services.

As noted in the *"Analysis of Overtime Data"* section of the Report, over the past four years,
RMS' overtime cost has increased from $43 to $49 million per annum that represents a
compound annual growth rate (CAGR) of 4.7 per cent for the last three years. In this
same period, RMS has incurred staff pay increases of 4 per cent per annum that largely
accounts for the increase in the overtime cost with less staff overall working overtime in
proportion to total staff numbers at the end of 2010-11.

In the context of the overall roads portfolio, overtime at the average of $46 million per
annum over the past four years, represents 0.9 per cent of the total roads 2011-12
forecast cash operating and capital expenditure of $4.9 billion. The 4.7 per cent increase
in overtime costs (as noted above) that are predominantly in line with award pay
increases, has occurred during the period when the overall RMS managed annual road
works program and state wide services grew by 7.9 percent (CAGR).

Roads & Maritime Services

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RMS has grouped its response and comments to the Report recommendations into three broad areas as shown below:

A. Overtime targets and acceptable levels of overtime

1. Determine acceptable levels of overtime for operational purposes (by 31 December 2012)

3. Revise its overall overtime target of ten per cent to reflect its commitment to reducing overtime and disclose performance in future annual reports (by 31 December 2012)

4. Ensure that individual overtime targets are set for all major branches, consistent with achieving the overall agency target (by 31 December 2012)

By 31 December 2012, RMS will determine what an appropriate and acceptable level of overtime should be across the different major business branches operating independently within the organisation, using similar industry-based benchmark targets. These targets would also take into account annual changes in the size of the organisational workload and budgetary limits. Once the appropriate targets are determined, RMS commits to publicly disclosing, as a minimum, annual performance against these targets.

B. Overtime management, monitoring and reporting

9. Regularly monitor performance, including overtime levels, against established industry benchmarks (by 31 December 2012)

6. Make better use of its systems to analyse overtime trends as suggested in recent internal reviews. This will support its understanding of the required levels of overtime and assist monitoring of performance against targets. (by 31 December 2012)

5. Maintain a continuing focus on high earners of overtime as part of its strategy to reduce overtime (ongoing)

2. Further investigate the extent of overtime caused by sick leave and develop strategies to address problem areas (by 30 June 2013)

RMS continues to provide overtime performance reports that are reviewed each month by the RMS Executive and HR & Finance also provide monthly reporting and analysis at a more detailed level with local Divisional management & operational Managers.

Improved monitoring and management processes introduced in the RMS Road & Fleet Service business in the current 2011-12 financial year is forecast to realise an overall 7 per cent overtime saving in this area.

By 31 December 2012, RMS will further review and refine reporting and undertake more detailed analysis to enable better management and monitoring of overtime performance. At a branch level, RMS work is ongoing to reduce the number of high earners of overtime relative to their base pay.

RMS has already introduced separate improved sick leave management processes and initiatives across the business that has resulted in reduced levels of sick leave. By 31 December 2012, RMS will further investigate the extent of overtime caused by sick leave and determine if existing sick leave management processes need to be further refined.

C. <u>Work practices and industrial Award reforms</u>

7. Identify the opportunities for savings in overtime resulting from changes in work practices suggested in recent internal management reviews of RFS and timetable their implementation (by 31 December 2012)

10. Include allowances paid for work outside normal hours when assessing work practices and reforms in future (by 31 December 2012)

8. Before implementing initiatives, such as the increased use of sub-contractors in place of overtime, assess the overall net benefits leading to improved efficiency (by 31 December 2012)

Over the next twelve months, RMS is investigating the opportunity of a single industrial award for all salaries staff (effective from 1 July 2013) that will cover a significant number of ex. RTA and ex. NSW Maritime staff. As part of this negotiation process, RMS will investigate and review potential changes to rostering and work practices, shift patterns, allowance arrangements and other work place reforms in consultation with respective employee Union representatives, that may be beneficial in achieving overall labour productivity gains in the cost of delivering works and services, including potential overtime savings.

Currently, RMS is undertaking a detailed analysis and contestability review of its road maintenance delivery arrangements on behalf of NSW Treasury and central Government. One of the possible outcomes is the delivery of road maintenance services across the network that will involve more competitive tendering. As part of the business case evaluation process, RMS will assess the net benefits of any initiative proposed to ensure overall efficiency gains, including potential overtime savings, are positive.

Thank you for the opportunity to comment on this report.

Yours sincerely

12.6.2012

Peter Duncan
Chief Executive

Supporting findings

1.   Background

1.1   New agency

During the audit a restructure saw the Roads and Traffic Authority (RTA) combine with NSW Maritime to form Roads and Maritime Services (RMS). The new organisation was established on 1 November 2011, therefore the audit report refers mostly to RMS. However, it should be noted that the audit's findings are based largely on RTA information. The maritime component of RMS incurs only one per cent of RMS overtime costs and these have not been included in any analysis.

1.2   The role of overtime in RMS

Overtime is used by RMS primarily to help deliver and maintain services with minimum disruption to service users. This includes night work, major projects, emergencies and special events performed outside business hours. Demand for overtime is increasing because of increasing traffic, large road construction programs, ongoing maintenance of existing and ageing infrastructure, and natural disasters.

RMS has a responsibility to effectively monitor, control and avoid excessive overtime for the health and safety of staff and for the financial health of the organisation. The challenge is to optimise cost inputs, including overtime, to get the best output for the community in terms of service and safety. This includes optimising work practices within current awards and pursuing structural changes to awards for more significant reforms.

The exhibit below summarises RMS' estimated use of overtime by activity over the past two years, together with a more detailed explanation of why it was required.

