

# UNCORRECTED PROOF ISSUE

**Tuesday 5 December 2017 - House of Assembly - Government Businesses Scrutiny  
Committee - Tasmanian Railways Pty Ltd**

## HOUSE OF ASSEMBLY

## GOVERNMENT BUSINESSES SCRUTINY COMMITTEE

**Tuesday 5 December 2017**

### MEMBERS

Mr Bacon  
Dr Broad  
Ms Dawkins  
Mr Jaensch  
Mrs Rylah (Chair)  
Mr Street (Deputy Chair)

### SUBSTITUTE MEMBERS

Ms O'Connor  
Ms White

### IN ATTENDANCE

**Hon. Rene Hidding MP**, Minister for Infrastructure

**Ministerial Office**

**Mr Richard Wilson**, Deputy Chief of Staff

**Tasmanian Railways Pty Ltd**

**Mr Robert Annells**, Non Executive Chairman  
**Mrs Samantha Hogg**, Non Executive Director  
**Mr Damien White**, Chief Executive Officer  
**Mr Steven Dietrich**, CFO/Company Secretary  
**Mrs Sarah Hirst**, Communications Manager

**The Committee resumed at 12.05 p.m.**

## UNCORRECTED PROOF ISSUE

**CHAIR** (Mrs Rylah) - Welcome, everyone. Minister, would you like to make an opening statement?

**Mr HIDDING** - The 2016-17 year has been a successful one for TasRail, with considerable growth achieved in the commercial above-rail division, vast improvements in its safety record, substantial advancements in rail infrastructure upgrades and an outstanding response to the devastating 2016 floods in June. I am delighted to report TasRail's above-rail division is on track to achieving its first profit since TasRail's inception in December 2009. Considering the dilapidated state of Tasmania's rail infrastructure and the lack of business confidence in rail that TasRail inherited eight years ago, this is a remarkable achievement.

The Government pays tribute to TasRail's founding chair, Mr Bob Annells, who officially retires from the TasRail board tomorrow.

**Mr ANNELLS** - My farewell appearance.

**Mr HIDDING** - Bob's leadership and vision have been instrumental in achieving many key milestones for TasRail, such as the replacement and standardisation of the entire rolling stock fleet, the introduction of a state-of-the-art advanced network control system and the rebuilding of critical track infrastructure, including the replacement of four bridges.

Evidence of the success of this infrastructure upgrade is that TasRail recorded only one reportable minor main line derailment - which we don't agree is a derailment at all - in the 2016 financial year which occurred on 29 June in the Devonport yard. Setting that aside, derailments used to be a frequent occurrence. At one point derailments occurred at an average of one per month, and now there has not been one for 858 days. When you are the chair of a rail company you count it in days, because it used to be every 30 days or so and it is now two years and better. That is an outstanding result.

Other than recognising the achievements of Mr Annells, I also acknowledge the commitment and contribution of Ms Sarah Merridew, another TasRail founding director who has also retired from the board. She has also given exemplary service to the people of Tasmania.

I trust they both take confidence in the foundation they helped to establish that will hold TasRail in very good stead for the future. The Government, and I am sure this committee, would wish them both every happiness and success for the future.

I will also make an announcement this afternoon about the appointment of current TasRail non-executive director Ms Samantha Hogg to the position of chair of TasRail. Samantha has had 25 years experience in executive management across the resources and infrastructure sectors around the world, including her most recent role as CFO of Transurban through a period when the business grew to become a top 20 ASX company. Ms Hogg now resides in northern Tasmania and I am sure you will all join me in congratulating her on this much-deserved appointment.

It is very pleasing Tasmanian businesses now regard rail as a safe, reliable and cost-effective alternative freight option. I was delighted to learn TasRail freighted more than 3 million tonnes in a 12-month period for the first time in 2016-17. This equates to more than 140 000 fewer heavy vehicle movements on our roads and 55 000 fewer tonnes of harmful emissions being emitted into our environment. TasRail's customers recognise the environmental, social and economic value of

freighting their goods via rail and in the most recent audit of customer perceptions and expectations praised TasRail's attitude, culture and commitment.

In 2016-17 TasRail recorded customer freight revenue of \$32.9 million compared to \$30.45 million the previous year. This above-budget performance is attributed to a 43 per cent increase in total tonnes of coal delivered, a 25 per cent increase in ship loading, a 9 per cent increase in total net tonnes of cement delivered, and a 7 per cent increase in the total TU containers hauled.

The impact of the June 2016 flood event carried through to the start of the 2016-17 financial year. I have said it publicly before, but I will say it again, the TasRail employees and their contractors were exceptional in delivering on their promise to minimise the impact of the flood event on our customers. Repairs to the Kimberley bridge, which was partially trashed during the floods, were completed within 45 days of commencement of those works.

Turning to lost time injury stats, there has been considerable improvement. No TasRail employee was involved in an LTI event during 2016-17. While there were three LTIs classified in 2016-17, one LTI was incurred by a contractor on a TasRail site, and the other two LTIs occurred from events in the previous year, and resulted in days away from work in that year. That is accounted there.

All TasRail employees have now been inducted into the behavioural-based Safety Circle program, which reinforces individual employees' accountability to drive improved safety results, so that everyone can go home safe and well today. TasRail has just recorded a 12-month period free of any safe working breaches, defined as being on track without authority, or the authority is exceeded. There has been none of that. This is a very commendable safety record. I congratulate the entire TasRail team on their safety achievements.

Recently, TasRail commissioned its \$5.5 million Underfloor Wheel Lathe in Burnie, which replaces the 40-year above-ground wheel lathe located at Hoblers Bridge in Launceston. The new state-of-the-art wheel lathe is expected to improve rolling stock wheel wear by up to 30 per cent, prolonging wheel life through more frequent re-profiling and reducing noise level emanating from the Burnie rail yard through the use of the state's first battery-powered remote controlled electric shunter, which was named recently by the staff. They did not go for McShunt Face at all! They went for Bunter the Shunter, named after a long-time employee who was colloquially known as Bunter. That was launched the other day. I thought that was most amusing and very nice for that previous employee.

Other significant achievements recorded by TasRail include: the largest intake of trainee drivers since TasRail's inception; renewed focus on training and empowerment; a 42 per cent increase in workforce gender diversity; a 15 per cent improvement in track quality reported as good, and enhanced community focus through partnerships with organisations such as Beacon.

I have no doubt that as part of TasRail's commitment to delivering optimal and innovative logistics solutions to its customers to haul freight in a safe, reliable and competitive manner, the company is poised for future great success.

**CHAIR** - Excellent. Great commentary.

**Dr BROAD** - How many times has the CEO of TasRail met with representatives from the Macquarie Point Development Corporation in the last year?

**Mr WHITE** - In the last year, as I recall, once.

**Dr BROAD** - What is TasRail's opinion of the removal of sleepers and rails from the Domain line by the Macquarie Point Development Corporation?

**Mr WHITE** - There certainly were conversations between both Macquarie Point and ourselves on that matter. There are a number of lines in that area where there is no distinct line that is called the 'south line'. That has been the area of confusion there. There was redundant line pulled up, as I understand it, as part of Macquarie Point's work into putting together a pathway or a bike track.

**Dr BROAD** - We went out and had a look and it looks like at the fence there, where you enter the chain mail fence, that forms the boundary between the Macquarie Point area and the Regatta Grounds, all the rail has been removed through that section and stacked, cut and stacked.

**Mr HIDDING** - They are matters for Macquarie Point. The Macquarie Point footprint comes around in a big long tail and finishes near the grandstand there. You might be confusing the two because it is an odd-shaped thing from Macquarie Point. We cannot be expected to ask the CEO to answer questions about Macquarie Point because that is a matter for them.

**Dr BROAD** - Yes, but that rail line is a matter for Tasrail though, isn't it?

**Mr HIDDING** - Yes, up to Macquarie Point land.

**Dr BROAD** - Which you are saying comes right round to in front of the grandstand?

**Mr HIDDING** - You might recall, when you had a look there, that there is some asphalt that went over a track, that was incorrectly done by the council. TasRail said that breaches their arrangements and the Government's arrangements that we want the entire corridor to be kept for posterity. The council was asked to remove it. The council came to TasRail and pleaded a case that it would stay but on seven days notice they would pull it out. In the meantime it gives very good access for boat trailers. There is an agreement now with the Hobart City Council that should it ever be required there, that within seven days they would pull it up.

There was a bit of rail that went to that that was bent and twisted and sticking up. It was going to hurt somebody, particularly backing their cars, getting in and out of cars. For safety reasons that was taken up. TasRail lays many kilometres of new track a year. We are talking here about a few metres. It is really not a material matter. The people who first raised it now understand better what the context was.

**Dr BROAD** - Doesn't TasRail still own it though?

**Mr HIDDING** - TasRail still is responsible for the formation, for the corridor. Under the terms of the lease -

**Dr BROAD** - I thought there was agreement to maintain one line all the way in through the Macquarie Point development.

**Mr HIDDING** - No, to the edge of Macquarie Point.

**Dr BROAD** - It was only to the edge of Macquarie Point.

**Mr HIDDING** - Yes. After all Macquarie Point could do a whole range of thing. There is a contingent commitment, as the minister responsible for the land there that is leased to Macquarie Point, I need to ensure that, in perpetuity, it has a corridor for light rail or any other kind of rail going through there. I will do that.

