

LEGISLATIVE COUNCIL

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

Thursday 6 December 2012

MEMBERS

Mrs Armitage
Ms Forrest (Deputy Chair)
Dr Goodwin
Mr Hall
Mr Harriss (Chair)
Mr Valentine
Mr Wilkinson

IN ATTENDANCE

Mr David O'Byrne, Minister for Infrastructure

Ministerial Office

Ms Janine Arnold, Adviser
Mr Josh Bradshaw, Head of Office

Tasmanian Railway Pty Ltd

Mr Robert Annells, Executive Chairperson
Mr Damien White, Chief Executive Officer
Mr Steven Dietrich, CFO/Company Secretary
Ms Jennifer Jarvis, General Manager, Corporate Services

The committee resumed at 11.05 a.m.

CHAIR (Mr Harriss) - We declare this hearing officially open. Minister, we offer you the opportunity to make some opening comments and give us the good news.

Mr O'BYRNE - Thank you. As the committee is only too aware, it has been a few years since the government took the important decision to buy back the state's railway and invest in its potential and future. Working together with the Australian government, by 2016 we will have collectively invested \$424 million into the rail recovery plan. That has enabled TasRail to start focusing on transitioning towards a revitalisation of rail in Tasmania. We made that decision because we recognised the value of rail. We understand that many of our major industries and thousands of Tasmanians who rely on these businesses for their employment depend on rail as a critical transport link to connect their products to local, national and global markets. We also understand how access to a safe, efficient, reliable and sustainable rail link can help to facilitate economic development, underpin new investment, create employment and generate wealth.

Only last Saturday TasRail marked its third anniversary. Considering the neglected state of the rail business it inherited on 1 December 2009, characterised by its deteriorated infrastructure, life-expired assets and consequent rapid decline in market share, I am encouraged by how this has changed in just a few short years.

As minister with portfolio responsibility for TasRail I know how much has been achieved and I also know how much more there is to do. I am sure this topic will be discussed as part of today's proceedings, however it is worth reflecting on some of the changed highlights.

There has been a noticeable and substantial improvement in track condition and safety as evidenced by the lowest numbers of main line derailments in many decades and continuously improving levels of reliability. The impending arrival of the new locomotive and wagon fleet is now a reality and these new assets will start arriving by the end of 2013. There is a growing confidence in, and appetite for, rail freight services perhaps best demonstrated by the introduction of new services, the attraction of new volumes and the very real prospect of new opportunities. There is active engagement by TasRail with its stakeholders and there has been a new collaborative and strategic approach to planning road, rail and port infrastructure, whether that be looking into the future or resolving issues and constraints that exist today.

I am encouraged by the open and cooperative way that the company is working with its community to promote rail safety and this has already translated into a reduction in the number of level-crossing incidents. We have also seen a refreshing and open approach to working with tourist and heritage rail operators and, for the first time in many years, Tasmania is recruiting and training train drivers and other key people.

These have been significant changes for the state's rail network and it has been a very successful endeavour. Building a safe, reliable and economically efficient asset for Tasmania it would not have been possible without the leadership and expertise of the chairman of the board, Bob Annells and CEO Damien White. I would like to record my thanks to them as well as their leadership team and all TasRail employees who have worked really hard over the last three years in achieving these outcomes for the state.

As expected, now is the time for you to talk constructively about the future of rail in Tasmania.

CHAIR - Thanks, minister.

The annual report talks about the above-rail loss for the year of \$1.1 million or thereabouts as opposed to a modest operating profit last year. You have indicated the major reason is the reduced intermodal volumes. Can you give us some more detail around that, please? If another operator were operating the above rail, what would be the charge you would provide to them for that opportunity?

Mr O'BYRNE - There are two questions there, Bob.

Mr ANNELLS - It needs to be recognised that in the 2011-12 financial year a lot of the very difficult circumstances that the world economy has been going through came home to roost in a trickle-down effect for many of our customers, and we are not immune to that. As a consequence TasRail is not immune to some fluctuation in volumes. Strangely, our overall tonnage is up, but that is largely driven by an increase in our bulk-freight business. The intermodal business has been a little patchy. In part that has been driven by some fluctuations in zinc demand for us to cart to Burnie. That is something over which we have absolutely no control. Nor does Toll, which has the contract, have any control. It's a Nyrstar issue.

[11.15 a.m.]

When we look at this result we are quite heartened because in looking forward the board felt that 2011-12 could have been a much tougher year than it turned out to be. We were getting messages from our key customers that they were quite concerned about how tough market conditions were for many of their products.

I think it was quite a good result. It was kept to that level of loss by some very good cost control through management. It was something the board identified very early on. It is not where we want to be; we had hoped to build on last year's modest profit.

Your second question was that if a second operator -

CHAIR - Another operator.

Mr O'BYRNE - Are you saying the state would only buy rail and we would lease?

CHAIR - It is the economic equation, minister. You have made a loss and if it were somebody else you would have to up your charges to them.

Mr ANNELLS - As has been demonstrated in the past, if there is a consistent pattern of loss there is a complete lack of investment into maintenance and other things. I suspect that if someone else had been in our position, they probably would have cut back on maintenance and other issues of that nature. That is highly undesirable. It would have had us at the start of the slippery slide, back to where we have come from.

The issue for us with another operator or somebody taking over the above rail is the question of a track-access charge. What would we, as the owner of the below-rail asset, charge somebody to run the service above rail? That is a highly regulated process. It is a process we are reviewing ourselves. We have a track-access charge now, set by DIER when we were established, and our below-rail business charges that to the above-rail business. There is a \$2.8 million track-access charge from above rail paid to below rail. That calculation is extraordinarily complicated and seems to be a bit of a black art, from what I can see. The board has asked management to review that with a view to ensuring that we are meeting all of our statutory and other obligations in

relation to that quantum, just internally, so that our above-rail business will pay the appropriate level.

CHAIR - You have made that loss and if it were another operator, the only two options they would have had would be to reduce their spend or increase their charges. Is there likely to be an unreasonable hike in charges for the coming year to help mitigate where you are currently? Also, has the capital spend made a difference to your financial operation?

Mr ANNELLS - Our charges for all our customers are set by quite long-term contracts. We do not have the capacity, nor, I might say, the inclination to impose significant increases in those charges. We are always looking to maximise our income but we have to do that consistent with the fact that most of our business is contestable by road freight. Therefore if we started to increase our charges you would simply see a flight of freight from rail back on the road. We are seeing the opposite happening and we are very keen to make that happen.

Mr O'BYRNE - Within the private sector, if there is a profit you need to return it to a private company or you return a dividend to the shareholders. The shareholders of TasRail are the people of Tasmania. Our view is that we need to get this back up and running and we will not seek dividends or gouge money out of it. The government has a broader responsibility for economic development in the state. Having intermodal freight options is crucial for efficiency of freight logistics in Tasmania. That is why both tiers of government invested heavily. Given the size of the market and where rail is at, it will be a courageous government that looks at a private operator for above-rail activities because the consequences would be significant, not only for the broader economy but for the state of the rail.

Mr ANNELLS - The answer to the second part of that question is yes, we are seeing some benefits flowing to our bottom line as a result of the investment in the track. We are probably a full year and maybe even a year-and-a-half away from further investment before we see the full benefits of that. The investment below rail has been 'firefighting' - we have been dealing with the worst problems on the track. We are now starting to move beyond that; we have a comprehensive program of concrete-sleeper replacement. That enables us now to see, and we will see, improvements in maintenance on rolling stock et cetera. However, the equally large benefit of the investment that has been made will be in the new rolling stock. In new rolling stock you will start to see the significant benefits of the reduction in maintenance, improved running times and better reliability. All those sorts of things will start to flow not in the next financial year but in the financial year thereafter when we have the bulk of our new rolling stock in place.

Mrs ARMITAGE - I want to talk about above rail. How many rail movements would you have per week compared with last year? Have they increased?

Mr O'BYRNE - We have increased from 114 to 140 rail services.

Mr WHITE - There was a reduction in volume last year on some of the lines, but we have compensated on other lines; we have started up services between Burnie and Launceston, and more recently in Launceston and Hobart. There has been an increase in the number of services operating.

Mrs ARMITAGE - How many road truck movements would you say that compares to?

Mr WHITE - We have done some very conservative estimates and it is at least 100 000 B-double movements.