Exhibit 1: Overtime by Activity

Activity	Estimated percentage of total overtime worked		Explanation
	2009–10	**2010–11**	
Night work	40	37	Night work is required to maintain major roads and bridges, and to install traffic systems and signals. Completing this work overnight ensures minimal impact on traffic flow during peak periods and assists in helping to manage congestion, particularly on major routes in Sydney.
Major projects	25	27	During 2010–11, more than 100 major road construction projects were undertaken at a cost of over $1.9 billion. Work on weekends and at night on these projects ensures minimum disruption to traffic, as well as allowing for faster and more efficient completion of the work.
Call outs and emergencies	15	17	Call outs and emergency work relate to natural disasters such as bushfires and flooding, 24 hour driver aid services on major traffic routes and emergency response to traffic incidents which occur outside normal working hours.
Special events	10	8	Work is required to support special events such as New Year's Eve, the City to Surf, Mardi Gras and Breakfast on the Bridge. These events typically occur outside normal working hours.
Other	10	11	Overtime is incurred in a number of other areas, such as motor registries where overtime is required to maintain customer service levels due to staff absences and/or unforseen demand, including Saturday trading.
TOTAL	**100**	**100**	

Source: RMS.

1.3 Overtime across RMS

The following table shows that RFS is the major user of overtime across RMS. RFS has
24 per cent of total RTA staff but incurs 68 per cent of the overtime cost. This proportion has
remained relatively constant over the past three years. Ninety per cent of staff in RFS work
overtime, compared to 46 per cent in the rest of the organisation. This data shows how
overtime is an established part of the way RMS delivers its business.

Exhibit 2: RTA – Percentage of overtime cost by branches

	2008–09	2009–10	2010–11	Total overtime staff 2011[1]	Total staff 2011[2]
Road and fleet services	69.3	67.4	68.2	2025	2247
Customer services	6.5	7.0	7.9	1488	1688
Engineering and technology	6.7	7.4	6.0	370	673
Trans management centre	5.1	5.3	4.2	112	141
Other	12.4	12.9	13.7	1285	4526
Total RTA	**100.0**	**100.0**	**100.0**	**5280**	**9275**

[1] All staff receiving an overtime payment during 2010–11.

[2] All staff receiving any salary or wage payment during 2010–11.

Source: Audit Office analysis of RTA payroll data.

The audit examined in some detail the management of overtime in RFS and the three other
branches with the highest overtime – transport management centre (TMC), engineering and
technology services and customer services.

Exhibit 3: Background to branches examined

RFS provides a variety of road and bridge services under in-house 'contract' with RMS and a small
number of external customers. Approximately 95 per cent of its work is from within RMS. RFS'
revenue has grown incrementally and this reflects the increase in its activities, which include
pavement maintenance, installing new traffic systems, attending to incidents and special events.

TMCs main role is the 'real time' monitoring of Sydney's 'AM' and 'PM' commuter peaks. TMC is now
part of Transport for NSW's Transport Co-ordination Group. For administrative purposes TMC
remained part of RMS during 2010–11. To resource the operations room 24/7, staff are paid shift
penalties and allowances for night shifts. Overtime largely relates to maintaining traffic monitoring and
co-ordinating special events.

Engineering and technology services undertakes essential specialist functions in support of road
construction and maintenance. Reasons for overtime are similar to those of RFS and include night
work, call outs for emergencies and special events. They are dependent on those managing projects
to ensure that scheduling of their services is accurate in order to limit overtime.

Most overtime worked by customer service staff is at motor registries and relates to Saturday work,
unplanned staff absences and unforeseen levels of demand. An increase in the number of drivers and
vehicles in the state has resulted in increasing demand at motor registries and on-line via RMS'
internet site.

Source: RMS and Audit Office.

2. Analysis of overtime data

More extensive analysis of information would support improved management of overtime.
The focus on high earners has not resulted in a reduction in overtime costs.
Appropriate levels of overtime have not been determined for business units.

2.1 Overtime costs

Finding: Overtime continues to be a significant employment cost for RMS with average overtime payments increasing.

Overtime has averaged 9.6 per cent of base pay over the past three years. Total overtime costs increased at a compound annual growth rate (CAGR) of 4.7 per cent, which is above award increases of four per cent. As shown in the following exhibit, average overtime payments received by RTA employees who worked overtime increased from $8,498 to $9,275, a CAGR of 3.1 per cent. The CAGRs in the exhibit reveal that overtime costs are increasing at a greater rate than staff numbers.

Overtime remains a significant employment cost for RMS

Exhibit 4: RMS overtime

Year	Total overtime $[1]	Increase per annum %	Total staff[2]	Staff working overtime		Average overtime $ payment[3]
				Nos.	%	
2007–08	42,858,919		8,560	5,043	58.9	8,499
2008–09	44,341,746	3.5	8,677	5,108	58.9	8,681
2009–10	47,252,771	6.6	8,819	5,213	59.1	9,064
2010–11	49,236,502	4.2	9,275	5,280	56.9	9,325
CAGR[4]	4.7%		2.71%	1.5%		3.1%

[1] Total overtime is the amount paid to employees during the year. It is not equal to overtime expense.
[2] Total staff who received salary/wages during the year.
[3] Average overtime payment received by those who worked overtime.
[4] Compound annual growth rate for the last three years.
Source: RTA payroll data.

Overtime costs over the first six months of 2011–12 are explained later in **Section 4.1 RFS current initiatives and overtime performance**.

2.2 Overtime hours

Finding: Total overtime hours have remained at high levels over the past three years, consistent with overtime costs.

The exhibit below shows a small increase in overtime hours worked over the past three years.