**Dr BROAD** - Just no rail, though?

**Mr HIDDING** - No. Whatever you built there would not be in those locations.

**Dr BROAD** - What skills and expertise can TasRail offer to support Labor's plan for a passenger rail service between Bridgewater and Mawson Place?

**Mr HIDDING** - Between?

**Dr BROAD** - Bridgewater and Mawson Place.

**Mr HIDDING** - Labor's plan to do that.

**Dr BROAD** - Yes. What expertise could TasRail provide?

**Ms O'CONNOR** - It is good to see Labor come on board light rail, it really is.

**Mr HIDDING** - Yes, they are not on board with light rail. This is not light rail they are talking about, this is -

**Dr BROAD** - What is it then?

**Mr HIDDING** - What is it, what are you talking about?

**Dr BROAD** - It is passenger rail.

**Mr HIDDING** - Sorry, it is light rail. I understand what you are talking about now. In terms of expertise, light rail operation is a specialised field. TasRail is still currently responsible for the rail line that is there, except for a section that is intended to be leased to the Transport Museum people at Glenorchy next year, where they are going to be operating heritage rail under the arrangement of the new act of parliament. I am going to ask the chairman to address this, because he has had more than a lifetime of connection to this business in Victoria, as chair of Connex. He is better placed than me by a long shot to speak about this.

TasRail now operates a short-haul freight rail service; that is what it needs to focus on. Could it ever get involved in anything else? That is a matter I will ask Mr Annells to discuss.

**Mr ANNELLS** - The specific question is what skill sets does TasRail have? There is no doubt that TasRail would have many of the skill sets that are needed to ensure that the track, the signalling and everything else, is up to scratch. The assumption should not be made that the existing rail line would be able to be used. That may be, but it may not be. My own guess is probably yes, but the modern regulations in relation to the quality of rail, the quality of signalling that is required do not make it a lay-down misere that you could just buy the rolling stock, do a bit of cosmetic work and

start. There is some fairly basic work to be done to satisfy the Safety Regulator that in fact that will all work. Could TasRail help with that? Yes, it could, it has those skills. TasRail's problem in this instance and in the instance more generally of tourist and heritage rail is that we are very specifically charged with running a freight railway. It has taken us eight years to get to a position where we think we might make an above-rail profit this year and looking forward in our longer-term plans we certainly see a situation where we will make a profit, but it has taken us a long time and it's damn difficult to do. Short-haul freight railway is the quickest way to go broke I know.

If you add to TasRail's administrative and technical burden the need to provide the necessary assistance that it can, there needs to be some mechanism to reimburse it, in my view. Governments can always determine what they want to do, but that would be my view. Then you need to make sure that there isn't such a demand that it is not diverting relatively limited technical resources within TasRail that still has a very big job to do to get our own track up to date. The specific answer to your question is yes, those skills do reside here, but that is by rail; the above-rail side of it we do not.

We could give some advice on rolling stock procurement, but as to the actual specification of the rolling stock, we don't have anybody who knows anything about that. That is probably the biggest decision that whoever takes this on is going to have to make: what is the nature of the rolling stock and the stations, how do you get parking and all this sort of stuff? I don't want to get started down this path because I always sound terribly negative about this. I don't mean to be, but I also had what seemed like a lifetime running the Melbourne train system. I can say this - think of a number and triple it. It is a very expensive business running passenger rail in the current regulatory environment.

I know this isn't proposed to be done by volunteers and amateurs, but a lot of the suggestions I've heard about tourist and heritage rail have been, 'We will do it with people who are well intentioned and maybe have some skills,' but they are amateurs and/or volunteers. It would be very difficult to satisfy the regulator on an ongoing basis that you could establish something with those people. You may be able to maintain it, but establishing it from scratch with volunteers is very difficult to do.

**Ms O'CONNOR** - Going back to Macquarie Point, minister, I would like to establish some basic facts. How much of the rail line was removed? What happened to the sleepers and the steel parts of the line, and were you aware of the removal before we asked the questions in parliament?

**Mr HIDDING** - Bits and pieces of rail formation that were on Macquarie Point's land is a matter for Macquarie Point. That is not leased or owned by TasRail. It is Macquarie Point's business what they did with them. I understand -

**Ms O'CONNOR** - Didn't TasRail own the corridor?

**Mr HIDDING** - Yes, but the commitment was to maintain the corridor as I've always understood it. Our Government's position is that we want to bank the rail formations around Tasmania. Whether it is the north-east rail or the rail between Burnie and Wynyard, we want it there for posterity should it be needed for heavy transport at some time in the future, way past my time here or anyone's time.

**Ms O'CONNOR** - 'Posterity' is possibly not the right word; you are talking about future potential use.

**Mr HIDDING** - Yes, for rail for whatever reason. Any time somebody gives up a rail corridor, if you let one house be built across it you actually sterilise the entire network because somebody will say you could not possibly knock that thing over. It was always understood that Macquarie Point had to remove everything because they had mitigation to do and plan for its future. As Infrastructure minister, I retain a corridor right through the centre of that development. I am soon engaging with the Macquarie Point Development Corporation as Minister for Infrastructure to talk about how we might consider where best a light rail corridor should belong so they can move forward with their plans. I am happy and prepared to that. I share the same aspirations as both of your parties do for light rail. I would like to see it come through Macquarie Point and continue, but that has a range of issues attached to it and we continue to work through those matters.

**Ms O'CONNOR** - Thank you for that but we are trying to work out what exactly was removed and where the materials went. Given you have made it clear the corridor is TasRail's property and therefore your responsibility, why didn't the Macquarie Point Development Corporation seek permission from or flag it with TasRail, or get in touch with you as minister?

**Mr HIDDING** - From my point of view, where the current corridor is on the map is highly unlikely to be the corridor required for light rail. Any rail assets that were on Macquarie Point Development Corporation land could go and every time anybody pulls out any rail, ordinarily the steel sleepers are provided to tourism heritage.

**Ms O'CONNOR** - What happened to those materials and what was removed?

**Mr HIDDING** - That is a matter for the MPDC.

**Dr BROAD** - Doesn't it belong to TasRail?

**Mr HIDDING** - Not necessarily.

**Mr ANNELLS** - I don't know the precise dimensions of all this but I believe there was some rail removed from the boundary of the Macquarie Point site back north within our rail corridor. The amount is a couple of hundred metres.

**Mr HIDDING** - Probably 100 metres.

**Mr ANNELLS** - In terms of where stuff went, this was all picked up, as I understand it, by a contractor working for Macquarie Point, so they have gone outside the scope of the boundary; I think that is the case. It's the old thing about when you're trying to make a decision between a conspiracy and a stuff-up take the stuff-up every time, and that is what has happened here. There has been a slight incursion into our corridor. We have more rail sitting around than could ever be needed to replace that. If we were required to go back in and replace that, we could do it in a couple of days. There is any amount of material.

**Ms WHITE** - How much would that cost?

**Mr ANNELLS** - Very little, because the formation is already there. We are just relaying.

**Ms WHITE** - The minister said it would be a different place and that's why it was ripped up.

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**Mr ANNELLS** - It could be, but it would probably more likely be a different place once it gets within the boundary of Macquarie Point. That is where it's more likely to have to meet their needs for a development within their site.

**Ms WHITE** - When you say very little, could you give me an estimate?

**Mr HIDDING** - Of putting back second-hand rail and sleepers on a formation that already exists for 100 metres?

**Mr WHITE** - A few thousand dollars.

**Ms O'CONNOR** - I am trying to work out the line of responsibility here in the decision to lift that part of the rail line. I take on board it is not going to be hugely expensive to replace it but it was clear that the minister was not aware, I don't know if TasRail was aware, and then suddenly the rail line has been removed. Do you think the Macquarie Point Development Corporation was obliged to get in touch with TasRail or the minister's office?

**Mr ANNELLS** - In fairness to them, I suspect it was a breakdown of communication between them and their contractor, who went beyond the point they had commissioned the contractor to do. From our perspective, the minister is absolutely correct. We didn't know about it and he certainly didn't know about it. When it was drawn to our attention we sorted it out as best we could quite quickly. The boundary is not easy to find or to determine on the ground. It became obvious to us there had been an incursion. We could have said, 'Put it back'. Our view was we would not do that because to do it when it is needed would be cheap and could be done quickly. Has this in any way made it less possible or likely that light rail could be established? The answer is emphatically no it has not. It is embarrassing. It is embarrassing for us, it is embarrassing for - the minister can speak for himself.

**Ms O'CONNOR** - There is an accountability question here too though when decisions like that are being made without the minister responsible and TasRail.

**Mr ANNELLS** - If we had been asked we would have said absolutely not. We are well aware of the minister's undertaking that the corridor and by implication all of the infrastructure that sits on the corridor either stays in place or, as in the case of the signalling equipment, be removed and stored to avoid the inevitability of it being damaged, stolen or vandalised.

**Mr STREET** - Minister, Mr Annells touched on tourism and heritage railway. Can you advise the committee what support TasRail currently provides to these groups in terms of donations of equipment, et cetera?