Mrs ARMITAGE - That is quite significant.

Mr WHITE - Yes.

Mr O'BYRNE - You could see the impact on the Midland Highway back in 2009 when the derailment occurred where all the heavy freight moved to road. The Midland Highway is still recovering from that.

Mrs ARMITAGE - Can you give us a breakdown of the movements between the different areas - Launceston to Hobart, Fingal line, north-west to Launceston, Burnie to Launceston?

Mr ANNELLS - I can give that to you.

Mr O'BYRNE - We had 115 train services per week, now it is 140; between Railton and Devonport there are 84 services per week; on the Melba line to Burnie - the west coast line, 22 services per week; Hobart to Burnie, seven services per week; Burnie to Hobart, seven services per week; Boyer to Burnie, six services per week; Burnie back to Boyer, six services per week; Launceston to Burnie, five services per week, and there is an adjunct there to the Hobart-Burnie service; Launceston to Hobart, four per week; and Hobart to Launceston, four services per week - that is, for Hobart to Launceston and Launceston to Hobart there are four each way.

Mr WILKINSON - One of the questions which flows from what Paul was saying - and it is a question that you might think is a bit off-beam - is that there is a recognition that the lack of international shipping is having an effect on the agricultural sector but is it also having an effect on your business? People would say you can get the products up to Burnie or wherever, but you do not have the international shipping regularity to get it where it should go at the appropriate time.

Mr O'BYRNE - There are couple of questions in that. There are a couple of issues around international freight. There is the change in international shipping moving to larger volumes and the hub-and-spokes model and smaller ports, and areas or regions with smaller volumes or a mismatch in volumes are feeling that. If you talk to some of the freight logistics economists, they are saying that New Zealand as a country will be confronting this relatively soon and they will have their products shipped through Brisbane and Sydney before they go international. The issue for Tasmania is that for nine months of the year we have very strong northbound freight volumes and for the other three months it drops off. You mentioned the agricultural products and, unfortunately, given the size of our economy, we have quite sluggish southbound imports for virtually the majority of the year, apart from around the Christmas season. The issue is relatively off-island; we have rail to all three ports. In Devonport there is the cement from Railton into the western side of the Mersey. We have rail links to Bell Bay and Burnie. Ultimately, the freight forwarders will determine where they want to move their product in and out of and that is not only connected on the island but is also in Bass Strait and on the water.

Mr WILKINSON - Is that an impediment to getting the business you want?

Mr ANNELLS - Like many things in this business, the answer is both yes and no. On the one hand, clearly there was a long period of adjustment when international services ceased at Bell

Bay. We had just reintroduced a Bell Bay service and then this announcement was made. That creates two big issues for us. One is far more freight going through Burnie; freight that otherwise would have gone out through Bell Bay is now going through Burnie. That has created some real challenges for Toll and us in the development of the Burnie wharf and a terminal on adjacent land, but I think we are over that problem and we have found a solution. That has been a good piece of collaborative work with Tasports and Toll. We are looking at establishing a Bell Bay-Burnie service for those industries at Bell Bay that have been particularly hard-hit by the inability to move their containerised produce straight out of Bell Bay. We still have some work to do there on terminal arrangements at George Town, but we are well down the track on that.

As the minister said, it is largely out of our control. We aim to get Burnie operating as a very efficient rail-port interchange. We need to do that for two reasons: one is because of the increased throughput as a result of the international shipping changes, and the second is to pick up the benefits coming out of the Brighton hub. There is no point having that very significant loading facility at one end and a substandard facility at the other. We are very close to nailing that. We have done stage 1 of the Burnie redevelopment that will also enable us to get our train off the Burnie wharf. For the people who stay regularly at the Voyager hotel we will not be shunting past their window at 4 o'clock in the morning.

Mr O'BYRNE - Another issue around Bell Bay is we had two triggers. First, two larger clients moved to Toll; they moved away from exporting through Bell Bay and moved to Burnie. That made the international line become a bit more problematic for the AAA consortium and then they made that decision. We had a domestic crowd by the name of Agility take over and they were shipping through Melbourne but then they had enormous difficulties getting a permanent dock presence at Webb Dock within Melbourne Ports. A part of the market moved which moved volumes, the AAA moved out, Agility tried to ship it through Melbourne but fell over through no fault of Tasmanian exporters; they just could not sort themselves out through Melbourne Ports. It was almost like a staged approach which made it quite difficult to adapt and get certainty for a lot of our exporters.

Mr WILKINSON - Is it going to be a case where, so far as the north of the state is concerned, the major hub for rail and port is going to be at Burnie?

Mr O'BYRNE - That will be where a lot of the volumes will go because Toll and its clients have chosen, over a number of years, to invest in infrastructure at the Burnie Port. It can provide options on road, rail and sea which create efficiencies for some of our exporters.

Bell Bay is still a very busy port. We still have the rail to there and there will be over 175 port calls into Bell Bay this year so when the global financial circumstances start to pick up there will be increased volumes and potentially Bell Bay will come back on, depending on whether rail will attract an international shipper. It will happen, and from a rail perspective our role is to get it to the areas where industry need it. At the moment the vast majority of volumes are going through Burnie.

Mr WILKINSON - At the moment it takes about 12 hours to get from Norske Skog to Burnie. Is there going to be any improvement on that?

Mr O'BYRNE - Norske Skog is not time-sensitive freight. A lot of our time-sensitive freight goes either by air or in refrigerated trucks that usually roll-on and roll-off at TT-Line. A

lot of the time-sensitive stuff is dealt with otherwise. A lot of the Norske stuff is not necessarily time-sensitive; we need to get it from the plant to the boat within time for filling up.

Mr WILKINSON - It is still a 12-hour trip.

Mr O'BYRNE - Can we talk about some of the infrastructure spend to improve the rail? The rail was in an awful state so I can get Damien to elaborate on that.

Mr WHITE - When we commenced operations at Brighton the transit time had reduced with the culmination of reduced distance and the track condition improving over time. We have done an extensive amount of work on studying freight patterns, over the last couple of years in particular, talking to customers and having people photographing trucks throughout the middle of the night and doing a very comprehensive freight survey - truck spotters.

Laughter.

Mr WHITE - We have come to the conclusion that no more than about 20 to 25 per cent of the freight that comes into Burnie on the ships in the morning is that day's freight in Hobart. Therefore it can - and this is the work that we are doing with Toll and others - consolidate all that loading into Burnie, run a train, as long as it is down there by 5 a.m. the next morning and able to get out to customers by 6 a.m. or 7 a.m.

There is a bit of a fallacy in rail-world thinking that we need to compete, head-to-head, with road on transit times. That is not the case.

Ms FORREST - On the Burnie Port, who is paying for all the upgrades? There is more than a rail upgrade going on so is it just the rail component that TasRail has to fund?

Mr O'BYRNE - There are three components. It is the Toll section of the north ferry and it is the TasRail and Tasports interface. We have an \$8 million project put down. We have \$4 million allocated from the federal government in relation to the \$20 million package as a transition package and that improves productivity and the other \$4 million - it is two and two -

Mr ANNELLS - A sum of \$2 million is coming out of George Town and \$2 million we are providing.

Mr O'BYRNE - So \$2 million from TasRail and \$2 million from Toll - there was an allocation, federally, from Toll.

Ms FORREST - So Toll contributed \$2 million?

Mr O'BYRNE - Toll will contribute, yes. I need to finalise those arrangements.

Mr WHITE - We are in the midst of finalising an MOU between ourselves, Tasports and Toll, but \$2 million is the expected commitment from Toll.

Ms FORREST - When do you expect the work to be completed?

Mr WHITE - We are waiting on a finalised plan which will have all that detail. Once the plans and the development approvals are finalised we will be in the middle of winter and I doubt we will start work then. I am expecting, say, mid-2014.

Ms FORREST - Once the work is complete will there be no shunting along North Terrace?

Mr WHITE - That is along the beachfront?

Ms FORREST - Yes.

Mr WHITE - That is the expectation, yes.

Mr O'BYRNE - It will also enable - very similar to the hub - a much longer span of rail so that Toll can take off and, instead of breaking up the full length of the train, you can keep it as intact as possible to create greater efficiencies.

Ms FORREST - We are hoping that Venture Minerals might get up and train their ore. Is the capacity there to deal with that should no others fall off?

