



Legislative Council

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# **GOVERNMENT BUSINESSES SCRUTINY COMMITTEE 'B' 2006**

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## **Report with Minutes of Proceedings**

Members of the Committee :

**Hon Ivan Dean MLC  
Hon Kerry Finch MLC  
Hon Greg Hall MLC  
Hon Norma Jamieson MLC  
Hon Allison Ritchie MLC  
Hon Sue Smith MLC (Chair)**

**LEGISLATIVE COUNCIL  
GOVERNMENT BUSINESSES SCRUTINY COMMITTEE "B"**

**MINUTES**

**Wednesday, 26 July 2006**

At 8.45 o'clock am in the Long Room, Parliament House, Hobart.

**Present :** Mr Dean, Mr Finch, Mr Hall, Mrs Jamieson and Mrs Smith.

**Confirmation of Minutes :**

The Minutes of the meetings held on Wednesday, 5 July and Thursday, 6 July 2006 were confirmed as a true and accurate record.

The Committee suspended at 8.50 o'clock am.  
The Committee resumed at 9.00 o'clock am.

**TT LINE COMPANY PTY LTD**

The following witnesses appeared before the Committee :

**Hon Jim Cox MHA**, Minister for Infrastructure  
**Mr Denis Rogers**, Chairperson  
**Mr Peter Simmons**, Chief Executive Officer

**The Committee notes the evidence provided by TT Line Company Pty Ltd that :**

Sales and Marketing

- Substantial amounts of money were spent on a new promotional program for both the Sydney and Melbourne markets, which resulted in an increase in passengers from Sydney on *Spirit of Tasmania III* from about 59 000 to 81 000.
- It is acknowledged that the airlines receive an advantage from TT Line's promotional advertising, but it is also an advantage to Tasmania in bringing tourists.
- Although the passenger numbers increased substantially, it was still 6 000 short of what was anticipated.

- Passenger numbers in 2005-06 for *Spirits I* and *II* were 360 000, which is a decrease of 2.5 per cent on the total numbers for the previous year. It was also noted that there was a downturn in domestic holidays nationally by in excess of 10 per cent.
- The Company has spent approximately \$100 000 on market research by M & C Saatchi and BDA Marketing Planning. Research results indicate that brand awareness has grown from 4 per cent in April 2003 to 50 per cent in October 2004.
- The TT Line Board aims to improve the coordinated advertising campaigns between TT Line and Tourism Tasmania. It will be working closely with Tourism Tasmania to achieve some common objectives.
- Research also indicates that modern tourists are looking for an iconic experience.
- The TT Line is a major sponsor of the Tourism Industry Council. There is a three year funding agreement of \$125 000 per annum with the final year being 2006-07.
- During the off-peak season TT Line have special offers for all passengers and special deals for people with caravans. A new advertising campaign has recently commenced to promote *Spirit of Tasmania I* and *II* during this slow period.
- Over \$6 million was spent on marketing in New South Wales and Southern Queensland and a sales representative was based out of Dubbo to work the country areas of New South Wales. An 86 per cent recall was achieved for *Spirit of Tasmania III* and 30 per cent of mainland customers come from those areas.
- TT Line also had 27 stalls with Tasmanian tourist operators on the ship while it was in dry dock last year.

Ms *Ritchie* took her place.

- TT Line travel packages, which are a very small part of the business, are mainly through recognized chains.
- Repeat travellers are targeted with offers and also given discounts and upgrades for being frequent users.
- *Spirits I* and *II* are not suitable vessels for the 22-hour voyage to Sydney. The ships are not configured to provide that type of service and it would also disrupt the freight commitments.

- TT Line provided an additional daylight sailing for the Ulysses Club and spent in excess of \$200 000 on special lashings for the motorbikes. Approximately 4 000 members travelled.
- The Gaming Commission oversees the operation of the gaming machines on board the *Spirits*. TT Line is paid a rent plus a percentage of the turnover. The number of machines allowed is capped.