**Mr HIDDING** - TasRail, of course, is very aware of the tourist and heritage operators out there and has regular consultations with them, because they all have their hands up for any sleepers, the right kind of rail and the jewellery which holds it all together. It is TasRail policy that tourism heritage organisations be consulted prior to the disposal of redundant or surplus equipment or assets of interest. Rather than tear it up and sell it for scrap it is, in the first instance, offered to tourism heritage operators.

As an example, the Don River Railway in this year in question received 300 steel sleepers. They were donated a Coman sleeper inserter machine, a pedestal drill and a twist-it trolley. Maydena Railtrack Riders was provided with redundant tooling. TasRail has also previously



donated two locomotives to Diesel Traction, now Launceston and North-East Railway, that are being stored at the depot by TasRail. One was donated in 2011 and one in 2014.

With respect to rail and sleepers being removed from the TasRail network, the following arrangements apply. The majority of rail being removed from the network is no longer fit for purpose for either tourism or freight rail and is ultimately scrapped. It is a given that some of it is not usable for anything. Any rail that is deemed safe for reuse is retained by TasRail. Sleepers being removed from the operational network that are not required by TasRail are being stockpiled pending donations to tourism and heritage organisations. Rail safety obligations make it problematic for TasRail to permit various tourism and heritage representatives to collect surplus sleepers from the upgrade sites. They have to be delivered to them. Vehicles and people inside the operational network does not work with the safety environment you would want.

TasRail is therefore transporting at its own cost, estimated around \$7000, and temporarily storing the sleepers off site pending consideration of future donations to tourism and heritage organisations.

As demand for redundant sleepers is higher than available quantities the allocation may need to be prioritised to those tourism heritage organisations that are currently operating or look like operating.

It is estimated approximately 15 000 sleepers will be available in 2018. This represents foregone value revenue from scrap sales to TasRail estimated to be in the order of \$71 000 and untold value if they had to buy new ones, I take it. In terms of scrap value TasRail are foregoing that to donate these to the tourism and heritage groups. TasRail certainly are big players with the tourism and heritage groups and are very aware of their responsibilities and the relationships.

**Ms WHITE** - Minister, I am curious about what the repercussions are for the contract of Macquarie Point Corporation? You have acknowledged it was something you were not aware of, TasRail was not aware of and it should not have happened. What are the consequences?

**Mr HIDDING** - None whatsoever. I take the same view as TasRail. It is TasRail's call. TasRail owns the network to that point, and 100 metres of line was accidentally taken up. I am advised it was in dangerous condition and it is probably for that reason that the contractor looked at it and said, 'That has to come up', not knowing it was outside the boundary. As you have heard a couple of thousand dollars would put it back. The people who expressed concern about this in the first place are aware of all the circumstances now and as I understand have no residual concerns.

**Ms WHITE** - Can I further explore the assertion that it would cost approximately \$2000 to replace 100 metres of rail. Could you explain how that is possible? It does not seem like enough money to me.

**Mr HIDDING** - The rail and the sleepers exist. There is a shipload of that stuff TasRail has ready to lay there. How many kilometres of rail and new rail is lifted and relaid every year?

**Mr WHITE** - Forty odd, 50.

**Mr HIDDING** - Fifty kilometres a year. So 100 metres is not something that would break the bank or stretch their technical department. I think \$2000 would be right on the money. You can explain the technical way of doing it. How you would go about it, considering the formation is still

there. That is the important thing. The blue metal and the tamping, everything is ready to lay back down. How would you go about it?

**Mr WHITE** - The formation is still there. As you say we have surplus sleepers around the place, surplus rail if it is a like-for-like environment. Noting I did say a few thousand without picking hairs. It is a relatively small amount of money and it is the sort of job they would do in a day.

**Ms WHITE** - Okay. You were talking about the section that is outside Macquarie Point's lease. The section that is inside Macquarie Point's lease was also removed. I seek some clarification about what permission they have to do that. Obviously the track still belongs to TasRail and as a lease arrangement I would assume they would need to again seek your permission before they could remove that. Is that not a requirement of their lease?

**Mr HIDDING** - I would need to get some more advice from the Macquarie Point Development Corporation.

**Ms WHITE** - Sorry, minister, could you repeat that? What did you say?

**Mr HIDDING** - I would probably need to get some specific advice from the Macquarie Point Development Corporation, which does not come under my portfolio. I am visiting them shortly to understand precisely where a light rail corridor should -

**Ms WHITE** - No, this is about the existing track. Surely as part of the lease as the shareholder minister for TasRail you would have to be asked permission before somebody who is leasing land from you could rip up your lines?

**Mr HIDDING** - In that area of the MPDC lease there were all sorts of rail offshoots and bits and pieces because it was a shunting area wasn't it?

**Mr WHITE** - It was where we were servicing Toll and other customers down there.

**Mr HIDDING** - As I understood it as part of Macquarie Point Development Corporation's lease they were entitled and in fact required to strip everything other than some heritage buildings, including the rail. That was of no concern to TasRail because they have vacated the area. It was the policy position of the Government to maintain the corridor to the boundary of Macquarie Point Development Corporation. The removal of bits and pieces of lines in that track weren't material from my point of view.

**Ms WHITE** - Is there any example of any other lease across the state that TasRail tracks go through where the same conditions apply, or is that the only example?

**Mr HIDDING** - The best example would be just in front of the regatta grandstand where, as I said, Hobart City Council put some asphalt over it. That immediately triggered a strong response from TasRail. That is their line in the south line formation. It is required to be maintained for rail and somebody sealed over it. They tried that game elsewhere in Hobart as well on a certain intersection. Somebody sealed over it. That is unacceptable because it creates a perception there is no corridor and the next minute someone has built over it and you have lost your whole opportunity for light rail. TasRail did the right thing and arced up about that and said, 'Pull it out',

and it was then negotiated down to a seven-day removal period. In practical terms, it is there and provides a good service for their boats and things.

**Ms O'CONNOR** - Minister, page 16 of TasRail's annual report looks at the freight task for this financial year compared to previous years. In a line item for logs, in 2015-16 there was about 19 million tonnes of logs and in 2016-17, 19.3 million tonnes, which is a large increase. These logs were transported from Brighton to George Town. Were they transported as whole logs by container? How were they transported?

**Mr ANNELLS** - They were transported as whole logs basically from the Brighton transport hub to George Town with specially constructed gear that made it safer for us to do so. One of the big problems with transporting logs is the potential for them to shift in transit, which is why TasRail got out of transporting logs many years ago. We have been back into it for the last four years because we have much better technology now which largely removes the issue of movement in transit and therefore it is a much safer operation.

**Ms O'CONNOR** - Who is the customer for that business?

**Mr ANNELLS** - Mostly Sustainable Timber Tasmania. That is our principal customer but we have a couple of others. The previously named Forestry Tasmania is our predominant customer, but those numbers seem extremely high to me.

**Mr WHITE** - It's net tonne kilometres, not tonnes.

**Mr ANNELLS** - So it's the number of tonnes multiplied by the kilometres it takes to get them there.

**Ms O'CONNOR** - Okay. Can you confirm there is no transport of timber products by container on TasRail?

**Mr HIDDING** - You don't inspect the insides of general containers but are you talking about logs in containers?

**Ms O'CONNOR** - Logs or chips?

**Mr HIDDING** - No.

**Ms O'CONNOR** - So private operators are part of that customer base, and is that freight business subsidised by the state?

**Mr ANNELLS** - Certainly not from TasRail's point of view; I wish it was, but no. I am speaking as chair of TasRail but what arrangements are in place beneath that I have no clue. We charge a negotiated rate, which has fairly recently been increased, and we expect it to stand on its own two feet.

**Ms O'CONNOR** - When I asked that question before, minister, I think you nodded. There is a transport freight subsidy, isn't there, for that product in part?

**Mr HIDDING** - You shouldn't take what I nod at as being anything other than me understanding a question. As minister responsible for transport I want to see rail contestable against

road. The best outcome by a long shot is that both of them are driving down their costs and being the most productive they can because it is fully contestable. I place on the record my congratulations to TasRail for a record haulage of 20-foot-equivalent unit containers. In November just gone, TasRail freighted a record number of TEUs, 4680 in one month, compared to 4644 the year before for November. The total number of TEUs from 1 July to 30 November year to date was 21 000 compared to 18 700, a 12 per cent increase. That is a cracker performance and it is good I am able to make that observation the day before the chairman retires.

**Ms O'CONNOR** - Hear, hear. I agree completely, but the freight subsidy?

**Mr HIDDING** - If there is any freight subsidy, that is a matter done elsewhere, but for the -

**Ms O'CONNOR** - Is there or isn't there?

**Mr HIDDING** - I am not aware of one because it's not my business. The two ministers for Sustainable Timber Tasmania would be able to tell you that. There may well be. I am peripherally aware of some arrangements -

**Ms O'CONNOR** - There always is somewhere.

**Mr HIDDING** - There could well be. It is important to me as minister for rail that there be full contestability and you can't be contestable if you're fudging figures. This company made a commercial negotiation with various customers. You don't have a flat rate for everybody. I take it you have better volume deals than you do.