Overtime hours high

Exhibit 5: Overtime hours worked by each branch

	2008–09	2009–10	2010–11
Road and fleet services	671,097	644,985	658,774
Customer services	53,011	58,906	68,670
Engineering and technology	46,561	54,290	46,858
Transport management centre	23,840	25,198	23,395
Total RTA	883,792	875,028	891,658

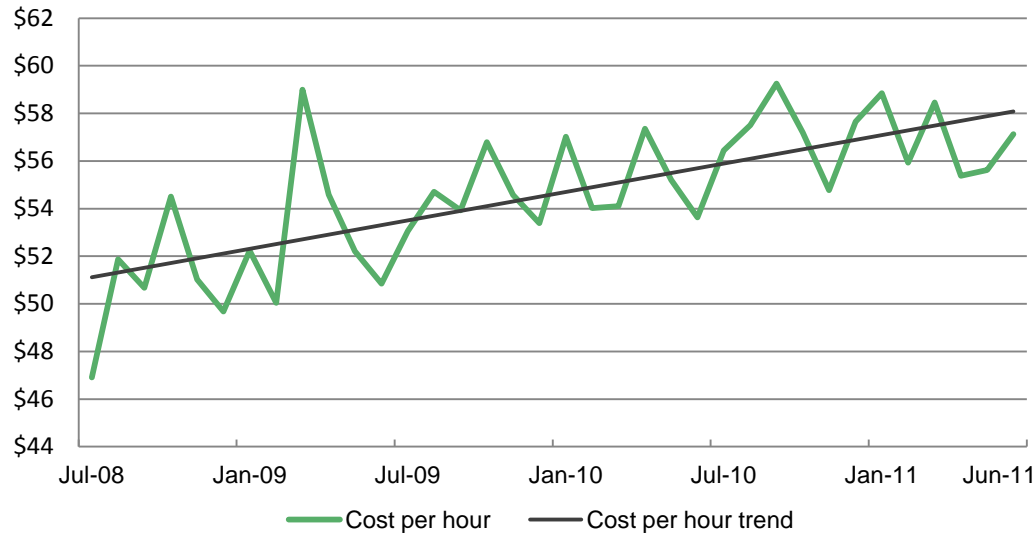Source: RTA data.

2.3   Overtime costs per hour

Finding: The average cost per hour of overtime is increasing slightly faster than award increases. This is likely caused by changes in the mix of staff working overtime and/or the times/days when overtime is worked.

Overtime cost per hour has increased steadily over the past three and a half years. This is illustrated in the following exhibit.

Exhibit 6: Overtime cost per hour

Source: RTA monthly payroll data from 1 July 2008 to 30 June 2011.

Using the start and end points of the trend line, $51 and $58, the compounded annual increase is 4.4 per cent. The slightly higher than award increase could be attributed to a change in the mix of those receiving overtime and the shifts they work. For example, staff at higher grades working overtime and/or more overtime being worked on weekends.

2.4   Who works the overtime?

Fifty-seven per cent of RMS staff worked overtime in 2010–11. Appendix 1 provides a detailed analysis of overtime in ten per cent bands of base pay and the related staff. The following exhibit summarises the overall position for RMS.

Exhibit 7: Analysis of overtime for 2010–2011

% of base pay	< 10%	≥10% < 60%	≥ 60% < 110%	Total
Overtime $'000	5,448	35,367	8,421	49,236
% of total	11	72	17	100
Overtime staff	2,878	2,199	203	5,280
% of total	54	42	4	100

Source: Audit Office analysis of RTA data.

As revealed in the exhibit, staff with overtime payments between ten and 60 per cent of their base pay (2,199 employees) received 72 per cent of all overtime paid in 2010–11. However, four per cent of staff working overtime topped up their base pay by more than 60 per cent. In recent years, RMS has concentrated on managing individuals with high levels of overtime.

2.5   Analysis of top earners

Finding: The number of staff earning more than 60 per cent of their base pay in overtime has remained relatively steady over the past four financial years, despite management efforts to reduce high overtime earnings.

The following exhibit shows that most of the high earners are in RFS. It also shows that the number earning more than 60 per cent of their base pay over the past four years has remained relatively steady, despite management attention on reducing "excessive" overtime.

Exhibit 8: Number of staff earning more than 60 per cent of their base pay

	2007–08	2008–09	2009–10	2010–11
RFS	200	211	182	193
Other branches	12	14	15	10
Total staff	212	225	197	203
Total cost $	8,219,462	8,750,372	8,512,209	8,421,134

Source: RTA payroll data.

3.   The agency's approach to managing overtime

There is room for RMS to improve its focus on overtime.

RMS requires more ambitious overtime targets to support more active management.

RMS requires further system and reporting improvements.

3.1   Management of overtime

Finding: RMS is increasing its focus on managing overtime. In particular, there is more extensive reporting and monitoring, with a specific interest in high earning individuals.

RMS has sought to control overtime within existing work practices and award structures, and by changing work practices and awards.

In the last eighteen months, RMS implemented a number of changes to more closely monitor overtime, including monthly reporting at directorate and functional area levels and executive review on a monthly basis. Reporting to the executive on overtime performance increased from quarterly to monthly during 2010–11.

RMS' focus has been on staff earning more than 60 per cent of their base pay in overtime. Whilst appropriate, it is restricted to a small number of staff.

The top 50 earners are analysed in the following exhibit. There has been some reduction over the last three years in the amounts of overtime earned by the top 50. However, most still come close to doubling their base pay through overtime each year. Nearly all are in RFS.