Mr O'BYRNE - Into the port?

Ms FORREST - Yes, on rail and into the port.

Mr O'BYRNE - Negotiations between TasRail and Tasports are not just about making greater efficiencies for Toll but also understanding that there is a future capacity and from the west coast, with some mines hopefully getting up and running, there will be extra volumes. That has been considered in the planning at Burnie, as it has with Bell Bay, looking at the hard rock coal opportunity in the Fingal Valley.

Mr HALL - The Auditor-General noted in his report that government funding eliminates the need for the company to borrow to fund its capital projects. You have identified that there may be a funding gap between the capital expenditure programs coming up and you might have to seek external funding. The question is where would you get that external funding from and how much capacity has TasRail to take on additional borrowings?

Mr O'BYRNE - Are you talking about the Nation Building 2, the next phase with the MOU with the Australian Government, or are you talking about within our current budget?

Mr HALL - Within your current budget.

Mr ANNELLS - At this point we have no borrowings but we will need to access some relatively short-term, bridging-finance type borrowings because there is a gap between our funding obligations for our new rolling stock and the flow of funds from the state via the Transend arrangement. We have an agreement in place with Tascorp with a credit facility of \$40 million. We only need that for a year or two and then quite quickly it goes to nothing. That is a funding shortfall purely in relation to a bit of a mismatch between the purchase and our obligations to pay our suppliers with the flow of funds via the state support. That is not a big deal for us; we can cover that with Tascorp.

Mr O'BYRNE - The nature of big jobs is they come in spikes, and in terms of our cash flow we are pretty even across the forward estimates, so it gives us the capacity to deal with the peaks in terms of the big expenses, getting the locos, et cetera. So it is more of a cash flow issue but the funds have been consistent.

Mr HALL - Are you confident, minister, aside from those temporary arrangements that Bob talked about with Tascorp, that there will be sufficient inflow, or capacity for the state and federal governments, to provide the cash required for the future?

Mr O'BYRNE - We have commitments in the forward estimates at a state level and we have the MOU with the federal government which finishes in 2013-14, so until that point we have a Nation Building 2 submission in for \$240 million which is the next phase of the rail recovery and all indications are that the federal government has viewed Nation Building 1 and the railway recovery program as a key part of Tasmania's infrastructure strategy. We are hopeful that those negotiations will conclude well and we will get the next tranche.

Mr HALL - Could you also provide for the committee an updated summary of the total amount of state and federal funding that has been received to date and is still to be received?

Mr O'BYRNE - To date it is \$262.39 million and this includes \$129.2 million for Australian Government capital expenditure, which is the below-rail rescue program. It is \$42.6 million of start-up funds; \$57.22 million for state government capital expenditure; \$33.37 million for state government operating grant for below-rail maintenance, similar to the roads. In forward commitments we have \$219.1 million: \$61.7 million will be a state government operating grant for below-rail maintenance to 2015-16; \$81.3 million for state government capital expenditure; and \$76.1 million for Australian Government capital expenditure. The total funding commitment from the Tasmanian government for capital expenditure is \$138.5 million over the seven-year period. The total funding commitment from the Australian Government for below-rail capital expenditure is \$205.3 million to 30 June 2014. We have a \$240 million bid in with Nation Building 2 for the next tranche.

Mr HALL - Can you provide any details about the lease signed with DIER to be the operator of the Brighton transport hub?

Mr O'BYRNE - We signed that off on in June 2011. What details do you want?

Mr HALL - The details of the term and the value of the lease.

Mr ANNELLS - There are two leases that run in parallel with each other between TasRail and DIER. The site is split into two sections. I will table a map, otherwise it is hard to explain. There are two components. There is what we call the 'terminal' and this comprises all the land within the yellow lines on the map. The sandy coloured area is what we call the 'hard stand', which is the area that has an axle loading of 100 tonnes - there are more than 1 million Besser block bricks in it. It is on concrete and is your classic terminal for the storage and loading of containers. On either side of this there are rail lines that run all through there. This is a classic terminal and associated with it are our offices and locomotive workshop. We have a lease of that from DIER for 50 years at a peppercorn rental but we have to take on the management responsibility and costs of managing that facility.

The second part of this development is the area outlined in green and blue on the map, which is one big area. It has some improvements in it in the sense there is some drainage and gravel compacting, but it is an open area. It has access onto the road and, most importantly, it has direct access onto the rail line which enables loading from the area straight onto our trains. That is called the 'warehouse zone'. We have a separate lease with DIER for that for 50 years at a peppercorn rent. They are kept separate because the intent is that we will sublet areas within here, but we will not sublet within here. So we have to have a different set of rules between ourselves and DIER. That is why they are in two separate components. Even though this little bit here is contiguous with the terminal zone, you cannot physically get there because there is a bank here, so we have leased that as well from DIER on the same terms. It is part of the warehouse zone and its overflow. The purpose of that is to ensure that we do not have people wanting to do things on here that are not specific to the activity going on here and that we can locate them up here if necessary.

Dr GOODWIN - All the loading happens from the warehouse?

Mr ANNELLS - No, a lot of loading will happen as it does on a classic terminal. Trucks will deliver onto here, they will deposit here, they will be loaded directly from a train either side, trains will come in, we will unload onto here and trucks will come in and take them out.

The advantage of this design is that anybody who subleases from us here has the opportunity to load both sides. They can take their goods straight across here or when the train is not there they can dump it here and load back this way or that way, or they can load directly from their site.

Mr VALENTINE - What is the latest on when you expect to operate off this?

Mr ANNELLS - The process of our taking possession of the site has been long and difficult, largely due to issues of getting rail safety accreditation, just because of all the new rail and signalling and a whole range of stuff that has gone on in here. That has come through and in the last six weeks or so, we have had the opportunity to run trains in there. We have not done so yet because we have had nothing to pick up and deliver. The terminal zone lease to us was formally triggered by the getting of rail safety accreditation. We have only had that for the last several weeks. The warehouse zone only comes to TasRail when we have a sublease in place. At the moment it still sits with DIER. We have been negotiating the use of the warehouse zone. The primary company we are trying to relocate here is Toll and we have been negotiating with Toll for quite some time. It is character building.

Laughter.

Ms FORREST - For them or you?

Mr ANNELLS - Far more for me than for them, unfortunately.

It is complex because we have a very unusual requirement here, which Toll, Australia-wide, has not found before. We require them, as a consequence of entering into the lease, to build a substantial development on the site. We will not allow them to land bank. It is not a matter of doing some deal on a sublease and being able to do what they will. We have a specific requirement that they spend a very considerable amount of money in order to obtain the sublease. That has been a real issue. In contrast to their current arrangement at Evans Street where they pay a reasonable rent and they have no capital invested. All of those improvements are crown

improvements. From their point of view they would be perfectly happy to stay at Evans Street. We have not exactly started from a strong negotiating position but we have got to a certain point. We tried very hard to have this concluded by today. There are a couple of issues that are still loose, but I hope we will tie them up in the next 24 hours or thereabouts.

Mr HALL - Outside of Toll, are there possibilities for other tenants?

Mr ANNELLS - We have been running a parallel conversation with SeaRoad, but to nowhere near the intensity of Toll, mainly because SeaRoad does not use rail. It is important to understand that when the government built this facility it was very much a road/road interchange as well as a road/rail interchange. We tend to dominate it because you go out there and you see all the rail lines and you see our locomotive building and we are the manager. The reality is that road/road interface is just as legitimate as road/rail.

We have been talking to SeaRoad. SeaRoad has indicated that it does not currently have any desire to move. It has alternatives with other infrastructure it owns in Glenorchy. We are working very hard to establish a Devonport/Hobart rail service that works for SeaRoad. If that were to work for SeaRoad then we have some indication that it would place some freight on rail. It is made more difficult by the fact that the rail terminal in Devonport is on the other side of the river from where the ships come in, which is a small technical difficulty.

Laughter.

Ms FORREST - Minor point.

Mr ANNELLS - Yes, but we think we can get over that at a cost.

Mr O'BYRNE - The issue for Toll and the other potential sub-lessees is that this is a significant capital expenditure for them, given the size of their operations in Tasmania, and the current economic environment.