**Mr ANNELLS** - It is volume related and how long and whether they agree to take or pay. All sorts of things influence the rate.

**Mr HIDDING** - If somebody wants just one load of logs to be taken up north it is going to cost a heck of a lot more than somebody who moves something every week. It certainly is still part of the make-up of the business where forest residues go out of Bell Bay. We have rail to Bell Bay and that works well.

**Mr JAENSCH** - Minister, in the annual report for 2016-17, there is reporting of strong growth in freight volumes. Can you help us understand where the peaks of growth were in that? What do you attribute it to? What is the mix of increase in productivity in those sectors versus share of the freight task coming to rail?

**Mr HIDDING** - Bear in mind that TasRail does not just operate trains, as it happens. You would be very aware - and you too, Madam Chair and Dr Broad - that the ship loader at Burnie is in fact a TasRail asset and operated by TasRail, and there has been a 41 per cent increase in iron ore ship loading and a 25 per cent total increase in ship loader volumes. That demonstrates that the commodity markets are coming back and the mining industries are well and truly off and running. There has been a substantial increase there. There has also been a 9 per cent increase in total tonnes of cement freighted. While that does not sound like a lot, a big part of TasRail's business is the movement of cement between the Goliath factory and the East Devonport wharf. To see that kind of increase is great for that company and TasRail.

There has also been a 7 per cent increase in general container freight and as I have just explained, a 12 per cent increase just between June and November. They are all headed in the right

direction compared to last financial year and the year before that. There is very good organic growth within this company. There is a five-plus year contract with a west coast mine just renewed to freight mineral concentrates to Burnie and provide storage and ship loading services. Across the spectrum of the commodities carried, there appears to be an increase everywhere which is great news for this company.

**Dr BROAD** - I want to ask about the door for the Rhyndaston tunnel. We understand some time ago funding was spent on a custom-built roller door for the tunnel and tenders were called for for the installation works. Was that door ever installed?

**Mr ANNELLS** - The answer to your question is no, it was not installed. The problem we were trying to deal with at Rhyndaston was that the existing locomotives we had inherited had a very unfortunate habit of running out of motive power half way through the Rhyndaston tunnel because they ran out of oxygen. The clearance was very limited around the locomotive. They were pushing all the oxygen in front of it, so a number of trains in a week would not get through the tunnel. They would have to back up all the way back to Colebrook and start again and have another go at it. This has all been driven by one guy in the middle of the night usually, needing to don breathing apparatus as he or she - I think in those days they were all he - going through the tunnel.

We had a serious issue here. The roller door is actually a solution that was determined as being possible. If we put the roller door at the end of the tunnel - the visual image that this conveys is not very positive - to stop the air being pushed out in front of the locomotive, basically. Then magically the door would open, the train would burst through and go on its merry way to Burnie.

**Dr BROAD** - Burst through one way or another.

**Mr ANNELLS** - Thank you, Dr Broad, exactly, the board had similar concerns. The reason it did not go ahead was that in the negotiations we managed to replace all of our rolling stock, including all of our locomotives to determine that the locomotives that we were able to buy would not have the same problem. It had to do with the air intake being in a different location on the locomotive and the fact that they were much more powerful, therefore would be going much quicker when they hit the tunnel. As a result we did not need the door. From memory, we also put in some mechanism by which we could get more air into the tunnel. A combination of all those things meant that what we thought was a damn good idea at the time was not needed, therefore was a waste.

**Dr BROAD** - Where is the door now?

**Mr WHITE** - Launceston workshops.

**Dr BROAD** - What was the cost of the door?

**Mr WHITE** - If I recall, about \$40 000.

**Mr HIDDING** - How long ago was all this?

**Mr ANNELLS** - I would say 2010 or 2011.

**Mr HIDDING** - First I have heard of it.

## UNCORRECTED PROOF ISSUE

**Mr WHITE** - It still may be required. It was a requirement of the new locomotive manufacturer to be able to transit the tunnel through testing without failing. That all happens. I am not sure that we have ever have a loco fail through it. As these units get older over time, it may well be something that we need to install.

**Dr BROAD** - The oxygen matter, I am a little confused as to what the actual issue is. Obviously we do not want train drivers running out of oxygen to breathe. It is a diesel, it still needs some oxygen.

**Mr ANNELLS** - Absolutely.

**Dr BROAD** - My understanding was diesel worked by compression rather than -

**Mr ANNELLS** - Of oxygen.

**Dr BROAD** - It still needs it, okay.

**Mr ANNELLS** - Whatever the reason, regularly our trains were stopping.

**Dr BROAD** - Obviously that is not ideal.

**Ms O'CONNOR** - Minister, page 52 talks about other liabilities that TasRail carries. There is an interesting line item here. Perhaps the outgoing chair would flesh it out a bit. It talks about deferred grant income. The deferred capital works funding from the Tasmanian Government has a line item this year, which I presume is the calendar year, of \$29 million. Then last year a bit over \$20 million. The Australian Government's deferred grant income is \$801 866. What is that about?

**Mr ANNELLS** - It reflects the fact that we have received the anticipated grant income from the state in advance, whereas with the Commonwealth we draw it down effectively in arrears.

**Ms O'CONNOR** - Pardon my ignorance, I am not -

**Mr ANNELLS** - Because we have to do the work.

**Ms O'CONNOR** - When it is described as a liability, can you step us through what it means? It looks like the Commonwealth Government is starving TasRail of funding. It looks like there is a delay in allocations from both levels of government. Could you just explain why it is in the liabilities list?

**Mr ANNELLS** - It is in the liabilities list because we have an obligation to undertake work to remit, to draw down this money. This is simply demonstrating that. The state Government provided some of its funding due over a four-year period and they provided it all at once. We have it. We cannot just put it in the bank and just treat it as income, we have to treat it as a liability in the sense that we have to do the work that justifies having the money. The Commonwealth does not do it that way, unfortunately, and there is nothing wrong with that. They have said you, will get so much each year for four years and at the moment, at the end of the year, we are \$800 000 in front of that. The Commonwealth would then send us the next parcel of funding when we've done the work.

**Ms O'CONNOR** - Okay. Perhaps this is a question for the minister, because it extends across your Transport and Infrastructure portfolio. To what extent was TasRail involved in State Growth's

## UNCORRECTED PROOF ISSUE

submission or infrastructure on Tasmania's very belated submission to the Infrastructure Australia Priority Infrastructure List for Hobart light rail?

**Mr HIDDING** - No, not at all. We haven't involved TasRail in any of those considerations because, as the chairman said, we need TasRail to focus with a very strong focus on its operation as a short haul freight carrier contestable against roads. Clearly, they have all sorts of expertise that would be required -

**Ms O'CONNOR** - That's right. It is very curious to leave them out.

**Mr HIDDING** - when you build it. Right now we've submitted light rail as a priority project to hopefully have it accepted as a priority project by Infrastructure Australia. That is not for funding; they don't provide funds, it is a status project. Working on the reports that your government had done, so that's the material that has gone forward. To date there has been no requirement for us to ask direct questions of TasRail of any technical arrangements, because we're not at that point.

Certainly anything to do with rail there are people around who you could ask those questions of. In this case the submission to IA does not require any technical information.

**Ms O'CONNOR** - Can you see a point at which TasRail will be brought into the frame, given the expertise, given it's their corridor?

**Mr HIDDING** - That's the same question that we had at the start of this. Do I think that TasRail could be involved in a light rail proposal? As they are currently the holders of the lease across the formation that is the very start of a discussion there. From thereon in, as your reports that you had done while you were in government all say there are earlier matters than that to address, which the Hobart City Council and the Glenorchy City Council are down the track of doing. They have done a good job in that area of promoting development of medium density, urban infrastructure along a previously heavy rail corridor.

**Mr STREET** - Minister, I am assuming that the amounts that Ms O'Connor was talking about as contingent liabilities refer to amounts that are part of \$120 million infrastructure investment program between the state and federal governments. Can you update the committee on where we are at in terms of expenditure on this program for the 2016-17 year?

**Mr HIDDING** - First I should say that when we came to government we found to our distress that the previous government had zero money in the budget for an infrastructure investment program that they knew was coming and that we had to negotiate. This meant we had to find a new \$59.8 million.

**Ms O'CONNOR** - You are aware that we're the only state in Australia that does not have an Infrastructure Plan, so go on have a crack at the previous government; the only state in Australia.

**Mr HIDDING** - Zero money in the budget and \$59.8 million. We found that. A \$122 million project or a \$19.6 million is the joint infrastructure investment program underway and it has been going very well.

In 2016-17 the financial year expenditure was \$52.3 million comprising \$48.7 million in the projects related to the IOP and another \$3.6 million in TasRail-funded capital expenditure projects. The funding is largely directed to maintaining the safety and reliability of the network, ensuring

TasRail can maintain fit-for-purpose operation and achieve its key goal of delivering freight in a timely, safe and competitive manner on behalf of its customers.

Nineteen contracts were awarded under the IOP program to predominantly Tasmanian companies, as part of TasRail's buy local policy. Contracts focused on major works to tracks, level crossings, bridges, rail defects, joint welding and track monitoring equipment.