Significant numbers of high overtime earners

Greater effort being made to manage overtime

Exhibit 9: Top 50 overtime earners by division

	2008–09	**2009–10**	**2010–11**
Road and fleet services	48	47	48
Engineering and technology	1	2	–
Other	1	1	2
Total	50	50	50
Range of overtime to base pay for top 50	86.7 % to 137.4%	85.3% to 129.1%	81.0% to 108.9%

Source: Audit Office analysis of RTA payroll data.

Finding: Analysis of the top ten earners by percentage of base pay and amount revealed that a number of employees have remained in the top ten across three years. Appendix 2 provides more detail.

High overtime earners persist

Seven staff have been in the top ten on the basis of percentage of base pay for more than one year in the past three. This can be seen in Exhibit 14 in Appendix 2.

In terms of top earners on a dollar basis, Exhibit 15 in Appendix 2 reveals seven employees who have remained in the top ten in at least two of the three years.

Management's focus on high earners of overtime has aided the enforcement of RMS's policy of reviewing and monitoring excessive overtime. Overtime guidelines stipulate that overtime that exceeds eight hours in one shift or 36 hours in a pay period is to be avoided; although the guidelines state that natural disasters are an exception. Overtime was not recorded as a factor in fatigue related incidents during the past three years.

Recommendation

RMS should maintain a continuing focus on high earners of overtime as part of its strategy to reduce overtime (ongoing).

Finding: Management systems and reporting could provide more in depth analysis of overtime issues and trends.

Enhanced monitoring and reporting required

The Audit Office found limitations with the reporting of overtime from the payroll system and general ledger. Additional categorisation within these systems is required to support more detailed analysis.

This supports recent internal audit and management reviews which recommend further improvements in the monitoring and reporting of overtime. Also recommended, was that overtime targets be included in manager's performance agreements. Overtime targets could be included in the context of managers achieving broader budget or resource management targets.

Recommendation

RMS should make better use of its systems to analyse overtime trends as suggested in recent internal reviews. This will support its understanding of the required levels of overtime and assist monitoring of performance against targets (by 31 December 2012).

3.2   Targets for management of overtime

Finding: RMS does not have a stretch target to manage overtime.

Overtime targets can be improved

RMS' internal target for overtime is less than ten per cent of base salary and wages. As seen in the following exhibit, this ratio has been achieved over the past three years.

Exhibit 10: Percentage of overtime to base pay

	2007–08 %	2008–09 %	2009–10 %	2010–11 %
Actual	9.9	9.7	9.7	9.2
Target	10.0	10.0	10.0	10.0

Source: RTA HR Workforce Report 2010–11 Year in Review.

This ratio can favour the status quo as it allows greater overtime as staff numbers and salary and wage costs increase. Increased activity levels should not necessarily result in more overtime. Increases in staff can be used to reduce overtime, not increase it.

Overtime targets set on a constant or absolute basis are often more effective. A more realistic stretch target should be set. Accountability would be enhanced if performance against the target is publicly reported.

Recommendation

RMS should revise its overall overtime target of ten per cent to reflect its commitment to reducing overtime and disclose performance in future annual reports (by 31 December 2012).

Overtime targets are not set for all branches with high levels of overtime. Such targets need to be based on acceptable levels of overtime.

Recommendations

RMS should ensure that individual overtime targets are set for all major branches, consistent with achieving the overall agency target (by 31 December 2012).

RMS should determine acceptable levels of overtime for operational purposes (by 31 December 2012).

4.   Work place reforms

Reforms have had limited success reducing overtime within existing awards and work practices.

Need more fundamental reforms of work practices to reduce overtime significantly.

Recent internal reviews indicate that further savings are possible.

4.1   RFS current initiatives and overtime performance

Since July 2011, RFS initiatives have included:

- making regional managers more accountable for overtime, especially high earners
- a focus on the pre-approval of planned and urgent overtime
- restricting the amount of overtime in the planning of projects
- reviewing and reducing the number of shifts.

These initiatives may have contributed to a fall in overtime paid during the six months to December 2011. This can be seen in Exhibit 11.

Exhibit 11: RFS – percentage of overtime to base pay

Year	Base pay $	Overtime $	%
2007–08	106,925,150	28,757,129	26.9
2008–09	111,705,654	30,749,859	27.5
2009–10	119,651,118	31,828,073	26.6
2010–11	127,093,713	33,574,607	26.4
6 months to Dec 2011	65,322,680	15,056,976	23.0

Source: RTA payroll data.

Over the past four financial years RFS overtime costs have increased consistently with the annual four per cent salary and wage increases. The percentage of overtime earned to base pay has remained at around 27 per cent.

Overtime costs for the six months to December 2011 of $15,056,976 have declined on a pro-rata basis. Further analysis indicates a reduction in overtime to base pay. However, RFS advises that overtime payments for the second half of 2011–12 are likely to be higher than the first half.

RFS has set a target to reduce overtime payments by $400,000 during 2011–2012. This is a saving of 1.2 per cent on RFS overtime costs for 2010–11. RFS advises this may be difficult to achieve.

During the first half of 2012, an additional $1.1 million was spent on increased use of sub-contractors. At the same time, overtime decreased by a slightly larger amount and activity levels were maintained. This implies a relationship between the two. RFS advised that there can be increased flexibility and other benefits from increasing the use of sub-contractors in addition to potential reductions in overtime.

RFS is to increase the use of sub-contractors from 30 to 40 per cent to provide greater flexibility to tackle extra work and to supplement existing teams. This needs to be carefully managed as there is generally a causal relationship between an increase in one and a decrease in the other.

Recommendation

Before implementing initiatives, such as the increased use of sub-contractors in place of overtime, RMS should assess the overall net benefits which could lead to improved efficiency (by 31 December 2012).

Finding: RFS has an opportunity to reduce overtime on weekends and accrued days off.