#### Reservation and Information Services

- The booking system has been changed so that a discount fare must be paid for at the time of booking and you have 3 days to pay for a full fare. This has been amended deliberately to avoid the administrative costs incurred through changes and cancellations.
- TT Line is investigating upgrading the technical capacity to allow people with motorhomes to book on the internet site.
- Bookings on the internet have increased from 3 per cent, four years ago, to over 30 per cent. The number of passengers produced by travel agents has decreased from 60 to 30 per cent.
- Parking areas at Port Melbourne are on Beaconsfield parade, 50-100 metres from the departure point. There is also one-hour parking at \$2.20 and all-day parking for \$7, 100 metres from the terminal.

The Committee suspended at 10.28 o'clock am.

The Committee resumed at 10.45 o'clock am.

#### Freight Services

- Last year TT Line increased its freight charges by 7 per cent to recoup the additional cost of fuel. It was not identified as a freight levy.
- TT Line does not intend to expand its freight operations by purchasing other vessels.
- Freight volumes increased by approximately two thousand TEUs compared to last year.
- The freight on the Devonport/Melbourne vessels amounts to approximately 36 per cent of the business.
- There are 25-30 major companies using the vessels for freight.
- The freight on *Spirits I* and *II* has increased by more than 300 per cent since the vessels commenced service.

- Freight was never intended to be a major part of the *Spirit III* service, however last year the freight component increased by 50 per cent over the previous year.
- The southbound freight capacity is well utilised. There is some space northbound and TT Line negotiates when tenders are called to get a more year-round base freight.

### Financials

- The price received for *Spirit of Tasmania III* was €65 million, with an exchange rate of 58.29 applying at the time of sale (hedged). A commission of 1.5 per cent will be paid. One per cent to the TT Line broker, Mason Shipbroking and .5 per cent to the purchaser's broker.
- The highest bid received was €65 million with a total 1.5 per cent commission. The second bid was €63.3 million with a 2 per cent commission which came from Mansson (broker) on behalf of Norferries.
- After the 1.5 per cent commission is paid, approximately \$109 855 000 goes to TT Line. \$105 million was originally paid for the vessel, resulting in a profit of \$4.8 million.
- KPMG undertook a probity audit of TT Line's processes in relation to the sale of *Spirit of Tasmania III*. The findings of the audit indicate that "on the basis of the information and the documentation provided ... by the TT Line and their broker agents ...the processes to engage the ship-broker to sell the *Spirit of Tasmania III* were appropriate and in line with prudent commercial practice. The interested parties and final bidders in respect of the sale price were equitably treated and the processes followed established a sound basis for determining the best outcome for TT Line".
- The profit will be spent on redundancies and a payment of \$2.2 million to Sydney Ports for the new ramp.
- The Government has set aside \$22.5 million for the TT Line to use to reduce debt. It must not be taken into operational accounts.
- The timeline of contacts between TT Line and the Minister in relation to *Spirit of Tasmania III* was confirmed as follows:

On Tuesday, 13 December a briefing was provided to the Minister which included a financial insight that bookings were worthwhile but caution was needed because the loss forecast was now \$42 million, not the \$35-36 million previously predicted.

On 7 February advice was given to the Minister that the passenger numbers and bookings for 2005-06 were still encouraging which resulted in extra

sailings. However, the impact of rising fuel costs was taking a heavy toll, because *Spirit of Tasmania III* could not be slowed down.

On Tuesday, 4 April, Brian Dermott and Associates presented their forecast to the Board. The Board then requested Peter Simmons to urgently review all data and report to the Board in May.

The forecast operating loss of \$42 million in December had been reduced to \$32 million by the end of June. \$27 million of the loss is attributed to *Spirit of Tasmania III*.

On 10 May the Board representatives met with the Minister and advised him of the situation and the decision to sell.

- The Government committed \$3.5 million in 2006-07 and \$1.5 million in 2007-08 for marketing of *Spirit of Tasmania III*. This funding will become part of the whole tourism promotion package to promote *Spirits I* and *II* in Victoria, New South Wales and Queensland.
- \$32 million is provided by the Federal Government for the Bass Strait Vehicle Access Passenger Service, which equates to approximately 20 per cent of the TT Line's total revenue.