Some of the projects in this last year: track works and joint welding on the Melba Line, Rosebery to Burnie, painting and repairs to the Clarendon Bridge, strengthening repairs to the heritage-listed Longford Bridge and critical level crossing upgrades and the Burnie wheel lathe project that we spoke about. There is a lot of activity in this place and all of it is contributing to the very good safety record and the fact that we are now 850 days without a derailment. Without question there is a linkage between the two. If you spend money below rail you get further and further away from those concerns. As I say now becoming a highly contestable business against road, which is the sweet spot from a Transport minister's point of view.

**CHAIR** - Thanks, minister, I will suspend the hearing until 2 p.m.

**The Committee suspended from 1 p.m. to 2 p.m.**

**CHAIR** (Mrs Rylah) - I declare the meeting open again.

**Dr BROAD** - It is understood TasRail came very close to meeting its capital expenditure targets for the below rail infrastructure. How much of this capex was spent locally?

**Mr ANNELLS** - It is 58 per cent of all goods and services, so that is not just below rail, it is everything we consume. So 58 per cent was paid to businesses with an ABN registered to a Tasmanian address. This represents \$50 million and is up from 48 per cent in 2015-16, so we are really trying to meet the buy local policy. I don't have this for below rail. The fact it is \$50 million means most of it is our below rail expenditure and there are only a couple of contractors in Tasmania big enough and with the necessary expertise to do a lot of our heavy below rail work. We consume a great deal of other goods and services from a range of people, and 58 per cent of them are from Tasmania.

**Dr BROAD** - Apart from below rail, what would those other things be in a general sense?

**Mr ANNELLS** - A lot of this volume is the purchase of material such as steel rails and concrete sleepers that aren't made in Tasmania, so you have to go offshore. We run a business so we have office costs, staffing costs and all the consumables and so on.

**Dr BROAD** - Do you have a defined buy local policy?

**Mr ANNELLS** - My understanding is the government has the policy and we follow it.

**Dr BROAD** - The annual report says 19 contracts were awarded predominantly to Tasmanian companies. Is that correct?

**Mr ANNELLS** - Yes.



**Dr BROAD** - So what is next year's planned expenditure and how can small to medium-sized Tasmanian-owned businesses obtain more work from TasRail?

**Mr WHITE** - I will outline some of the things we couldn't avoid but buy off island. There was \$1.4 million of insurance; rail clips, \$1.5 million; one of the below rail capital contractors is from interstate and that was \$2.9 million; the train control, \$1.6 million; the Underfloor Wheel Lathe, \$1.1 million; sleepers from OneSteel, \$5.7 million; and rail, \$4.8 million. There has historically been one predominant rail contractor in Tasmania and they have rail skills and rail accreditation. For another local contractor to establish themselves, particularly around rail accreditation, is quite difficult. We have been quite proactive in trying to partner up a mainland-based organisation that can pick up the primary contractor role, who has the accreditation, but employ some of the Tasmanian-based contractors. That helps with the buy local policy and it gives us some ability to get some competitive tension in the market as well.

**Dr BROAD** - What is next year's planned expenditure? Is it possible to scope the work so that it can be broken up into chunks that small- to medium-sized enterprises can take up?

**Mr WHITE** - I suggest we do that as much as possible now. It's in our own best interests to have as many people capable of doing the work as possible. We're trying to improve on that model so that will have more people available to do that work.

**Dr BROAD** - What's your planned expenditure?

**Mr WHITE** - On below rail? That is a question I'd have to take on notice in terms of the specifics. Our total program is roughly \$120 million. We've spent \$88 million of that to date, so the remainder is over the remaining 18 months.

**Mr HIDDING** - So there's about another \$40 million to go over the next 18 months. That probably brings it into line with the average expenditure of a year around \$40 million to \$50 million, or \$30 million to \$40 million, or \$44 million next year.

**Mr ANNELLS** - Sorry, next year is \$20.5 million and the year after is \$23.2 million and that completes our \$120 million. It is \$20 million next year below rail.

**Dr BROAD** - Just one question to add to that. The work that's been going on in the Burnie Port, the reorganisation there, has that been completed?

**Mr WHITE** - The optimisation?

**Dr BROAD** - The shunting.

**Mr WHITE** - Yes.

**Dr BROAD** - That worked to plan? Has it been a success or have there been issues with it?

**Mr WHITE** - What it's done for us is remove the connection between us and the ship. The historical issue has been that while ever the ship was in berth our train could not be on the wharf, which caused both us and the customer some grief. We've been able to disconnect those two

activities, which means we can turn our assets quicker. If the ship is late we're insulated from that. It has also provided a footprint for other customers, other than the incumbent customer up there.

**Dr BROAD** - The shunting out to - that has been going on.

**Mr WHITE** - That's finished.

**Ms O'CONNOR** - Minister, we've had discussions across the table about climate preparedness and whether State Growth is undertaking any work on infrastructure issues that might become more of a problem as climate disruption accelerates. Are you able to talk to the committee about the impact of the floods, the work on the Kimberley Bridge reconstruction and whether or not TasRail is doing any mitigation work or preparing for future sea level rise and other climate-related events?

**Mr HIDDING** - Sea levels rises is a coastal matter.

**Ms O'CONNOR** - The north-west tracks are probably the most vulnerable.

**Mr HIDDING** - They are what they are. There are no proposals to lift them up, but there is a situational awareness, I guess, in that space. As for the extreme event of the flood of 2016, which I accept you characterise as part of a climate change cycle, whether they are or not is not the question here. The question is whether TasRail is mitigating future activities? Certainly the Kimberley Bridge area has triggered a hydrological study to understand the catchment in that area.

Most of the issues that impacted upon TasRail were about debris and downed trees and what they were doing, considering the force of the flood and the potential danger of them collapsing infrastructure, or at best resting against infrastructure and causing a dam.

There is certainly an awareness of those matters and everybody was surprised at the ferocity of the rainfall event in that Mersey catchment. It basically blew everyone away, including the bureau and all experts. A flood study has now done, headed by Mike Blake, that explores a number of these issues and makes recommendations.

As far as they relate to TasRail, they may have a comment on this, but for the department and as a minister it is something that must be considered in the future for planning of any new infrastructure and for the protection of existing infrastructure.

**Ms O'CONNOR** - What of Mr Blake's recommendations related to TasRail and what action has been taken on them?

**Mr HIDDING** - I'm not sure if there's a link directly to TasRail.

**Ms O'CONNOR** - Rail infrastructure and areas association with that.

**Mr HIDDING** - I am happy to throw to both of these individuals but most of the concerns were about bridges that are not necessarily uniquely rail bridges. The Kimberley Road bridge is one and there is another somewhere else that was blocked.

**Mr WHITE** - Down the road a little bit.

## UNCORRECTED PROOF ISSUE

**Ms O'CONNOR** - It is a question about adaptation planning and whether or not Mike Blake's report impacted on the way TasRail manages its assets.

**Mr HIDDING** - From the recommendations we are still working through -

**Ms O'CONNOR** - What recommendations are related to TasRail, minister?

**Mr HIDDING** - I do not have them in front of me.

**Ms O'CONNOR** - Perhaps we can ask the CEO.

**Mr WHITE** - From my recollection of the report, there were no specific recommendations for TasRail around the Kimberley bridge or anything to do with the flood event. As background, we were faced with a critical piece of infrastructure that was demolished. We were able to redesign it to help future-proof it, so there is an additional five-metre span to provide greater capacity in the case of future flood events. The design is also able to facilitate putting piers on and ultimately having a number of different spans to increase the capacity over time, if required. In that very short time we were able to design some mitigations, including rock-armouring the current formation. On other sites, as part of our infrastructure investment program, there were already coast erosion sites nominated for upgrades and we recently released some tenders for that.

**Ms O'CONNOR** - So in terms of adaptation planning for TasRail's infrastructure, there is no specific body of work happening that looks at potential climate impacts but there are some works happening on an ongoing basis that don't have an overarching adaptation plan attached to them?

**Mr WHITE** - The coastal erosion stuff has really been picked up over the last couple of years, understanding that there has been increased coastal erosion on those sites, particularly between Burnie and Ulverstone. That is where we are doing a lot of work. We have done a hydrology study around the work that was completed at Kimberley, so we have an understanding that there is now increased capacity, but there has been no specific work right across the network looking at those issues.

**Ms O'CONNOR** - Do you think that is something that is potentially sensible and desirable?

**Mr WHITE** - Bear in mind that our current capital program was designed around the network and all the defects we inherited at the time. We are dealing with that. Once we get our head above water, pardon the pun, it is probably a good time then to look more broadly at what other risks are out there, beyond fixing the bleeding obvious.

**Mr STREET** - Minister, earlier in the hearing Mr Annells said that short-haul freight rail was one of the quickest way he knew to lose money, but the trajectory of TasRail's performance is going up. At what point can Tasmanians expect to see an above-rail profit from TasRail, if ever?

**Mr HIDDING** - Because he gets that delighted look on his face and glint in his eyes but at the same time the knowledge that when it does occur it is going to be just after he leaves, I am going to ask the chairman to answer that because it is a matter of some delight to him.