RFS has opportunity to reduce overtime on weekends and ADOs

Management reviews conducted during 2011 provide a detailed analysis of RFS' overtime performance and identified scope for reducing planned overtime on weekends and accrued days off (ADOs). A particular focus is Saturdays, when considerably more overtime is worked than any other day.

To achieve a reduction in overtime, one internal review recommended that RFS:

- redesign shift patterns to optimise use of staff, including renegotiating awards for Saturday work being paid at a similar rate to weekday work
- build overtime and allowances for revised work patterns into annual salaries
- add extra resources to maintain a steady workflow and allow the staggering of shifts to reduce overtime
- use rosters to restrict the number of overtime hours offered.

The reviews confirm the Audit Office's observation that changing work practices requires management driven solutions and structural changes to the award to obtain longer term savings.

The reviews found that, compared to a number of industry benchmarks, RFS's average weekly overtime hours are high. RFS incurred 5.7 hours of overtime per week in 2010–11, compared to the construction and manufacturing industries average weekly overtime hours of 4.3 hours as published by the Australian Bureau of Statistics. The Australian average is 1.7 hours per week and the mining industry is highest at 5.9 hours per week. The Audit Office recognises that direct comparison is limited as most RFS activities must work around the constraints of traffic management, meaning that work must be performed outside regular working hours.

RMS advises that it is committed to industry benchmarking its different business streams. This includes an efficiency review of the road maintenance delivery model in RFS.

Recommendations

RMS should identify opportunities for savings in overtime resulting from changes to work practices suggested in the recent internal management reviews of RFS and timetable their implementation (by 31 December 2012).

RMS should regularly monitor performance, including overtime levels, against established industry benchmarks (by 31 December 2012).

4.2   Past overtime reforms

Finding: Past workplace reforms outlined below demonstrate that decreases in overtime can be achieved. These reforms have the potential to be extended within RMS to reduce overtime further.

RFS has sought reforms to reduce overtime since the mid-2000s. The earlier initiatives focused on demand for services outside peaks and introducing new/altered shifts to reduce overtime where work is more constant.

Where overtime is planned or anticipated there is greater opportunity to rearrange work practices to reduce overtime whilst matching the service demands of customers.

Two examples of past overtime reforms in RFS are:

- **Night shifts for traffic signal technicians**
  In late 2009–10, the introduction of night shifts reduced overtime. The initiative was negotiated with the unions and included in the 2008 award. Overtime savings of $250,000 were estimated to have been achieved in 2010–11.

  Prior to this, night emergency work was carried out by crews who were on call. They received an on-call allowance as well as a minimum four hours payment each time they were called out. Where two callouts were undertaken within a four hour period, this would be treated as eight hours.

- **Sydney harbour bridge maintenance – sick leave and overtime**
  RFS found that it was common for staff in RFS' Sydney harbour bridge maintenance area who worked high levels of overtime, including weekends, to call in sick on at least one day the following week. In response, RFS trialled measures which reduced both excessive sick leave and overtime.

  The revised practices were formalised in the 2008 award and introduced across the RTA. Staff who are on RMS' absence management program are now prevented from working overtime. RMS advises that this has resulted in an annual reduction in overtime and sick leave. RMS has not been able to quantify this.

4.3   Management of sick leave

Finding: RMS has high levels of sick leave and this is likely to have an adverse affect on the level of overtime.

As revealed in the following exhibit, RTA sick leave per full time equivalent (FTE) has reduced from 9.5 to 8.7 over four years. However, it remains above the annual target of 7.5 days per FTE.

Decrease in overtime can be achieved

High sick leave levels affect overtime

Exhibit 12: Sick leave days per full time employee
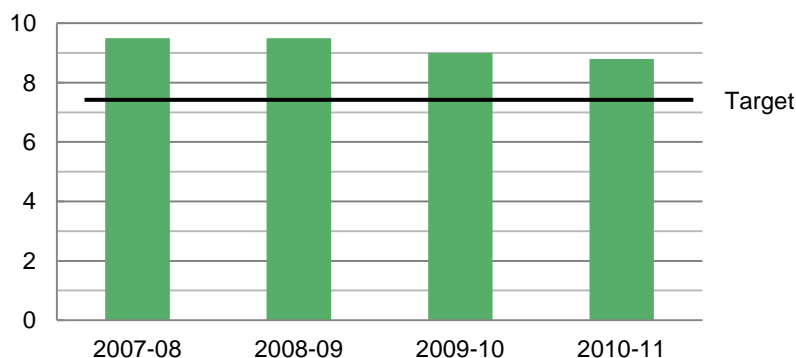
Source: RTA HR Year in Review Report for 2010–11.

At present, RMS reporting does not analyse any links between sickness and overtime. Management have indicated that they are considering introducing a target to reduce sick leave by a percentage, yet to be agreed, of existing sick leave costs.

Recommendation

RMS should further investigate the extent of overtime caused by sick leave and develop strategies to address problem areas (by 30 June 2013).

4.4   Current award negotiations

At the time of the audit, negotiations with unions were underway for new industrial awards to combine existing RTA and NSW Maritime awards. RTA awards that ran from 2008 to July 2011 were extended a year to July 2012. The extended award incorporated salary/wage increases of 2.5 per cent consistent with government policy.

4.5   Shift and other allowances paid to RMS staff

Payment of allowances for shifts, call outs, travel, meals, etc are similar to overtime in that they compensate staff for working outside normal hours. The Audit Office calculated these allowances to be approximately $19 million in 2010–11 and $17 million in 2009–10. These allowances were mainly for RFS staff providing services outside normal hours. In addition, some allowances are included in overtime payments; for 2010–11 these were $3.9 million.