In terms of the other negotiators, this is a generational investment and companies have a life cycle for infrastructure - at various points they make a choice about whether they refurbish their existing facilities, or move to new, more efficient, more productive premises. Over the coming years, we will have opportunities for a whole range of freight forwarders and logistic companies who might have spent money on infrastructure 10 to 15 years ago, and it is still currently fit for purpose. In five years their circumstances may have changed and a new greenfield site, which can be leased in a road/road, road/rail intermodal hub, could be much more viable.

This is about thinking, over the next 20 to 30 years, about how we can populate this space.

Mr HALL - Just to be clear, will the same parameters apply to all tenants in regard to the fact that they will not be able to land bank - they will have to build? Will any tenant that comes there have to put in their own infrastructure?

Mr ANNELLS - Absolutely. I will elaborate on what the minister said. One of the difficulties is that people look at the investment in facilities like this and say that success is only measured if you can fill it up quickly. With respect, that is not the way to look at this. This is an investment. If SeaRoad wants to go there, of course we would deal with them. If they decide they do not want to go there in the short-term, for their own company reasons, you would not

want to shut that opportunity down unnecessarily. The real test of success will be what this looks like in 10 to 15 years - is it really working the way the designers meant it to work? If that happens, then the investment will be worthwhile. I think we are very close to having the first building block on that place.

Mr O'BYRNE - There is not a lot of product coming into the Hobart port, but that is where the rail end point is. You have a lot of truck movements south of Risdon Road, down into the Hobart port wharf area, and moving around. The hub is not just about making sure we can remove traffic from that part of the Brooker, it is also about reducing pressure on the wharf area and the central part of Hobart.

Also we have the other big opportunity, which is the Macquarie Point railyards redevelopment. There are a number of opportunities for us to drive safety on the road by getting a lot of the intermodal stuff to the northern area, but there is also the opportunity presented by the redevelopment of the rail yards.

Mr VALENTINE - I have a couple of questions. When you move the main facility out to Brighton, you are going to have a rail line running along the river that can be used for tourism or possibly even light rail, which might be being considered at the moment. What is the future in terms of government commitment to maintaining that line?

Mr O'BYRNE - Once Brighton is up and running, the line will be kept open. We are not going to pull the rail up and we are not going to pull it apart. The line will be kept intact, with a low level of care and maintenance, until the federal government makes a decision about light rail. Then it will be a matter for the federal government to provide the funding and the management operation. It will be a non-operational line.

Mr VALENTINE - There is talk of tourist trains going from the cruise ships up to Redlands, for example.

Mr O'BYRNE - As part of my opening statement I talked about the relationship we have established with Heritage Rail. We have sat down with them and worked through some of the issues we have. In fact, Damien has been leading the negotiations with the Heritage Rail group - would you like to speak on that, Damien?

Mr WHITE - As the minister said, once operations start up at Brighton, it will become a non-operational line, but we are not going to pull up the tracks. We currently have non-operational lines out to Scottsdale and Wiltshire so it will be a similar situation to those, pending a need. If there is a need from a heritage tourist operation, for instance, we would sit down with them and with government and work out how we could make that happen. Currently, our ability to do this is quite problematic because of our internal insurance and accreditation obligations. They are not insignificant issues, but the line will remain while there is a need.

Mr O'BYRNE - Some of the bigger issues we have to confront relate to safety. Rail safety is very important, so heritage operators need to get rail safety certification and accreditation. The issue with that line is that it has a high number of road and rail crossings which need to be taken into consideration. I have just been informed there are 23 in that section. We have seen, across the state, people disregarding the bells and whistles and disregarding all the signs and putting themselves and our train drivers in some pretty awful situations by flouting the law. When you have a heritage service, which is not necessarily regular, it creates a change in the environment,

and there will be some safety concerns. We have to make sure all those things are resolved before we move to that point. Again, we think it is a wonderful opportunity, but we want to do it safely.

Mr VALENTINE - That leads to the Bridgewater bridge situation. There is a commitment that the bridge will remain open as a line across the river?

Mr O'BYRNE - We have the current bridge facility and we are working on the final design. We sought money in Nation Building 2 to get the final design for a new Bridgewater bridge but -

Mr VALENTINE - That does not incorporate rail, though, does it?

Mr O'BYRNE - No, but you have the existing line there with the existing bridge. If you remove the volumes of traffic on the existing bridge it will become a local road. At this stage there will be care and maintenance of the line, and it will still be there until there is a need and until the safety issues are resolved.

Mr VALENTINE - The rail can still be used?

Mr O'BYRNE - Yes.

Mr VALENTINE - My next question is on depreciation, Mr Chairman. I do not know whether you want to deal with this impairment at this time.

CHAIR - We will come back to that.

Dr GOODWIN - When is the hub expected to be fully operational? Is there a definite time line for it?

Mr O'BYRNE - We have to conclude negotiations with Toll and we are very close to that. Once we finalise that, it will not only be about occupation, but about haulage, which will be a big thing for us. Once that is concluded we can start negotiations on them moving from Evans Street in the new year. They have to build their sheds. They have already been in extensive discussions with the Brighton Council about the kind of capex they are looking at. I am reliably informed by the local mayor that approval should not be a problem; he is very keen for it to be built. Once we get the planning approvals, Toll can build its facilities. That will take a few months; we are hopeful that maybe in the second half of next year. Am I being optimistic there?

Mr ANNELLS - No. It is a big development but it is relatively straightforward. It is a very large shed but the biggest issues for Toll are probably the compaction and the hard-stand development on their side of the railway line. That has to match up with the load-bearing capacity on our side, which is 100 tonnes. I would hope by the end of the coming year we are effectively operating for Toll out there. That does not mean in the interim we will not be able to look at running some trains there and utilising the truck delivered onto the hard stand. There are some complexities to do with lifting capacity when the train arrives to lift the boxes on and off. These big forklifts are very expensive at three-quarters of a million dollars each, so you do not want them sitting around with relatively little work. We are trying to dovetail all that to get the most cost-effective use of equipment. We are as anxious as anybody to get out there. We talk about this 24-hour turnaround at Burnie. It is not quite the Holy Grail it is held out to be, but it is still important aspirationally and this helps us get there.

Dr GOODWIN - With the hard stand and the access, I can see how there is going to be access to both sides but what about on the other side?

Mr ANNELLS - No - this is the property boundary here and these are the rail lines on this side and there are runaround lines to enable us to take our locomotives around and back - this is a dead end in the rail line. All this area through here is classified as access roads but there is quite a lot of non-hard stand that is still good storage area between the rail lines in the north end of the site for logs and such. The loading will occur from here both ways, and from there that way.

Mr WHITE - Also, for people who do not reside there, they will come in and be directed wherever they need to go to be loaded onto the train and then back out again.

Dr GOODWIN - The other question I have is around the Infrastructure Australia spending. I am trying to work out whether this latest round of funding you have requested will then complete the picture, or is there still a lot more work to be done? It seems like a lot of money has already been spent and still needs to be spent, so at what point will things look good?

Mr O'BYRNE - There will always be an element of maintenance and capex on rail. With the next memorandum of understanding with the commonwealth we are hoping to bring below-rail up to scratch. From that moment on, it is a general operating business. We believe the \$240 million will get us to the point of below-rail in our existing lines, and if there are other opportunities that come up that is where we have the discussion.

Dr GOODWIN - So that will bring it up to scratch, at which point you would hope your above-rail is going to be working as well as it can because the below-rail infrastructure is up to scratch. Is that the way it works in terms of the time lines?

Mr ANNELLS - Yes, the next request through Infrastructure Australia - which we call Nation Building 2, but I am sure it will have some other title put to it by the commonwealth - will achieve several things. One is it will enable us to substantially enhance our concrete sleeper program and that is central to getting the north-south line in particular to an acceptable standard. It also enables us to do serious work on the west coast Melba line, and on the Fingal line, and even on the Bell Bay line.

The current round of funding provided only relatively small amounts of money for those lines and we are very anxious that this next tranche of funding enables us to upgrade those lines. Coincidentally, of the two most prospective pieces of new business that we have, one requires the Fingal-Bell Bay line to be upgraded for coal exporting out of Fingal and a dramatic increase in the number of tonnes. The second, and that is the Venture proposal, uses the Melba line. There are others as well. There are a number of other mining proposals on the west coast that we would like to service. I understand that it seems like a lot of money and people are saying it is a bottomless pit but I can reasonably say that, if it were not for this money, things like Venture and Fingal would be off the table.