*Laughter.*

**Mr ANNELLS** - It is, because nobody wants to be in a loss-making situation. Everybody understands a great deal of money has been made available to this railroad, most of it going below rail, but nevertheless a significant amount, particularly of state money, has enabled us to replace and renew all of our above-rail fleet. Our anticipation is that as long as there are no unforeseen events we will end up in a profit situation at the end of this financial year and it will be in the hundreds of thousands, not millions. In this business, hundreds of thousands can disappear on you just like that. The flood event cost us, on its own, \$5 million after we got what we could back out of insurance.

We will be operating in a modest profit for the foreseeable future. We are, however, a microcosm of the Tasmanian economy. If the Tasmanian economy is doing well, then we by nature do well as well. The biggest issue for us really is whether the mining industry continues a trajectory of growth. If it does we will benefit considerably, not only because we haul the material but we store and load it in the overwhelming majority of cases.

There will be modest profits. The intent has been foreshadowed by this Government - and future governments will have a different view perhaps - is that we should reinvest whatever profit we make into below-rail to reduce the degree of the subsidy for below-rail. The subsidy for below-rail has moved from something in the order of \$17 million down to \$8 million this year. That is what is in the foreseeable estimates. It is a real challenge for the incoming board to meet that, but if you look at our projections in our business plan I think we are well placed to make a modest above-rail profit and to significantly reduce and maintain a significantly reduced below-rail subsidy.

**Mr HIDDING** - There is an industry standard that an above-rail business pays to a below-rail business in the commercial rail world and TasRail operates on that basis. One pays the other so it is transparent and contestable. At some stage the ideal thing for the below-rail infrastructure would be that ongoing investment in maintenance would be at market figure as well so that the same as any rail business in that it pays for its below-rail per year, currently still now inflated; there is a second IIP yet to finish off. When we get to that point, in order for rail to be fully contestable against road - and that is the sweet spot for everybody when everything performs at its absolute best and the economy benefits by that - you would have no overt or covert subsidies in there. It would be washing its own face, doing its stuff.

**Dr BROAD** - Just on that, TasRail has been operating in its current structure since its establishment in 2009. The original rationale for the vertical integration of the business is well understood, but is there any merit in revisiting the opportunity for the separation of below and above-ground aspects of its operation? Instead of just having this paper wall between them, having those as two separate entities and therefore opening up competition above rail?

**Mr HIDDING** - Yes. This was widely examined with the Legislative Council inquiry into TasRail. It was well examined and well explained. I will hand over to the chairman in a moment, who has a clear view on this matter. I am of the view that paper walls are not as strong as real walls, so ideally it would be better if it was in separate ownership eventually. That is when all the money has been spent on the upgrades and there is more to come. We are probably at least five or six years away from genuine consideration of that, but when that occurs there should be genuine consideration of it. Incidentally, I wouldn't propose that anyone owns the below-rail infrastructure other than the Government. That was the great failure once before, when the then government gleefully accepted an offer from a private multinational to take the below rail and above rail off our hands. Of course, they did not spend money on either and here we are still suffering. We will be for another few years yet as a result of private sector having no interest in Tasmania's infrastructure,

none whatsoever. Why would they? Their share price is their only driver. I am generally of the view that the below rail should remain in public hands just like the highway would. You would no more sell the highway than you would the below rail. That is my general view on the matter but I know the Chairman has a strong view on this disaggregation matter.

**Mr ANNELLS** - With your forbearance, Chair, if I may. I will not go on and on about this because my views are pretty well known. The temptation to say that there is money to be made QED private enterprise would be (a) interested, and (b) will do it better. I am not saying you said that, I am just saying that is the temptation that everybody said you get the above rail business to wash its face and someone will come along, take it over and run it better. My argument against that is not that they necessarily would not run it better, though history in Tasmania would suggest that that is a pretty long bow, but it ignores the enormous synergies that exist through vertical integration.

One of the biggest problems of a disaggregated system is that you have two different profit centres, more importantly cost centres, one of which - the above rail - is obviously trying to get into a profit situation. Below rail you try to minimise the requirement for government subsidies. It is the same thing, no difference. The problem is that the economies of a railway of this nature and in fact most natures are linked to (a) economies of scales, which we do not have, or (b) the ease of which the governing body, that is the board, can pull all of the levers that are needed to make it an efficient operation. I will give you one example. If you own and operate the below rail but you do not operate the above rail the imperative to get rid of speed restrictions disappears. You are much more likely to hang on to speed restrictions which you would apply as the below rail owner because you do not pay the consequence. The consequence is paid by the above rail operator who cannot run to a schedule. So you get this tension all the time between the above rail operator saying, 'I need to be able to do 60 kph along this section of track to meet the ship at Burnie' and the below rail operator saying, 'Sorry, we say you cannot'.

Damien and his people go through that internal discussion every day. Every day you are making judgments about lifting the speed restriction. 'Are we putting ourselves at risk, are we putting our staff at risk?' On the other hand we are trying to run a more efficient railway here and to keep our customers we need to be able to meet certain timing. There is no magic bullet, it is a judgement call every day. If you set up two different cost centres the conflict at the interface will grind this business back to where it came from.

**Dr BROAD** - The converse of that then is if there is significant benefit from economies of scale and vertical integration then how about extending the model to include TasPorts and have a larger Tasmanian infrastructure business that includes TasPorts above rather than below rail?

**Mr ANNELLS** - This was looked at in great detail. This minister asked us to review that. We were not opposed to the concept but we had to be convinced, like the board of TasPorts had to be convinced, that there would be real economies of scale. In some areas there are. There are, however, some competition neutrality issues which get raised when this is discussed. The consultants who were asked to look at this, I cannot remember who they were, said the two businesses are quite different, though the area where we do overlap is in terminal maintenance. We manage Brighton but TasPorts could have managed Brighton. It is just a port by another name that happens to be inland. I would not say you would never look at it again. There are many ways you might expand TasRail. As long as there is a recognition that by that expansion you (a) take the management's eye off the freight ball 100 per cent. That will have a consequence. Does it matter?

## UNCORRECTED PROOF ISSUE

I do not know. It depends whether people accept that a bigger operation requires more head office, more planning, more strategy, more risk taking etcetera.

**Dr BROAD** - Potentially removing duplication as well.

**Mr ANNELLS** - It could potentially remove some duplication, absolutely. But running a railway and running ports are different businesses with very different safety regimes. A railway has a specific safety regulator sitting in Adelaide that watches everything we do. TasPorts has significant safety concerns, but they are large internalised. They are things for them to worry about and to make sure they are right.

**Mr HIDDING** - That is right.

**Dr BROAD** - What is the neutrality issue there? Can you flesh that out a bit?

**Mr ANNELLS** - I am trying to think of the issues that were raised at the time. They were to do with priority for rail freight over road freight. If we control both the rail and the port terminals, then the concern of the road industry is that we could make it easier for people who were transshipping on rail than for people on road because of the competitive issues. Therefore there are some competitive neutrality issues.

**Mr HIDDING** - Nothing that could not be overcome. Competitive neutrality is quite simple. If the port company owns a rail company it can simply charge trucks more to enter a port than it does rail. It is a reasonably obvious point that the report made. It names those competitive neutrality issues. The chairman is right, there is a case for, but not a strong case. There is a case against, but not a strong case. It remains of interest to this Government, but not as a priority matter.

I have become aware since that report was done that there is a very specialised set of directorships required for rail that I have not perceived elsewhere. Not that they are not interchangeable, but there are some very special skill sets required in the board of TasRail for all sorts of reasons.

**Dr BROAD** - Is it legislative?

**Mr HIDDING** - No, it is experience, I should say.

**Mr JAENSCH** - Minister, you made reference earlier to the new underfloor wheel lathe in Burnie, which is very impressive, undertaken in 2016-17. Could you tell us a bit more about that in terms of the mix of local and other procurement that it represents, as an example? Also, what benefits are there from that project for the rail business and also for its clients?

**Mr HIDDING** - About 10 or 12 years ago, when in opposition we arranged to have a look at TasRail's workshops at Hobblers Bridge Road. We had a look at these massive lathes and what was taking place there. We had not understood how important a round wheel is to rail, and how it could be out of round, what actually happens when it is one or two thou out in its profile. We will take two sentences from CEO to explain how it gets out of round.

**Mr WHITE** - It is a poor wheel-rail interface. If you let the wheels, the profile, wear beyond certain limits, it will certainly become unsafe. It will use more fuel to drag the train around. It will create more noise. The wheels will wear quicker. It will wear rail.

**Mr HIDDING** - We saw the manual way of doing it. A loco would arrive, it would have to be elevated with very heavy machinery and manpower manipulating a wheel over to the lathe and away it would go. They had exchanges they would put on, but they would be operating this the whole time. This below-ground one means that the wheels stay on the train. It was commissioned to be in Burnie at a cost of \$5.5 million, to deliver significant efficiency, safety improvements and savings in time and money, precision German technology so the buy local policy fizzled there we were not able to buy one in Tasmania. A German company makes those. Funded by TasRail's capital expenditure program. The current system requires 1680 wheel sets on TasRail's locomotives and wagons to be removed manually for re-profiling once a year. Every single wheel has to come off at least once a year. This results in each locomotive being out of service for approximately six days. The new Underfloor Wheel Lathe enables the rolling stock to be moved over the lathe pit by remote control electric shunter. So the wheels remain on the rolling stock throughout the re-profiling process. Reductions in times are resulting in improved efficiencies, enhanced service, reliability and reduced maintenance cost.