Recommendation:

RMS should include allowances paid for work outside normal hours when reviewing work practices and reforms in future (by 31 December 2012).

4.6   Employment levels

Finding: Employment levels in RMS during the last three years have shown a small increase in total staff numbers, reflecting low vacancy rates and a reducing use of skill hire staff. This indicates that vacancy rates have not contributed significantly to the level of overtime.

Vacancy rates have limited impact on levels of overtime

Since June 2008 there has been a steady and consistent rise in headcount, increasing on average by 1.4 per cent year on year or four per cent overall. During 2010–11 RMS headcount grew by 1.2 per cent, representing a net gain of 107 employees.

RMS had a vacancy level of 33 staff (on an FTE basis) at 30 June 2011, against its FTE total goal of 6,676.

The net gain in employees has been offset by a decrease in skill hire from 7.7 per cent of the workforce in 2009–10 to 4.8 per cent in 2010–11.

Note that skill hire contractors are not the same as sub-contractors. Skill hire contractors fill roles similar to those of permanent staff members in such areas as engineering and information technology, generally for short periods. Sub-contractors undertake specific tasks within a project, sometimes working at weekends and at night. This is common in RFS and can replace overtime.

Appendices

Appendix 1: Who works the overtime?

The exhibit below shows overtime paid in ten per cent bands as a percentage of base pay and the related staff numbers in branches. The exhibit is summarised in section 2.4 Exhibit 7.

Exhibit 13: Overtime in ten per cent salary bands

		0	>0% <10%	≥10% <20%	≥20% <30%	≥30% <40%	≥40% <50%	≥50% <60%	≥60% <70%	≥70% <80%	≥80% <90%	≥90% <100%	≥100%	Total
Road and fleet services	Staff	222	414	320	375	327	227	169	88	56	28	12	9	2,247
	$	0	1,032,378	2,601,266	4,976,680	6,049,005	5,602,257	5,276,367	3,178,212	2,327,283	1,317,534	619,292	594,335	33,574,607
Customer services	Staff	200	1,216	185	54	22	7	3	1					1,688
	$	0	1,763,610	1,175,258	522,119	271,425	90,565	55,657	21,707					3,900,341
Engineering and technology	Staff	303	217	74	38	23	11	5	1	1				673
	$	0	496,156	764,365	634,304	515,984	279,872	158,653	18,756	60,783				2,928,874
Traffic management centre	Staff	29	30	19	32	23	7	1						141
	$	0	91,621	251,933	706,464	665,210	310,930	42,482						2,068,640
Other	Staff	3,241	1,001	165	64	23	18	7	4	1	2			4,526
	$	0	2,064,458	1,625,166	1,164,423	645,335	724,809	256,616	150,996	18,705	113,532			6,764,040
RTA *	Staff	3,995	2,878	763	563	418	270	185	94	58	30	12	9	9,275
	$	0	5,448,223	6,417,989	8,003,989	8,146,959	7,008,432	5,789,776	3,369,671	2,406,771	1,431,066	619,292	594,335	49,236,502
Average payment			1,893	8,412	14,217	19,490	25,957	31,296	35,848	41,496	47,702	51,608	66,037	

* Staff who received any salary or wage payment during the year.

Source: RTA payroll data.

Appendix 2: Analysis of top earners

This appendix supports commentary in section 3.2.

The colour coding in the following exhibit reveals seven staff who have been in the top ten on the basis of percentage of base pay for more than one year in the past three.

Exhibit 14: Top ten overtime earners by per cent – 2009 to 2011

	2008–09			2009–10			2010–11	
Overtime $	Base pay $	%	Overtime $	Base pay $	%	Overtime $	Base Pay $	%
74,313	54,078	137.4	61,316	47,502	129.1	65,704	60,317	108.9
100,807	73,711	136.8	61,347	48,480	126.5	83,326	76,584	108.8
93,832	70,807	132.5	109,796	89,701	122.4	51,927	49,456	105.0
60,455	45,819	131.9	58,618	48,130	121.8	51,844	49,919	103.9
111,533	85,190	130.9	103,281	87,129	118.5	76,955	75,020	102.6
58,033	46,015	126.1	54,924	46,742	117.5	60,433	59,577	101.4
58,116	49,419	117.6	86,311	73,639	117.2	53,815	53,496	100.6
62,266	54,078	115.1	56,848	51,575	110.2	96,516	96,118	100.4
54,756	48,323	113.3	57,517	52,996	108.5	53,815	53,813	100.0
50,282	44,541	112.9	56,542	52,169	108.4	54,661	55,337	98.8

Source: Audit Office analysis of RTA payroll records 2008–09, 2009–10 and 2010–11.

In terms of top earners on a dollar basis, the colour coding in the following exhibit reveals the seven employees who have remained in the top ten in at least two of the three years.

Exhibit 15: Top ten overtime earners by dollar

2008–09			2009–10			2010–11		
Overtime $	Base pay $	Location	Overtime $	Base pay $	Location	Overtime $	Base pay $	Location
111,533	85,190	RFS	109,796	89,701	RFS	96,516	96,118	RFS
100,807	73,711	RFS	103,281	87,129	RFS	83,326	76,584	RFS
93,832	70,807	RFS	88,735	134,934	TMC	80,555	85,328	RFS
85,117	121,522	Eng & tech	86,311	73,639	RFS	76,955	75,020	RFS
76,796	79,099	RFS	79,630	80,969	RFS	68,159	97,500	RFS
75,397	95,281	RFS	76,710	71,515	Project Mgt	65,704	60,317	RFS
74,313	54,078	RFS	73,181	82,263	RFS	63,050	85,554	RFS
70,139	66,645	RFS	73,014	105,103	RFS	60,858	151,441	TMC
69,534	133,135	TMC	71,623	71,178	Eng & Tech	60,783	76,584	Eng & Tech
64,635	73,711	RFS	68,370	63,551	RFS	60,433	59,577	RFS

Source: Audit Office analysis of RTA payroll records 2008–09, 2009–10 and 2010–11.