Dr GOODWIN - In that sense the next round of funding is quite critical but we might be getting to the bottom of the pit in terms of bringing it up to scratch.

Mr ANNELLS - Absolutely. We will be well approaching the top of the hump by the time we finish this round of funding. The next round of funding allows us to get over and start making

some serious long-term improvements. I would not say that there would not be some more requests, but not in this order of magnitude at all.

Mr O'BYRNE - If you get the Fingal line up and running and the Melba line working to full capacity, that creates a pretty good income stream for the company to build a sustainable business model. That is the question: how much is it going to take and are we going to have a sustainable business at the end? Even the indications in the first couple of years have been that external impacts have had an effect on our volumes but the volumes are increasing, as are the relationships and the reliability. It looks well above rail as a good solid business; we just have to get the capital expenditure done, the maintenance done up to scratch and the business is looking pretty good.

Dr GOODWIN - I appreciate that it is all interconnected because you have the issue of reliability and you have to have the below-rail up to scratch. Is there light at the end of the tunnel?

Mr O'BYRNE - Which tunnel? We have a few of them.

Laughter.

Mr VALENTINE - There has been a bit of stress with the deficit. It seems to have gone up by another \$9.8 million over and above last year's loss. Can you give us an idea as to why that is the case? I also want to ask a question about the depreciation policy.

Mr ANNELLS - If I could address this issue of impairment. It is a seriously hairy chestnut which has been beaten to death.

Mr VALENTINE - This is the \$31.7 million?

Mr ANNELLS - Yes. Treasury determined - I am sure on an appropriate basis - that contributions to TasRail from the commonwealth government under Nation Building 1 would be treated as an equity injection. We therefore cannot take it in as income under the accounting rules because the money is being spent on assets that have no ready saleable value, we have to impair them 100 per cent.

Mr VALENTINE - That is a grant of \$31 million.

Mr ANNELLS - That was the amount we spent from that source in that year and next year it will be higher and people say, 'Are you unhappy about this?' and the answer is 'no'. What it means is that we are continuing to get some substantial commonwealth funding into our rail as grants. What we have to account for is equity and we therefore have to inherit and that gives us these awful bottom line outcomes.

It is not a cash outcome. It is an accounting outcome.

Mr VALENTINE - It is a paper outcome.

Mr ANNELLS - It is a paper outcome in accordance with some standards developed by people who ought to get a life.

Laughter.

Mr VALENTINE - That is for infrastructure as opposed to rolling stock. I was looking at the depreciation on rolling stock and at the level of investment in the stock. It is \$17 million or whatever, and your depreciation is \$3 million, so that depreciation is about 18 per cent of your holding. How do you deal with depreciation in terms of the life of your units, your rolling stock? Do you do this in real time? When you have a failure do you update the total life of your holding of your stock?

Mr O'BYRNE - It is important that I introduce Steven Dietrich at this time, the chief financial officer.

Mr DIETRICH - In terms of depreciation, based on when TasRail was acquired, we took a view on existing assets that we created and accelerated depreciation because all our existing assets only have a life of up to five years. In line with the new equipment, that is about to come onboard in the next couple of years.

The current depreciation is an escalated depreciation based on the current life of our existing assets so we do not have a legacy in two to three years time when we are about to -

Mr VALENTINE - That was an assessment at the time you took over the rolling stock?

Mr DIETRICH - That is correct.

Mr VALENTINE - You thought that five years was it?

Mr DIETRICH - That is correct.

Mr VALENTINE - With new stock what sort of policy will you be running?

Mr DIETRICH - We are in the process of reviewing that as we speak, in terms of potentially new stock, the depreciation treatment, what the residual value might be. We are looking at probably a depreciation of 20 to 25 years on locomotives or wagons, depending on the wagon life and the particular types of wagons.

Mr VALENTINE - As you depreciate, does this come into the impairment scenario? It might not for rolling stock but it would for fixed infrastructure, I assume.

Mr DIETRICH - The impairment is purely to do with the grant funding and with the below-rail expenditure that is being funded by the Australian Government. The rolling stock, which is being funded by the Tasmanian state government, will become a fixed asset and depreciated accordingly and will flow through the depreciation lines.

At the moment with the investment in terms of some deposits we have paid on locomotives and wagons, they are sitting in 'a work in process' and they will be capitalised in due course as the project is completed.

Mr VALENTINE - With the new stock, you will do an assessment of what its life is?

Mr DIETRICH - That is correct.

Mr VALENTINE - Then you will annually review that, perhaps, depending on failures?

Mr DIETRICH - Yes, perhaps. There is diminishing value. There are straight line depreciation methods. It will look at, for example, what Pacific National do on the mainland. Their locomotives are straight line depreciated on a 25-year basis. Dare I say, the life of our new assets will be very similar and we will evaluate that treatment. That is probably within the next 12 to 24 months or somewhere in that order.

[12.15 p.m.]

Ms FORREST - When you look at the cash flow statement, your receipts from your customers rose from \$30 million to \$39 million and the trade receivables showed little change. I am wondering why the cash receipts from customers are so high.

Mr DIETRICH - The receipts from customers rose in 2012 with a slight anomaly in the 2011 numbers due to GST amounts not reported. So with the GST funds flowing through, that was the total collections from the customers in 2012 including GST.

Ms FORREST - So it is purely GST?

Mr DIETRICH - Some of it. Correct.

Ms FORREST - If you look at note 23 on page 98, in reconciling the operating profits with the operating cash flow, it does not give any answers as to why the receipts from customers' operating profit is \$9 million less than the operating cash received from customers. Is it the same story? Are you talking about GST in that issue as well?

Mr DIETRICH - That is my understanding. I am happy to take that on notice and get back to you.

Ms FORREST - It seems to me they do not line up.

Mr WILKINSON - Can I talk to you about the wagon contract? There is some disquiet saying that it should have been given to a local company as opposed to giving the contract to a Chinese company. Can I ask the circumstances of that? What was the difference in the tender, the policy towards giving business, if possible, to Tasmanians?

Mr O'BYRNE - I will ask Damien to respond. The government's view has always been that, within the legal frameworks that we are governed by, we support Tasmanian businesses. Over the three years TasRail has been in operation, over \$90 million has been given to local companies and over 900 local companies have benefited from it. For example, \$54.2 million has been spent to 30 June of this year; 73 per cent of the total contract spend has been awarded to three Tasmanian companies, representing \$39.3 million. For example, Van Ek, a Tasmanian company, received \$28 million predominantly for the bridges and some other work. Digga Excavations, \$3.43 million and Sutcliffe Earthmoving, \$7.7 million. There has been, over the life of the company, significant spend within Tasmania but each tender is treated on its merits. The work that is up for tender needs to ensure that it is done, it has the right price, it's the right design, it is fit for the purpose that we need, and the Tasmanian government and TasRail board have been very conscious of making sure that there has been good early contractor engagement with potential contractors to explain the requirements of TasRail and getting every opportunity for Tasmanian companies to have a chance of winning those tenders.

In relation to the wagons, I may ask Damien to talk through that because there was a pretty extensive process.

Mr WHITE - I have to say from the outset, the board's, and my personal approach, was to be able to do something locally. I am from a trade background and nothing would make me happier than to be able to do it in Tasmania, and for some potential commercial reasons down the track, to be able to have a local supplier who can supply smaller numbers of wagons.

Very early, before we went to the formal tender process, we let some of the local companies know this was on the horizon - our plans in terms of the investment in providing the wagons. At that stage we did not know the total number but we thought they could have the capability to do the wagon construction and to understand what their impediments are and make sure we build that into our thinking around our procurement model. That was very useful, and at the same time suggested some procurement models they may want to think about in partnering with an established design house that has engineering expertise around railway wagons or even an offshore-based supplier to pick up that engineering and design expertise. Modern railway wagons are quite complex in design, particularly for our track and environment. We have a track network that is intolerant of poor loading and poor wagon design. One of the key issues in our procurement model with suppliers is that all design risk is with the supplier. Hence, for someone without that design expertise, we understood it would be an issue for them. We then facilitated a meeting with the Industry Capability Network and local suppliers and did a workshop. We went through that same process and asked the Industry Capability Network to facilitate feedback from the group again so we could feed it into the tender process.

Mr O'BYRNE - So the ICN is within Tasmania.