We think the wheel lathe will improve wheel wear by up to 30 per cent and reduce noise level emanating from the Burnie rail yard and elsewhere, I take it. It is noisy on the network anywhere if they are like that. Wheel lathes of this type are based on extremely specialised technology. Following an open market tender German company, Hegenscheidt-MFD, was selected to supply the equipment, inclusive of an on-site support throughout the installation and commissioning stages. Having identified and procured the wheel lathe technology TasRail went to market for the construction and civil works contract which was subsequently awarded to the local company Stubbs Constructions - it is great to see them win that. The works package has created up to 35 local jobs including 12 subcontractors at an estimated \$600 000 local spend on goods and services.

The buy local component for the project is \$2.1 million including the cost of the building and the associated new track work. So a good job all around. It is great.

**Ms O'CONNOR** - There was talk earlier, minister, of whether TasRail would expand in the context of TasPorts. Is the rail network as we see it here, now, the extent of TasRail's ambitions, if you like? Are there any future plans or consideration being given to an expansion of the network further than it is now?

**Mr HIDDING** - TasRail is very clear on this matter. It would prefer no expansion at all. It is a known quantity now. They service known markets for instance the rail line to Fingal carried x amount of coal through to Railton and a road carrier using trucks was carrying coal to the south to Boyer. We have now won that contract back and that is great. It has got trucks off the road as well. That is that rail spur operating to its maximum. There is nothing else to carry on it. They are carrying everything that is available in that Fingal Valley and that is a great outcome.

**Ms O'CONNOR** - Except for the climate but we can talk about that some other time.

**Mr HIDDING** - Sure. Electric trains perhaps?

**Ms O'CONNOR** - No, coal?

**Mr HIDDING** - I am slow on the uptake. The other spur is the Railton spur which is crucial to that company where not only do you have incoming coal but then moving the clinker from the

factory down to the West Devonport Port, a crucial link. In fact did I read it carries the most - it is a very substantial part of our business.

The Melba Line that is operating well but in terms of potential could be extraordinary and we are continuing to hear about mine investment. There is certainly a lot more capacity possible on that line.

If your question is do we see TasRail going wider than its current network? The Government certainly doesn't. TasRail tell me they are not. However our policy to permanently preserve the formation of all other non operative rail corridors means that it is entirely possible.

**Ms O'CONNOR** - Can we assume the increase in coal that is freighted by TasRail, which has jumped from 28 million net tonne kilometres (NTK) to 44.8 million, is that because the contract to Boyer was resecured or has there been an increase in coal production and an increase in production at Railton Cement Works and the Boyer mill?

**Mr WHITE** - In the main it is transferring existing freight from road to rail for Boyer and a small increase as the cement works increases its overall volumes of increase in consumption of coal at Railton.

**Mr HIDDING** - We went up 9 per cent in carrying cement clinker down to the wharf and something needed to provide that, and that was coal.

**Ms O'CONNOR** - As to TasRail's customer base, it seems it is fairly heavily dependent on coal, cement, some stuff from the west coast. What work is going in to having a look at the customer base of TasRail, given you are so heavily dependent on a few large industries and operators?

**Mr HIDDING** - One of the main transport partners of TasRail is Toll. Toll is essentially a road transport company and shipper but in this case they are a very strong partner of a rail company. Their investment in the Brighton Hub will ensure they are a permanent partner.

**Ms O'CONNOR** - What does that mean practically for TasRail's business?

**Mr HIDDING** - It means you have a base load of the kind of heavy freight which best belongs on rail, such as the zinc, but as well as that there is lots of ordinary container freight that could be on the road that they are choosing to put on trains because they have contracts and are such close business partners. There is also SeaRoad that operates ships as well - and they are a major trucking company. Latterly, they have been using rail, somewhat speculatively to see how it goes, but they are prepared to use the contestability of TasRail against their own businesses.

**Ms O'CONNOR** - Is that because it is cheaper or more efficient? What is the thinking behind that? It is a very positive development.

**Mr HIDDING** - That is a good question.

**Mr WHITE** - There is a picture in my mind, which I would love to show you, which is the original businesses we had when we started. I refer to them as the 'poor sods who had no other choice'. We now look at the network and the diversity of businesses we have and it is vastly changed. There is a lot of business we don't get because we are not cheap enough but more and more, particularly people such as sophisticated customers, are looking at green credentials, safety



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credentials, security of supply, dealing with professional people, increases through the heavy vehicle regulations that are changing. Companies are noticing there is an exposure by having their freight on road, so that is the sort of thing we are working with.

What we have been doing over the last seven years is to get a credible operation to prove our reliability. We are able to do it at a reasonable cost and still get the commercial returns we need. We are now at the point where we can start to leverage off those other credentials.

**Mr ANNELLS** - One of the interesting challenges eight years ago was that we had this massive engineering challenge in front of us which you looked at and thought, 'Crikey, how are we ever going to get there?' and we are not there, but we are long way down that path. In the first five years at least of the eight years we were an engineering company running a business on the side, bolted on to this massive engineering company. We have spent hundreds and hundreds of millions of dollars on engineering.

About three years ago the board and management decided it was time we changed our focus. We had to become a transport company - railroad - with an engineering capacity bolted on. We did a number of things and the most significant was that we established a specific business development unit and that unit has grown in both size and capacity over the last few years to a very pleasing extent. We refer to it as beating the bushes and we beat the bushes all the time.

**Ms O'CONNOR** - Does that mean you're not aggressively marketing, but going out to business -

**Mr ANNELLS** - We are aggressively marketing, but not on price. So we are not trying to undercut anybody. What we are saying are all the reasons that Damien just enunciated. Not everybody will respond. A lot of people say, 'Too hard, I remember the bad old days', or they have a just-in-time mentality which means fixed train schedules is just anathema to them. We don't win all the business and we don't keep all the business we do win, but we win a lot. We've won a lot in the last three years through our business development unit. Only as recently as three months ago we locked them in a dark room and told them not to come out for two days until they came up with a list of how to double this business. That is what we are working on. We are now running a customer-focused business with an engineering capacity.

**Mr HIDDING** - As an example of that with those terrible floods where not only did we have some washouts upstream of Conara but also the bridge down at Kimberley, TasRail essentially became a road operation overnight. They said to their customers, 'Your freight will get there on time at the same price.' It was a neutral outcome for their customers. In the past when they were in engineering operation it would have been, 'Suck it up while we fix ourselves up.' It was a full customer-focused decision to make and it was an outstanding performance by Damien and all of his people. It was just an extraordinary customer-focused activity.

**Dr BROAD** - When I was elected in April a number of people contacted me about noise issues, especially in towns with a number of crossings. Ulverstone is probably an example you have heard a lot of. Are you still getting complaints about noise, especially with the tooting of the sirens and so on? Has that petered off or is it still pretty current?

**Mr WHITE** - I know there has been a significant reduction not long after we introduced the new locos, because most of the noise came about with that because as a new piece of equipment they were required to comply with the current standards at the time.

**Mr HIDDING** - Geez, they were loud though.

**Mr WHITE** - Despite that, people still go through crossings. We amended our horn-blowing protocol. It was originally on the approach to every crossing at any time of the day, four seconds in advance and then 1 second as you go over the crossing. We then amended that so that between the hours of 10 p.m. and 6 a.m. it is then at the discretion of the driver, but as a minimum one second and one second, and that has driven a significant reduction.

**Dr BROAD** - Are you still getting complaints?

**Mr WHITE** - We still get some complaints. For the year just gone we had 20 train noise complaints, in the previous year there were 35, in the year prior to that 72, and in the year prior to that there was 132. We continue to look at ways we can get that down lower.

**Dr BROAD** - So you haven't reduced the volume of the horn?

**Mr WHITE** - No.

**Mr HIDDING** - Different protocols, though.

**Dr BROAD** - On the matter of safety, it is outrageous the number of people who play with their lives and play chicken with trains and so on. Has there been some consideration in potential solutions such as boom gates on some intersections? Have you had any thoughts about that sort of thing or other safety solutions, apart from putting up cameras and trying to get people after the fact?

**Ms O'CONNOR** - There was work happening with Tas Police, wasn't there?

**Mr WHITE** - Yes, there is still work happening with Tas Police. We've certainly found enforcement changes behaviour. You would think the risk of being hit might be enough, but we know in the road network that is the same. We've increased the number of static cameras we have around the state. All of our locos have forward-facing CCTV cameras so if our drivers report an issue, we can review all of that material and download it online from the cameras. If it was close, a near-miss, if we have evidence we give it to the police and they follow through with it very well.

**Dr BROAD** - But that is after the fact. Can't you do that in real time?

**Mr WHITE** - It is quite real time, bearing in mind that much of this might be happening in the middle of the night. It is reasonably quick. We are looking at some alternative technology. We have some support from the rail regulator for us to look at what alternative technology we could be using around level crossings because the traditional technology is very expensive and when we look at both rail and road volumes in Tasmania, the investment is such that it cannot justified, but if we can develop some alternative technology and lower costs, there is a potential to start to improve.