There are four employees who have been in the top ten overtime earners by dollar for all of the last three years. Three of them are in RFS' regional operations. The fourth employee works in TMC.

Appendix 3: About the audit

Objective

The objective of the audits was to examine whether there is effective management of overtime in RailCorp and Roads and Maritime Services (RMS) – formerly the Roads and Traffic Authority (RTA). More specifically: Is the use of overtime justified and well controlled?

Criteria

Audit criteria ask more specific questions about the performance of the agencies' activities. The information and evidence arising from them provide findings to enable the practitioner to conclude on the audits' objective. The three criteria were:

1: Is the agency's approach to actively manage overtime?

Consider points:

- overtime is well justified against underlying drivers
- performance against overtime targets
- reports support monitoring
- overtime practices focus on approval processes and fatigue management.

2: Is sufficient accurate information aiding the management of overtime?

Consider points:

- overtime data and trends, including employees/groups earning high levels
- the extent that overtime is either planned or unplanned
- movements in other employment related indicators, including staff numbers and salary increases, the use of casuals, sub-contracting or outsourcing, sick leave, vacancies, staff shortages.

3: Has the agency successfully introduced initiatives to better manage overtime?

Consider points:

- examples of successful management of overtime initiatives, including lasting impact, changed practices and overtime savings
- level of executive management focus/commitment
- barriers to reducing overtime.

Scope

The scope of the audits was overtime in RailCorp and RMS, which both had high overtime expenses and hours, and a high percentage of staff working overtime. The audits included the assessment of management practices, analysis of overtime and related trends and initiatives to better manage overtime. A focus of the audits was analysis of overtime data from payrolls, HR reports and financial records.

Audit methodology and approach

Our performance audit methodology satisfies Australian Assurance Standard ASAE 3500 on performance auditing, including related quality control procedures. Our processes have also been designed to comply with the auditing requirements specified in the *Public Finance and Audit Act 1983*. The audit team collected evidence by:

- conducting discussions with agency staff and relevant stakeholders
- reviewing relevant documents on the management and performance of overtime
- analysing the performance information collected against criteria
- consulting with agencies on the results of analysis and the subsequent reports.

The audits' conclusions are based on findings made against audit criteria. The findings especially consider the information gathered about the extent of any variation in an activity's performance against criteria. Evidence is frequently corroborated from several sources and tested in exit discussions of the draft and final reports, and written representations. The evidence must be appropriate and sufficient to provide a reasonable level of assurance. To form an audit's conclusion the findings are evaluated both individually and in aggregate.

Professional judgement is ultimately applied to decide whether gaps between criteria and actual performance are material. The greater, or more material, the variation the more likely the performance is outside accepted tolerances and will result in modified (qualified) audit conclusions. Guiding professional judgement is the extent to which the performance gaps (findings) impact on parliament's decisions or expectations about the economy, efficiency and effectiveness of activities and, the discharge of accountability by public officials for the activity being audited.

Potential performance gaps identified in our planning indicated how variations from criteria, and their materiality, would be judged. These included:

- variations from the achievement of appropriate overtime targets
- the level of overtime relative to normal salary and hours
- incomplete reporting and inadequate systems not supporting the evaluation of overtime and actions to better manage it
- limited understanding and analysis of the drivers of overtime
- the extent of poor practices surrounding the approval and supervision of overtime
- not undertaking, or poorly implementing, initiatives to better manage overtime over the medium and long terms. (These initiatives likely being part of a suite reforms.)

Audit selection

We use a strategic approach to selecting performance audits. This balances our performance audit program to reflect issues of interest to parliament and the public of New South Wales. Details of our approach to selecting topics and our forward program are available on our website.

Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by staff in RailCorp and RMS. In particular we wish to thank our liaison officers who participated in interviews, provided documentation and appraised the audits' papers and reports.

Audit team

Our team leader for the performance audits was Chris Bowdler, who was assisted by Lucy Stedman. Sean Crumlin provided direction and quality assurance.

Audit costs

Including staff costs, printing costs and overheads, the estimated costs of the audits in RailCorp and RMS conducted concurrently is $247,000.

Performance auditing

What are performance audits?

Performance audits determine whether an agency is carrying out its activities effectively, and doing so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of a government agency or consider particular issues which affect the whole public sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in the *Public Finance and Audit Act 1983*.

Why do we conduct performance audits?

Performance audits provide independent assurance to parliament and the public.

Through their recommendations, performance audits seek to improve the efficiency and effectiveness of government agencies so that the community receives value for money from government services.

Performance audits also focus on assisting accountability processes by holding managers to account for agency performance.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, the public, agencies and Audit Office research.

What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing. They can take up to nine months to complete, depending on the audit's scope.

During the planning phase the audit team develops an understanding of agency activities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the agency or program activities are assessed. Criteria may be based on best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork the audit team meets with agency management to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with agency management to check that facts presented in the draft report are accurate and that recommendations are practical and appropriate.

A final report is then provided to the CEO for comment. The relevant minister and the Treasurer are also provided with a copy of the final report. The report tabled in Parliament includes a response from the CEO on the report's conclusion and recommendations. In multiple agency performance audits there may be responses from more than one agency or from a nominated coordinating agency.

Do we check to see if recommendations have been implemented?