Mr WHITE - When we went to tender we made sure we were not setting something up within the tender specifications that would preclude those who wanted to be involved. I think there were eight rounds of tendering process we went through. There were three Tasmanian and a mainland supplier as well. In that first short-listing process we took out one of the Tasmanian suppliers; one of the other Tasmanian suppliers was a sub-supplier to a main proponent, which was Chinese based. The next stage was a much more formal process of understanding the design being offered for the wagon. People do not necessarily have an off-the-shelf design - some suppliers may, but not everyone will. We need also to understand what risks from our perspective are involved in dealing with each individual organisation.

So the objective was to quantify all the risks and put a dollar amount against every possible risk we are likely to encounter, from the overall design of a wagon, the construction methods, quality control processes, type of bogies being offered, brake systems being offered. We were able to put a dollar amount, an NPV amount, against all those things across the 40-year life of the vehicles. Some are quite straightforward; a container flat is relatively straightforward. There is still some complexity around bogie design and braking, but when you get to wagons such as the cement we use on the cement wagon there is some complexity around the door design. We were trying to take out all the current issues we have around product leakage and hang-up. It was quite easy for us to look at one design, do some analysis and say, 'That particular design is still going to have product hang-up or leakage', and it was easy to put a dollar amount against that and look at it over the life of the vehicle.

There were a number of steps in that second much more formal process because we then were able to finalise the wagon numbers once we had an understanding of the costs and our own business needs. We added another wagon type at that time as well, given it was quite a simple design. As everyone knows, we simply were not able to come up with an outcome that included a local supplier.

Mr WILKINSON - Tasmanian suppliers were not able to provide you with what you required?

Mr WHITE - That is right.

Mr O'BYRNE - By a significant margin. It was partly based on price but there were concerns initially around design. We have obligations with our current companies, Norske Skog for example, where we have to make sure we have appropriate locomotives and wagons to take their product. We also have to meet the demand of Fingal Valley Hardrock Coal's proposition. We want to make sure we are going to be able to meet their needs, also Venture Minerals on the west coast. The cost was more than 50 per cent and that would have meant either significantly more money going in or our saying no to a number of customers and clients and that would have had a massive knock-on effect to the Tasmanian economy. It is not a simple decision to make, there is a whole range of factors. We have to meet the needs of our customers and where we are able to, Tasmanians will always get assistance through the ICN network so they are very clear about what we need. But when the margin is so great it is not a position that we are able to meet.

Mr WILKINSON - I understand KiwiRail has some trouble with this Chinese company. Have you looked into that to see whether that was a case and whether that, in any way, is going to affect the wagons that you are going to get from them?

Mr O'BYRNE - We have heard some of those rumours and we go through a pretty extensive due diligence, making sure that any successful tenderer has the capacity not only to win the contract on price but win it on quality, which is extremely important to us. I am not sure if Damien might answer that because there has been a rumour about that.

Mr WHITE - My understanding is that it was another Chinese company, but I think there was general concern about Chinese manufacture, perhaps. My understanding was that it was Chinese-manufactured brake systems with specifically specified American-designed brake standards and systems. Generally within our organisation we have been most fortunate to recruit some people who have literally been there, done that in terms of running Chinese factories and interfacing with Chinese manufacturing companies. We are quite fortunate, certainly understand all the risks and I believe we have a plan in there that will mitigate those risks.

Mr O'BYRNE - The Chinese manufacturing industry over the last 20 years has been spending a lot of money and it is quite sophisticated. It is not some dingy, backyard job. This is a significant company providing to customers across the world with good quality. We would not go there if we thought there was a risk.

Mr VALENTINE - Have you done anything with regard to checking on the material used to build these? I know certain stainless steel products have different levels of quality. I know there probably are not too many stainless steel components in this, but there are the base materials that are being used.

Mr WHITE - There is stainless steel on the cement wagons; you are right, there are different grades of stainless steel. As I recall, we specified a German equivalent.

Mr ANNELLS - Factored into the cost differential here was an expectation that we would have highly qualified people in the factory during the construction phase, checking on every single aspect of this, particularly on weld quality which has been an issue, not with this company per se, but in other Chinese companies. That has all been factored in on an MPB basis but we still have this huge gap in cost.

Ms FORREST - What about after sales service with the maintenance and repairs; is that part of the deal?

Mr WHITE - Yes, it has a warranty.

Ms FORREST - Yes, but for how long?

Mr WHITE - There is a warranty period.

Ms FORREST - After-sales service is not necessarily part of the warranty. Can you tell us what it involves and what the warranty covers?

Mr WHITE - I will need to get back to you to tell you exactly what the warranty period is, but it does cover all manufacturing defects during that period. We were quite specific when we came up with the specifications. We told them that they knew our track, they had been told the dimensions of the wagons and the number of containers we wanted to carry, they knew the condition of the track, our operating parameters, and that they take all the design risk. That takes it away from us because we are little old TasRail, we do not want a great big engineering department to be able to manage those things.

Mr ANNELLS - But this company has a Melbourne-based, wholly owned subsidiary. The after sales warranty follow-up et cetera will be done out of Melbourne.

Mr WILKINSON - When can we expect to see them going backwards and forwards?

Mr O'BYRNE - In the second half of next year.

Mr WHITE - There will be two prototypes of each type. Again, this is to reduce that risk. Two prototypes of each type are going through type testing. Once that is all signed off they then make the remainder of the fleet.

[12.30 p.m.]

Mr WILKINSON - What is the total cost?

Mr WHITE - The capex cost and contract costs?

Mr WILKINSON - Yes.

Mr ANNELLS - There is a bit of sensitivity here. It is south of \$20 million. That is the public figure.

Mr O'BYRNE - We have to be careful.

CHAIR - That is fine. We understand that because there has been some competition.

Mr ANNELLS - Of course we expected this response and the board went to extraordinary lengths pre-tender, during the tender and then post-tender to satisfy itself, first that the Tasmanian firms had been given very opportunity, second, that the actual process was absolutely faultless, and third, when we heard some complaints after the event we sent our probity auditor back in and had a look at this process after the event and said, 'You tell us'. I received that report at the last board meeting and yes, it was a tight timetable, yes, there were some issues to do with the complexity of it but, on balance, the overwhelming response from the auditor was that this was absolutely doable and there was no problem with the process that was drawn to our attention before, during or after.

Mr O'BYRNE - We have also provided a formal debriefing to the unlucky Tasmanian company and I have met with the company as well and talked them through the process. There is some disappointment, but there is also an acknowledgement that there were pretty large gaps.

CHAIR - You have been very thorough, thank you.

Dr GOODWIN - I want to go back to the tourist and heritage rail issue and tease that out a little bit more. I think it is important to acknowledge that we have had some good feedback from stakeholders about the level of engagement with TasRail on this issue. I make the point that when I read your annual report and had a look at some of the photos in there of trains in beautiful scenery, it made me think, wouldn't it be nice if we could go down this path of more heritage and tourist rail. Looking at your annual report on page 59, you talk about some of the issues associated with tourist rail and one of them is insurance. This is for TasRail as well presumably, as the operators, the train control system and that is in progress, isn't it?

Mr ANNELLS - Yes.

Dr GOODWIN - That has been out for tender. Has that contract been awarded?

Mr ANNELLS - Yes.

Dr GOODWIN - What is the time line for that new system?

Mr ANNELLS - The train control system I expect in about 18 months. There were two key issues: one was the train control system and the other was the condition of the track, again, depending where and in what time frame we can be in a position to reassess that. It is not an insignificant issue for our insurers having passengers on the network.

Dr GOODWIN - The other issue that you mention here is commercial risks. Is that about the state of the track or is that more about if the passenger rail breaks down and stops your freight getting through?

Mr O'BYRNE - It is both of those things.

Dr GOODWIN - To what extent are you able to resolve that sort of issue, particularly the second one about if the passenger rail breaks down?

Mr O'BYRNE - With the Nation Building 2 projects, the capital expenditure below rail, that goes a fair way into making sure that the rail itself is in good nick and therefore greater traffic can be put on it, freight being the primary task of that work. It is also the capacity within those heritage rail organisations to get accreditation and their skills up. Again, and we make no apologies, the main focus is to make sure that we can get a freight rail up and running in the state which delivers for the economy. That is our number one priority. That is where we get our income and that is where it is important not only for current industries but for new industries. That is absolutely our main focus.