**Dr BROAD** - What things are you talking about there? Obviously not boom gates and things like that, but what other?

**Mr WHITE** - Possibly boom gates, but it is really about replicating the current, particularly on passive crossings that are only protected by signs, with traditional bells and lights going off on

those many passive crossings we have. The experience is that boom gates are not the panacea. People drive through them, around them and get caught in between them.

**Mr ANNELLS** - I can absolutely guarantee that. In Melbourne we had literally hundreds of crossings with boom gates and an enormous number of people were getting collected by trains because they just drive around them. I didn't run the country service, thank goodness, but they had an enormous problem because people just ignore them. Education is not very good but it is the best we've got and, as Damien said, following up with enforcement and us having CCTV on our trains now makes a hell of a difference because it is no longer 'he said, she said', it is have a look at what happened.

**Mr JAENSCH** - Minister, can you please outline the safety performance of the company in 2016-17?

**Mr HIDDING** - The company's record in that space is something it is very jealous about. As I read out at the start, the lost-time injury performance of the company was exceptional. There has been only one LTI, who was a contractor, not that TasRail is trying to wash their hands of contractors in doing this but it is not the same as one of their own trained people. One LTI occurred by a contractor on a TasRail site and the other two LTIs occurred from events in 2015-16 and carried over. It has been a good year with zero safe working breaches in the 12 months to 20 November and no main line derailments outside yards for 850 days. That should not be extraordinary for a rail company because everything you do is to keep the trains on the tracks, but given where we were before that is terrific and reflects the effects of the expenditure that has been put into the below rail. There has been a 38 per cent reduction in level crossing failure to stop or giveaway, a 36 per cent reduction in trespass incidents, which I take is people mucking around on the rail, is it?

**Mr WHITE** - Yes.

**Mr HIDDING** - A 69 per cent reduction in animal collisions with trains and a 26 per cent reduction in reports of livestock on the rail corridor. All TasRail employees have been inducted into this safety circle process which is a behaviour-based initiative focused on going home safe and well every day. It is a metric that speaks to the heart and soul of the company and I know the chair and CEO are very proud of it and so they should be.

**Dr BROAD** - In the process of gearing up for a potential mine that Venture were proposing, some new above-rail equipment such as locos and stuff were purchased. When was that completed?

**Mr ANNELLS** - I cannot recall the date. Well 2015-16, maybe 2014-15. We did not buy any more locos. We were intending to use our existing locomotive fleet. I think I am right in that, but we certainly investigated and did buy some more wagons, particularly ore wagons. The fact is we can use them elsewhere. The Venture problem was a big problem for us but I am personally not worried about the purchase of additional ore wagons because we have been able to use them.

**Dr BROAD** - So they are in use?

**Mr ANNELLS** - Absolutely. They are in use as we speak. The Venture costs for us, apart from the enormous amount of work at a management level and a board level trying to get this thing off the ground, were to be found in the work we did on the track, mainly in the provision of passing loops. That in one sense is sunk cost that we hopefully will get the benefit of at some point in the future. Someone else will come along wanting to dramatically increase the tonnes carried on the

Melba line. To do that we need passing loops. Those passing loops, I am not trying to gild the lily here, were put in specifically to enable us to service Venture and Venture is quite close to Burnie. However, they are not sunk and never to be used. In my view they will be used at some point. We have discussions going on now with a mining company where potentially we could go back to the million-tonne-a-year range from the 250 at the moment. We are going to need passing loops if that is the case.

**Dr BROAD** - Where are these passing loops?

**Mr ANNELLS** - There were two built for Venture.

**Mr WHITE** - There was an extension of one at Ridgeley and I cannot tell you off the top of my head where the other one was. Maybe at Bastion Dam.

**Dr BROAD** - The minister talked about not wanting to extend the network,

**Mr HIDDING** - There are no plans to extend the network. What I am saying is the capacity is there but it is not operable.

**Dr BROAD** - The idea of funding some new sidings. There is a proposal at Hampshire for funding a siding to make that more relevant instead of putting that ore in trucks to get it to port putting it on the Melba line or the train into the port.

**Mr ANNELLS** - We have had a number of considerations about sidings. Sidings are obviously very important, as are spur lines. At the moment we are having discussions about reintroducing an old spur line and who pays for that. The thing we learnt from Venture, I would not like to use the word naive, is we got ourselves so determined that we would help this company get started and that we would not be the cause of delays. All rail infrastructure takes forever to build. It is expensive but it also takes quite a while, unless you have an emergency like the Kimberley bridge. We pushed on and took some commercial risk that turned out to be incorrect. I do not think it will be up to the new board but I would be loathe to do that again. We do not want to be seen as part of their problem either. We want to be seen as part of the solution, both to government and to the company. There is a balance here between how far we go and who pays for what. We do not have the capacity under the Commonwealth funding arrangements to deviate into the non op lines. If we want to go into the non op lines we have got to go back to the Commonwealth and get them to renegotiate the funding agreement.

Their funding agreement is very specific to the operating network. There could even be an argument about whether spur lines and sidings would be covered by the original funding arrangement. If it was that would make it easier. If it was not we would still look at it depending on the scale and we would fund it internally. I am talking as though I am going to be here. I am not, but that is the discussion the board has had. We see ourselves as a service provider that is absolutely critical to getting some of these employment opportunities off the ground. If we are guilty of anything, and we are, it is that we have allowed ourselves at times to go a bit too far, and then circumstances outside of everybody's control has meant that the project has not got going.

**Mr HIDDING** - That is hindsight, and it would not necessarily stop the company from having exactly the same considerations and sweating over it, and asking guidance from the ministers who would say, 'It is a call for you. You need to make that judgment'. That is the thing about state-owned companies, they do not operate in a vacuum, they are part of Tasmania Inc, but they cannot

make silly decisions. They cannot subsidise something. It was always thus for any commercial entity that it has speculative investments that could pay off big time or not at all.

**Ms O'CONNOR** - Minister, in the annual report, page 55, it details remuneration to executives. It also details short-term incentive payments. This year so far there has been \$48 000 thereabouts allocated to senior executives for short-term incentive payments. Last year it was in the order of \$100 000. Are you able to explain to the committee what those incentive payments are about? For example, if the Chief Financial Officer, who is already highly paid, is doing their job, why would they receive an incentive payment for doing their job?

**Mr HIDDING** - This is the same structure as normal Tasmanian GBEs and state-owned companies. It is a matter for the chair and the board to explain.

**Mr ANNELLS** - The first point I make is that we significantly reduced the short-term incentive payment made to all senior staff in the year we are talking about.

**Ms O'CONNOR** - You have cut it in half.

**Mr ANNELLS** - We cut it in half. That was because, in our view, and bear in mind that this is always a year in arrears - this payment is dealing with the 2015-16 year. We did not hit our targets in the 2015-16 year to the extent that the board thought we should have. We have very strong targets about safety, very strong targets about employee engagement, and very strong targets about customer engagement. There was a whole range of reasons that we decided as a board that we would make a very serious step of significantly reducing the short-term bonuses. As to the CFO who is sitting behind me -

**Ms O'CONNOR** - I do not want to single out an individual. I am just talking about if someone is doing their job, why are they -

**Mr ANNELLS** - One of the really interesting conundrums in this business in government is how do you assess whether somebody has made a contribution above and beyond that which you can reasonably expect from a well-paid competent officer? This is something the Treasury goes nuts about every year and people complain about it all the time. It is extremely difficult to argue the case for one officer against another. For example, we regard safety performance as a criteria across the whole company. On-time running is clearly something much more akin to the chief operating officer than perhaps the CFO. In this case, we believe that our senior staff had made the transition from this engineering-based organisation to the customer-facing and customer-based organisation really well.

You mentioned the CFO. He led the charge on a lot of that. In my view, he did then and is still doing a remarkably good job, particularly in the business development area, because that was the point in time which we put business development under the CFO. Notwithstanding that, he still got half of what he probably expected to get.

**Ms O'CONNOR** - What he did in the previous year. Can I ask how they are calculated, the incentive payments?

**Mr ANNELLS** - Each officer has an agreed set of key performance indicators. Some of them are company-wide and some are specific to his or her task. They are ranked and afforded maximum points that can be allocated. The points are allocated on the assumption that good performance

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means zero, so you have to work up from that position. I couldn't sit here and say we have nailed this because I have been dealing with it for 35 years and am still struggling with it, but our genuine attempt is to introduce that concept.

In more recent times, I do not think it applied here for the 2014-15 year but as a consequence of this, in 2015-16 we introduced a gateway. If you did not get through the gateway, the rest of it was academic. You could score 100 out of 100 on everything else, but if you did not get through the gateway you got nothing. That gateway was to do with your positive participation to improving the culture of the organisation.

**CHAIR** - The time for examination and scrutiny of TasRail has expired. I thank you and wish you all the very best for your retirement. Thank you for your service.

**Ms O'CONNOR** - It is not the last we have seen of you, I am sure. I hope not.

**The Committee suspended at 3 p.m.**