Following the tabling of the report in parliament, agencies are requested to advise the Audit Office on action taken, or proposed, against each of the report's recommendations. It is usual for agency audit committees to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee (PAC) to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report is tabled. These reports are available on the parliamentary website.

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

Internal quality control review of each audit ensures compliance with Australian assurance standards. Periodic review by other Audit Offices tests our activities against best practice. We are also subject to independent audits of our quality management system to maintain certification under ISO 9001.

The PAC is also responsible for overseeing the performance of the Audit Office and conducts a review of our operations every three years. The review's report is tabled in parliament and available on its website.

Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

Further information and copies of reports

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website www.audit.nsw.gov.au or contact us on 9275 7100.

Performance audit reports

No	Agency or Issues Examined	Title of performance Audit Report or Publication	Date Tabled in Parliament or Published
223	Rail Corporation NSW Roads and Maritime Services	*Managing overtime*	20 June 2012
222	Department of Education and Communities	*Physical activity in government primary schools*	13 June 2012
221	Community Relations Commission For a multicultural NSW Department of Premier and Cabinet	*Settling humanitarian entrants in NSW* *services to permanent residents who come to NSW through the humanitarian migration stream*	23 May 2012
220	Department of Finance and Services NSW Ministry of Health NSW Police Force	*Managing IT Services Contracts*	1 February 2012
219	NSW Health	*Visiting Medical Officers and Staff Specialists*	14 December 2011
218	Department of Family and Community Services Department of Attorney General and Justice Ministry of Health NSW Police Force	*Responding to Domestic and Family Violence*	8 November 2011
217	Roads and Traffic Authority	*Improving Road Safety: Young Drivers*	19 October 2011
216	Department of Premier and Cabinet Department of Finance and Services	*Prequalification Scheme: Performance and Management Services*	25 September 2011
215	Roads and Traffic Authority	*Improving Road Safety: Speed Cameras*	27 July 2011
214	Barangaroo Delivery Authority Department of Transport NSW Treasury	*Government Expenditure and Transport Planning in relation to implementing Barangaroo*	15 June 2011
213	Aboriginal Affairs NSW Department of Premier and Cabinet	*Two Ways Together -* *NSW Aboriginal Affairs Plan*	18 May 2011
212	Office of Environment and Heritage WorkCover NSW	*Transport of Dangerous Goods*	10 May 2011
211	NSW Police Force NSW Health	*The Effectiveness of Cautioning for Minor Cannabis Offences*	7 April 2011
210	NSW Health	*Mental Health Workforce*	16 December 2010
209	Department of Premier and Cabinet	*Sick leave*	8 December 2010
208	Department of Industry and Investment	*Coal Mining Royalties*	30 November 2010
207	Whole of Government electronic information security	*Electronic Information Security*	20 October 2010
206	NSW Health NSW Ambulance Service	*Helicopter Emergency Medical Service Contract*	22 September 2010
205	Department of Environment, Climate Change and Water	*Protecting the Environment: Pollution Incidents*	15 September 2010
204	Corrective Services NSW	*Home Detention*	8 September 2010
203	Australian Museum	*Knowing the Collections*	1 September 2010
202	Industry & Investment NSW Homebush Motor Racing Authority Events NSW	*Government Investment in V8 Supercar Races at Sydney Olympic Park*	23 June 2010

No	Agency or Issues Examined	Title of performance Audit Report or Publication	Date Tabled in Parliament or Published
201	Department of Premier and Cabinet	*Severance Payments to Special Temporary Employees*	16 June 2010
200	Department of Human Services - Ageing, Disability and Home Care	*Access to Overnight Centre-Based Disability Respite*	5 May 2010
199	Department of Premier and Cabinet NSW Treasury WorkCover NSW	*Injury Management in the NSW Public Sector*	31 March 2010
198	NSW Transport and Infrastructure	*Improving the performance of Metropolitan Bus Services*	10 March 2010
197	Roads and Traffic Authority of NSW	*Improving Road Safety: School Zones*	25 February 2010
196	NSW Commission for Children and Young People	*Working with Children Check*	24 February 2010
195	NSW Police Force NSW Department of Health	*Managing Forensic Analysis – Fingerprints and DNA*	10 February 2010
194	Department of Premier and Cabinet Department of Services, Technology and Administration NSW Treasury	*Government Advertising*	10 December 2009
193	Roads and Traffic Authority of NSW	*Handback of the M4 Tollway*	27 October 2009
192	Department of Services, Technology and Administration	*Government Licensing Project*	7 October 2009
191	Land and Property Management Authority Maritime Authority of NSW	*Administering Domestic Waterfront Tenancies*	23 September 2009
190	Department of Environment, Climate Change and Water NSW Environmental Trust	*Environmental Grants Administration*	26 August 2009
189	NSW Attorney General's Department NSW Department of Health NSW Police Force	*Helping Aboriginal Defendants through MERIT*	5 August 2009
187	Roads and Traffic Authority of NSW	*Improving Road Safety – Heavy Vehicles*	13 May 2009
186	Grants	*Grants Administration*	6 May 2009
185	Forests NSW	*Sustaining Native Forest Operations*	29 April 2009
184	NSW Police Force	*Managing Injured Police*	10 December 2008
183	Department of Education and Training	*Improving Literacy and Numeracy in NSW Public Schools*	22 October 2008
182	Department of Health	*Delivering Health Care out of Hospitals*	24 September 2008

Performance audits on our website

A list of performance audits tabled or published since March 1997, as well as those currently in progress, can be found on our website www.audit.nsw.gov.au.

Our vision

To make the people of New South Wales proud of the work we do.

Our mission

To perform high quality independent audits of government in New South Wales.

Our values

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

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

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

Professional people with purpose
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