The challenge for those heritage railways is to get themselves up to scratch to a point where it does not jeopardise the main work of TasRail, and that is a bit of a challenge for us.

Mr ANNELLS - Can I address this insurance issue, which is ever-changing in a difficult market: The insurance premiums will go up but it is only about money. At the last negotiation we had, and we have a big negotiation each year with the underwriters and prospective underwriters and they are very well managed on our behalf by our insurance brokers, we secured a fairly substantial reduction in our premium. That reflects the improvement in the track, the improvement in our safety record, et cetera, and that was all looking very positive. The counter side of that, however, was an unequivocal statement that if you put passengers on this rail it will not only cost you more but we will not insure you. We have some serious work to do.

We did not argue the case because we are not at that point but the position of the insurance industry is that they are not into risk any more, it is about insuring against having any risk. It is a fairly daunting prospect when you are sitting there with 30 people in seats looking at you and they are all from different companies deciding whether they will form part of your insurance protection underwriting syndicate. They do not want risk, they just look for anything they can do to reduce risk in these policies. We have received a substantial reduction in premium, probably \$600 000 in the last year, and I would expect that that might continue but unfortunately it does not solve the fundamental problem, which is that they just do not want to see passengers on this rail.

I think there is some work being started in looking at this in a slightly different way: to look at the issue of our non-operational loans and take them away from the TasRail insurance package that we are seeking to get the market to respond to, and then deal with them individually. I suspect that is where we have to go.

Dr GOODWIN - The Derwent Valley Railway Preservation Society is looking at that sort of opportunity, aren't they?

Mr ANNELLS - Yes. I think we have to pursue that much more aggressively than we have done and we are happy to do that and assist in every way but -

Mr O'BYRNE - It is also a broader government role as well.

Mr ANNELLS - Yes, it is a whole-of-government issue.

Mr O'BYRNE - We would look at that. The insurers are trying to reduce risk and we are trying to build up opportunity and if anything, heritage rail is an opportunity.

Mr VALENTINE - Increase usage.

Mr O'BYRNE - It is not an easy thing to do. Where we were three years ago compared to where we are now is a significant improvement, we are much closer to it and I think TasRail's relationship with those associations and organisations is the best it has ever been. They understand the circumstances and they know that we have a lot of goodwill around that table to try to deliver a service at some stage.

Ms FORREST - On that, you have been told that they will not insure if you put passengers on their current operating lines; have they said anything about the non-operating lines?

Mr ANNELLS - No, that has not been put to them and from the little bit I know about the insurance industry that would be a stand-alone. The real concern I think was as much about the possibility of business disruption as trying to mix passenger and freight operations.

Ms FORREST - It was as much the issue rather than personal injury?

Mr ANNELLS - It is hard to tell because we did not pursue it all that much, but I think if we were dealing with non-operational lines there is a whole range of issues to do with accreditation which would still be there. The insurance thing then becomes quite a fireball; you put a boundary around it and take it to the market as a separate stand-alone thing.

Mrs ARMITAGE - I was going along the same lines as Ruth but that has been covered. Obviously, freight is your main game but, as Vanessa said, the Derwent Valley railway said that one of their major problems at the moment is having access to the loop where their workshops are in the middle of the loop. They do not seem to be able to get a lease. They desperately need to get the ex-Tasman Limited over the pits to do safety work. Is there a reason they cannot get a lease to access the loop?

Mr WHITE - I am aware of the issue and it is probably on my table to deal with, but we have not dealt with it yet. It is a very recent issue that I have been made aware of only in the last couple of weeks.

Mrs ARMITAGE - They mentioned the urgency yesterday and when stakeholders come with their issues it is worth mentioning them.

Mr WHITE - I was there recently and we took a look at the rail from New Norfolk to Redlands with that group and they did not raise it with me.

Mrs ARMITAGE - This is something that is relatively new. The other one was the Don River Railway. They mentioned that they have a very good working relationship with you, but that TasRail aren't particularly keen to replace the points at Devonport. It would be very helpful for them to start using their rail more and they also have the royal carriage in Launceston which they would love to be able to run from Henry Street to Inveresk. I know tourism is not your main game but it is very important in the economic field that we are now in. Is it on the radar? How far away is it? Are you able to look at some issues like that?

Mr WHITE - The issue with the points is the issue we were talking about earlier. That would then mean they would be running on the operational line so I don't think that is going to go anywhere in a short time.

Henry Street falls into the other conversation we had. That is part of our non-operational line - very non-operational.

Mrs ARMITAGE - Any time frame at all?

Ms FORREST - You still have to talk to insurers, don't you?

Mr WHITE - There is that. We have a meeting lined up with the heritage guys on 18 December. That is the point where we will work through it with them.

Mrs ARMITAGE - They have done such a wonderful job on this royal carriage. I don't know how many of the members have seen it but it is worth having a look at.

Mr O'BYRNE - We know it is important to Tasmania and we have some fantastic heritage operators. We have to do it in a way which does not expose the state to massive risks.

Mrs ARMITAGE - I understand that and it has to be balanced as well.

Mr O'BYRNE - When you get big heavy things moving, however slowly, they are potentially dangerous and we have an obligation for safety.

Mrs ARMITAGE - However, we have all had them in the past. We can all remember, I am sure, as schoolchildren, getting on the train and going down to Westbury on different excursions.

Ms FORREST - On insurance again. How does it work with the Abt railway?

Mr O'BYRNE - That is a matter through Federal Hotels as the operator.

Mr HALL - Minister, with regard to concrete sleepers, I understand the contract was let to a New Zealand company. Were there any tenders from Tasmanian companies?

Mr O'BYRNE - We worked very hard to get a Tasmanian operator up. I had best get Damien to explain because there was an offer made to a local company on the basis that they could meet the specs of the job and they were not able to meet the specs on a matter of safety and reliability.

Mr WHITE - We went to tender and mentioned in the tender we were keen to understand the Tasmanian-based options. The company that we ended up finalising a deal with initially did have a Tasmanian operator. We thought that is all great but as we worked through the issues they ultimately pulled that option from the table. They decided risk on their side was too great in setting up a new facility in Tasmania, with an existing organisation, but it was a new prestressing plant specifically for concrete sleepers, and at the end of the day they pulled out.

Mr O'BYRNE - We tried.

Mr ANNELLS - There is a widespread misconception about concrete sleepers: how difficult can it be? It is a lump of concrete, you have a mould and you chuck a bit of concrete in and you get a trowel and out you go. It is not like that. The technical specifications that we require for the concrete sleepers and the testing before we accept delivery of concrete sleepers by batch are very

rigorous. The technology that is involved in stressing these concrete sleepers with internal rods or steel wire, is a real skill and it requires considerable expenditure in upfront costs for the establishment of the plant.

[12.45 p.m.]

We were nonplussed, as a board, when we could not find a solution that was Tasmanian-based and this came about for several reasons. One of it has to do with the type of cement utilised in these sleepers compared to the type of cement and the strength of the cement generated in Tasmania. Believe it or not, it is not of the right nature. Second, there is no existing company in Tasmania with the technical experience. Third - much to our amazement - the landed cost of the Busck sleepers out of New Zealand, because of a most fortuitous freight arrangement that they happened to be able to put in place -

Mr HALL - And exchange rate.

Mr ANNELLS - and to some extent the exchange rate - they could land them here substantially cheaper than a mainland-based -

Mr HALL - That was my next question.

Mr ANNELLS - It is substantially cheaper. The main thing from our perspective is that these people have been producing sleepers that have stood the test of time for many years. The additional upfront cost that we had to pay for the establishment of plant was minimal compared to the alternative but we had extensive negotiations to try to get them to establish a local manufacturing facility with a local company and it all fell apart in the end because their board said that testing requirements that TasRail was requiring of us are so stringent that we are not prepared to take the risk of not constructing these things under our direct control in New Zealand. So we ended up where we ended up.

Mr HALL - I get the picture. We have the narrowest-gauged railway in the commonwealth. Does it place long limitations, in a technical sense, in regard to our transport speeds and that sort of thing?

Mr WHITE - I have been told a third of the world's railways are narrow-gauged.

Mr HALL - Is that right?

Mr WHITE - All of Queensland is narrow-gauged, very heavy axle loads. They run tilt trains, so the gauge itself is not an issue. It is the standard you want to build that gauge of track and one of the challenges for us - and it comes back to the transit time issue - is about building a fit-for-purpose network.