### Operations

- There has been no discussion with the Minister or the Chair of the Board in relation to the potential privatisation of TT Line or any part of it.
- There is a formal risk management process currently being developed, using consultants and reporting to the audit committee.
- The Government acknowledges that it has a role in supporting the TT Line as it is part of the national highway and that whilst it expects the Company to operate with proper business principles, this Government will always support *Spirit of Tasmania I* and *II* in a similar way to the road network.
- The Board has now stopped the practice of sending its minutes of meetings to the shareholder Ministers, in accordance with the Auditor-General's Report. The Ministers are now briefed on major policy issues that impact on the Board and given a full operational report.

### Staff

- The number of staff and the call centre increased significantly with the introduction of *Spirits I* and *II* and then *III*. The growth of internet bookings has reduced the number of people required from a peak of around 90 back to approximately 63 ftes now.

- There will not be any redundancies in the call centre as a result of the loss of *Spirit III*, however, fewer people will be recruited.
- There will be approximately 11 job losses associated with *Spirit of Tasmania III* which are shore-based positions in Sydney. All hospitality crew will be absorbed and there is an undetermined number of integrated rating seamen who will not be required. There will be four too many pursers, two too many electricians and two too many shipwrights.
- Discussions are taking place with the three unions concerned in relation to staff.
- The Company is currently negotiating an EBA, in which additional leave is being negotiated.

### Security

- If an injury occurs on the ship the crew member notified will inform the duty nurse or medic who then completes a report. The master is then informed and, if necessary, it will be reported to AMSA or to the General Manager of Safety and Technical Services.
- The budget for security has increased from \$200 000 to over \$5 million to ensure all ships and terminal areas have approved security plans for level 1.
- The security presence on board the ships has been considerably upgraded and areas are constantly patrolled.
- Sniffer dogs are used from time to time, usually based on specific knowledge or suspicions.

### Safety and Technical Services

- Each vessel is required to have a minimum of 65 sea-trained people on board, even if there are few passengers.
- The life expectancy of the *Spirit* vessels is 35 years. It is expected that they will stay on the Bass Strait run for over 10 years.
- TT Line has achieved full accreditation in international safety management standards.
- With the agreement of the three unions, the Company has now introduced random drug and alcohol testing for all seagoing staff. It is conducted by an external agency based out of Tasmania.
- Only alcohol purchased on the ship can be consumed on board and staff are well trained in the responsible serving of alcohol.

- Most of the Company's onshore contracts are biannual.

### Hotel Services

- The Edgewater Hotel is a separate operation, owned by the TT Line on behalf of the people of Tasmania.
- The value of the Edgewater Hotel is included in the assets in the Annual Report. There is a separate budget for the hotel which includes staff who pay the normal corporate rates.

### **Tabled Document :**

Letter from Paul Green, KPMG to Mr Denis W Rogers, Chairman, TT Line Company Pty Ltd dated 25 July 2006 regarding the probity of the recent sale process of *Spirit of Tasmania III*.

### **Additional Information Provided**

Correspondence between the Hon Kerry Finch MLC and the Minister for Infrastructure relating to the sale of *Spirit of Tasmania III*.

### **The Committee concludes that :**

- Passenger numbers decreased in 2005/06 by 2.5 per cent on the previous year's total of 441 000, which was a decrease of 10.6 per cent on the 2003/04 numbers. This was the result of a national downturn in domestic holidays of more than 10 per cent as well as competition from cheap airline seats.
- The sale process and price received for *Spirit of Tasmania III* was satisfactory to the people of Tasmania. The probity audit by KPMG confirmed the processes were appropriate in relation to the sale.
- Whilst acknowledging that Edgewater Hotel is a separate business, the Board should consider disposal of the asset as a way of assisting in stabilising finances.
- The TT Line Board should consider reporting separately on the operation of the Edgewater Hotel in the annual report.
- Whilst it is acknowledged that the State Government should support *Spirits I and II* as part of the National Highway, after a settling period, post the sale of *Spirit of Tasmania III*, the Board and management should no longer rely on top-up funds for marketing.
- TT Line briefed the Minister on 13 December 2005 to advise that bookings were worthwhile but caution was needed because the loss forecast was now \$42 million. On 7 February 2006 the Minister was advised that passenger



numbers and bookings for 2005-06 were still encouraging. On 10 May 2006 the Minister was advised of the Board's decision to sell.