It is fit-for-purpose in terms of the axle load requirements for our customers; it is fit-for-purpose in terms of the safety requirements; and it is fit-for-purpose in terms of the transit time requirements. Possibly the only issue, when you go to market, particularly for locomotives, the pool of narrow-gauge locomotives, the design for those, are lower but, having said that, we had a very competitive process where our brand new locomotives are secured at a very good price.

Mr HALL - They must be cheaper sleepers too because they are shorter.

Laughter.

Mr HALL - You signed off a corridor lease and there are some environmental responsibilities there. What are those? Have they been identified yet and have you done some risk assessment?

Mr O'BYRNE - We have obligations and we are meeting them, especially with fire risk.

Mr ANNELLS - There are serious theoretical risks that have been passed from DIER to TasRail through the corridors and that is the lease for the total of our project, operating and non-operating lines. We tried very hard to avoid pursuing all of them, because we did not have a problem assuming those that applied for contamination, for example, that we had created, but we were required to assume back to the commencement of the railway obligations.

The board decided the government is our shareholder. They are the owner of DIER, the owner of TasRail. We received adequate advice from both DIER and our shareholder ministers that if there were issues that had significant financial impact, we would be kept whole. We are not worried about this and equally, I must say, all the work we have done has not identified any major environmental issues that pertain within the corridor. It is not to say they could not occur, but if that were the case, then we would need to seek assistance in meeting those obligations if they had serious financial implications for our shareholders.

Mr HALL - Within that rail corridor, have weed management plans been done?

Mr WHITE - We have a weed management plan or a vegetation management plan. In recent times there has been a lot more community interest - read complaints - and we are taking a different approach to managing that issue. There is definitely a plan and we are now working to improve the rolling out of that plan, because there have been some gaps in recent times.

Mr HALL - There has been some contention, if we go back years, minister, about the liability for common boundaries, and I declare an interest.

Mr ANNELLS - So do I.

Mr HALL - I know you do, as I asked you recently. With those common boundary fences, weeds, gorse and all that sort of thing can accumulate, fences can fall down and material can get on the lines. Where does the responsibility lie in terms of spray regimes? We heard from the TFGA yesterday that it often happens at Deloraine, and there are significant concerns in that area.

Mr O'BYRNE - It is an ongoing management issue. We have a legal responsibility but also a good neighbour responsibility, and we try to do the best we can, given the legal requirements we operate under. The weed management plan - would you like to expand a bit on that, Damien?

Mr WHITE - We have a weed management plan that will go on the internet shortly, so people can see what our plan is for the forward year. There is also a complaints line, which covers things other than weeds as well. People are able to ring up and report an issue if we have not cleared weeds, and we can then address it.

Mr HALL - Is there an Australian standard that you have to meet with regard to sight distances where there are no lights at crossings?

Mr WHITE - Yes.

Mr HALL - How far is that?

Mr WHITE - I could not tell you off the top of my head, but I am happy to provide the Australian standard. I can confirm that it is part of our track inspection regime. At each of the level crossings the level of treatment, whether it is a stop sign, give way sign, or lights, is based on a combination of a number of things, including vegetation and line of sight. Our inspection process picks up new vegetation that has got out of control, or new structures people have put in place, and determines whether they have changed the line-of-sight requirements.

Mr HALL - The annual report mentioned you have 260 FTEs as at 30 June and when you started out in December 2009 it was 168, so things are ramping up pretty well?

Mr O'BYRNE - Absolutely.

Mr HALL - What is the reason for that, and where are we going?

Mr O'BYRNE - The reason for that is increased work on the network, and increased volumes. It shows that the business is growing and there is a fair bit of activity, especially with contractor management and getting the capital expenditure out. Our safety group is also making sure we reduce our lost time injury numbers, so there is a lot of work going into that.

Mr HALL - Can you give us a breakdown of where they are based around the state?

Mr WHITE - I can tell you the types of positions. In the last 12 months, we have employed an additional seven track maintainers; eight trainee locomotive drivers; five qualified drivers - and we were able to attract people from the mainland which was quite pleasing; three apprentices; four rolling stock maintainers; two train controllers and a number of other staff. Even a couple of managers.

Mr HALL - On the admin side of things, where have we gone there?

Mr WHITE - We have an executive manager of corporate safety and risk, and the rest are people like project managers for our projects. We have quite a largish contingent of project managers because we have a large capital program rolling out, but they are all on fixed-term contracts.

Mr HALL - So, that number of personnel will diminish as the capex program winds down?

Mr WHITE - Yes.

Dr GOODWIN - Can you provide a whole-of-company breakdown?

Mr O'BYRNE - A flow chart or organisational chart?

Dr GOODWIN - Yes.

Mr O'BYRNE - We can provide that on notice.

Dr GOODWIN - Thank you. The farmer to my right touched on the issue of livestock wandering onto the tracks and I wanted to go into it in a little bit more depth. Your annual report describes it as an increasing problem, and there are some figures for this financial year but nothing to compare them with. I am trying to get a handle on how much of an increasing problem it is, and how you are responding to it. It would be pretty awful for the train drivers, in particular, to be encountering livestock, let alone the farmers and the livestock themselves.

Mr WHITE - It has appeared to be more prevalent in the last 12 months. I think that is a function of more reporting. That is what people have said to me in the past - it has always been there but now that we are aware of it, we are doing something about it. As you say, it is distressing for our train drivers, and other staff who have to go out there and clear them, particularly if we hit livestock. We have now set up a protocol with the police to manage those situations. We have all the adjoining landowners' contact details.

Mr WHITE - The drivers have to report to our train control if they have hit stock, or if they are wandering close to the line, so we can take some action and contact the errant landowner to clear them from the track.

Dr GOODWIN - Do you have any comparison figures for previous financial years?

Mr O'BYRNE - It was not recorded previously.

Dr GOODWIN - Do you have a protocol with the TFGA, or are you handling it only through the police and individual property owners?

Ms JARVIS - We are working with the TFGA. We are putting together some protocols at the moment. They have been very helpful in communicating with each of the landowners. We report our statistics to them, and I go and have a chat to the property owners as well. Some of them are repeat offenders and they are the ones that we are focusing on the most. We appreciate that to fix their fences is sometimes a financial issue. Through the TFGA, we have also been working with Rural Financial Counselling, so they will go out and talk to the couple of farmers who constantly have their animals out on the track. It is a collective effort. We are putting together some protocols and they are going to communicate those in all their newsletters. We also have a meeting coming up with their executive, to talk about it, because they recognise it is a serious issue. It costs money for them as well.

Mr VALENTINE - I want to go back one step with regard to the weeds. Are you aware that the regional council authorities - certainly in the south and I think in the other two regions - have weed eradication programs or have had projects in the past? Have you been kept abreast of that and are you part of that?

Mr WHITE - I do not believe we are part of that, but it does raise a good idea. There would probably be some economies between us and the councils making a joint effort.

Mr VALENTINE - You might get some better outcomes for you and everybody. If your area is not being looked at for some reason then it is a breeding ground for weeds.

CHAIR - Minister, your report suggested a negative impact on the business as a result of the carbon tax - the cuts to the fuel tax credits et cetera. Could that be quantified in dollar terms?

Mr O'BYRNE - The impact could be \$500 000. It has been recovered, I am advised, through a carbon surcharge.

CHAIR - The only addition to that would be whether the company feels that it has been positively marketing the total carbon footprint in its representations and whether you feel you are able to attract business because of that.

Mr DIETRICH - Absolutely, because the rail service is a green service and it is far more efficient in terms of fuel burn compared to alternative services. With the introduction of the carbon surcharge, our diesel off-road rebate was reduced by 6.2 cents this financial year. Normally we claim a 38-cent diesel rebate and that has been reduced to 32 cents and across our total fuel purchase for the year generated an additional fuel cost of \$500 000. Based on our customer revenue and that cost, we then have a surcharge against applicable customers to the tune of 1.54 per cent, which will be reviewed each year.

Mr WHITE - On page 7 of the brochure is a reference to the number of grams of carbon dioxide for road vehicle users versus rail.

CHAIR - Thank you. They are the consistent representations the Australian Rail Association makes on your behalf.

The committee suspended at 1.03 p.m.