The Committee suspended at 12.58 o'clock pm.  
The Committee resumed at 2.00 o'clock pm.

## **TRANSEND NETWORK PTY LTD**

The following witnesses appeared before the Committee :

**Hon David Llewellyn MHA**, Minister for Energy

**Mr John Lord**, Chairperson

**Mr Richard Bevan**, Chief Executive Officer

**Mr Paul Oxley**, Company Secretary

**The Committee notes the evidence provided by Transend Network Pty Ltd that :**

### Financial

- Transend is a regulated monopoly and the Australian Energy Regulator sets the revenue that can be earned.
- Transend has been successfully operating in the National Electricity Market for over 12 months and has continued to perform well in its core operations.
- Transend is currently in the middle of a 5 ½ year regulatory period which ends in 2009 and the Company is required to make a submission to the regulator for its operating and capital expenditure.
- The original anticipated expenditure for the north-east upgrade was \$17.5 million and increased to \$31 million in October last year.
- It is anticipated that the upgrading of the north-east line will be completed this calendar year and is still within the \$31.5 million current budget.
- The \$40 million quoted in the annual report is for the whole north-eastern development, including upgrades at the Norwood, Scottsdale and Derby substations.
- There is a significant cost involved for underground lines. For 220 kV it is approximately 10-15 times the cost of overhead construction.
- When Transend was formed the company had assets valued at approximately \$350 million. In 2004-05 the value of assets has increased to \$697.7 million. By the end of the current regulatory period in June 2009, it is anticipated that the assets will be valued at approximately \$1 billion.
- Last financial year Transend spent \$93 million, or approximately 7 per cent, replacing its asset base.

## Service Provision

- There have been two separate occasions when minor perturbation has occurred and the System Protection Scheme has operated. Transend is pleased with the technical performance of Basslink.
- Basslink connects to the Tasmanian power system at the George Town substation through a 220 000 volt line owned by the National Grid. There is a converter station that converts it to DC and takes it across Bass Strait where there is a reciprocal arrangement in Victoria.
- Tasmanian customers did not contribute to any capital investment required in Tasmania on Transend's behalf in order to facilitate the connection with Basslink.
- Optic fibre is being installed as transmission lines are upgraded. It is also being leased to other parties, such as, Hydro Tasmania and the Roaring Forties.
- Under the National Electricity Market rules, Transend is required to have two types of communication systems to be able to control the equipment.
- Transend has been set strict reliability targets by the regulator and can be financially penalised or rewarded for less than or better than target performance.
- Events that are less than 0.1 of a system minute or events more than 2 minutes are the major measures used.
- A transmission line is expected to be in service for at least 60 years and substation equipment for approximately 40 years.
- The company is currently investigating building a new transmission line to replace an existing line between Waddamana and Bridgewater, which was built in 1921.
- Transend advertised for gas-fired power station components as a cost comparison to building a new transmission line. At the time of the assessment the transmission line was the least-cost option.
- The conductor on the transmission lines between the Burnie substation and Port Latta will be replaced within the next 12-18 months.
- Transend has recently established direct connection agreements with Copper Mines of Tasmania and Intec Hellyer Metals which provide liability limitation clauses applying to both parties.
- Distribution feeder capability has been inserted at the Hadspen substation to reduce the length of feeders and therefore the impact on customers.

- A large portion of the current capital works program is to replace the number of high voltage switchboards in a number of substations. They will be indoor and totally enclosed to reduce the impact of external elements such as storms and wildlife.
- Transend has a small sponsorship program which supports education, environment, enterprise and the employees.

### Environmental Issues

- Details of isochronic events and their effect on Transend were requested during the hearing and advice was received that Transend averages approximately 60 fault outages per annum on its overhead and underground transmission circuits of which an average of 23 are due to lightning. The average annual loss of supply magnitude due to these faults is approximately 1.4 system minutes.
- National and international bodies have investigated whether there is an epidemiological link between powerlines and cancers and there is no evidence to suggest that there is a link.
- Transend is conscious of these issues and locates transmission lines accordingly.
- Environmental management is one of Transend's key performance indicators. There is approximately 10 000 hectares of easements under transmission lines requiring weed management.

### Staff

- Transend currently employs 175 staff, which is a reduction from the 182 previously employed. The additional staff were required to facilitate the National Electricity Market and Basslink projects.
- Transend has an excellent safety record with no lost time incidents in the last 12 months.
- There have been an increase in incidents with contractors during the last year and the company is working with contractors in relation to their performance.
- Transend has a good relationship with staff and staff representative bodies and has not lost any time through industrial disputation.
- An Enterprise Bargaining Agreement has recently been negotiated. The Company's original offer of 4.5 per cent over a three-year period was rejected. A revised offer of 5.25 per cent, 4.9 per cent and 4.9 per cent over the three-year period was accepted by staff.

- Transend is aware of the skills shortage in Australia and is working with training bodies to train technical officers.
- Transend sponsors two line worker apprentices who are managed by TasTech and who will be employed in the industry.
- Pay parity is acknowledged as one of the significant issues and Transend is benchmarked as a business on national pay rates.
- Transend will support two apprentices a year for three years and provides scholarships through a working program with the University of Tasmania to encourage the training of power engineers. The company also supports the Science and Engineering Challenge, the Tournament of the Minds and other programs organised through Engineers Australia.
- Transend has a strong equal employment opportunity policy and employs on merit and has a multinational workforce.
- Most staff at Transend have a corporate credit card with appropriate delegation levels and are regularly audited through the performance of the business.

**Additional Information requested :**

- Details of Isocronic events

**The Committee concludes that :**

- Transend has successfully entered the National Electricity Market.
- As a regulated monopoly the Australian Energy Regulator sets revenue that can be earned, taking over from the State Energy Regulator. In 2009 new maximums will be set.
- Transend's assets have increased from the original value of \$350 million, mainly through significant upgrades of a poorly maintained system at disaggregation.
- The Committee has reservations about any proposal in the future to readjust debt between the three energy companies.
- While the North East line project remains within budget, the Committee has some concern in relation to the timeframe and the relationship with contractors.

The Committee suspended at 3.23 o'clock pm  
The Committee resumed at 3.32 o'clock pm

## **THE PUBLIC TRUSTEE**

The following witnesses appeared before the Committee :

**Hon Steven Kons MHA, Attorney-General**

**Ms Ann Cunningham**, Chairperson

**Mr Peter Maloney**, Chief Executive Officer

**Mr Duncan Hall**, General Manager

**Mr Brendan McManus**, Corporate Solicitor

**The Committee notes the evidence provided by The Public Trustee that :**

### Financial

- In 2004-05 the Public Trustee produced a profit after tax of \$922 000.
- The Public Trustee currently has \$100 million of funds under management with total assets under administration amounting to \$131 million.
- Employee related costs account for 69 per cent of the business operating revenue.
- The Common Fund has approximately \$48-50 million which is being managed by Tascorp and the Public Trustee is guaranteed the index.
- The Public Trustee has three group investment funds. The No 1 fund is a medium-term fund which is 30 per cent growth and 70 per cent defensive. The No 2 fund is a long term fund which is 60 per cent growth and 40 per cent defensive. The No 3 fund is a special fund for high-grade clients which operates the same as the No 2 fund.
- There is currently 41 percent of clients' money in the Common Fund, 8 per cent in the No 1 fund, 24 per cent in the No 2 fund and 20 per cent in the No 3 fund, which totals approximately \$100 million.
- The Public Trustee owns two properties and has assets worth approximately \$10 million. The Board will consider whether to sell the properties this year.

### Service Provision

- The number of commercial estates administered by The Public Trustee have increased, but there has been less business in trusts.
- The Public Trustee's business does involve simple wills but there are also commercial clients with difficult corporate structures and family trusts.
- There are approximately 33 000 on The Public Trustee will bank.

- There are no time limits in legislation for winding up estates, but The Public Trustee have set targets of between nine and twelve months.
- There has been an increase in the number of enduring powers of attorney.
- The change in demographics will result in an increase in financial administration orders for The Public Trustee. The Board is investigating the possibility of the University of Tasmania's School of Population providing research and analysis in relation to long-term numbers to assist in the future provision of services.
- There is sometimes confusion over the service provided by The Public Trustee compared to lawyers. Most lawyers do not provide an executor or administration service.
- When The Public Trustee is appointed as a financial administrator an up-front fee of \$550, including GST, is charged for all clients. For CSO clients with less than \$100 000 in assets, there is a funding agreement which applies and the Government pays the fee.
- The Public Trustee charges a commission for the provision of an executor and the administration of an estate, which is 2 per cent if it goes to a spouse. There is no commission if it is jointly owned.
- The Public Trustee brochures outline the commission rates for estates valued at \$100 000, \$200 000 and over \$500 000. The rate reduces after the first \$100 000.
- The Public Trustee acknowledges that the commission process, rather than a fee for service, could result in discrimination to some estates.
- If a person dies without a will and there is a house involved, the spouse is entitled to \$50 000 and one third of the balance, with the children allocated two-thirds. If the children are over 18 years old, a deed can be negotiated to allow the spouse to retain the house.
- There is a documented complaint procedure which outlines the process for dealing with complaints, the response and any assessment made. A complaint register is also kept.
- Most complaints relate to communication and have been in relation to the Launceston Office. The appointment of a new manager for the office as well as stability in staffing will help to overcome these problems.
- Management will be organising for officers to travel to George Town, Scottsdale, Campbell Town and other areas around the north-east to provide services.

- The Public Trustee will be continuing its education program, including seminars around the state on will writing.
- The Public Trustee is currently negotiating with The Law Society to present seminars for lawyers regarding trust administrations which will be a compulsory part of the practising certificate.

### Staff

- There are five staff in Burnie, nine in Launceston and thirty-five in Hobart.
- A new manager has recently been appointed in the Launceston Office.
- The Board is conscious of its ageing work force and is developing strategies to overcome the problem.
- As part of the Board's succession planning in terms of knowledge transfer, the Learning Development Officer is to ensure that knowledge is documented.
- The Public Trustee has staff skilled in finance, tax and law. If the skills required are not in-house The Public Trustee will brief out, for example, family law, workers compensation or personal injuries claims. It is estimated that less than 5 per cent of the business is briefed out.
- A genealogist has been appointed to assist in intestate estates to locate relatives all around the world.

### **The Committee concludes that :**

- The Public Trustee was successful in producing an after tax profit of \$922 000.
- The Public Trustee currently has \$131 million worth of assets under administration.
- Fifty four per cent of the matters under administration are community service obligations which The Public Trustee is required to meet the costs.
- With the increase in housing values, the Government should review the CSO funding agreement with a view to increasing the \$100 000 limit.
- The Attorney-General should give consideration to reviewing the monetary benefit provided to spouses when a person dies intestate.
- Staffing issues in the Launceston Office appear to have been addressed, but need to be closely monitored.



The Committee suspended at 4.45 o'clock pm.  
The Committee resumed at 4.47 o'clock pm.

**BUSINESS :**

The Committee considered issues outstanding from the day's proceedings.

**Resolved,** That –

- The Secretary prepare a draft report for Members to consider.

At 5.00 o'clock pm the Committee adjourned until a date to be determined.

**DATE**

**CONFIRMED**

**CHAIR**