

# UNCORRECTED PROOF ISSUE

**Tuesday 23 June 2009 - Estimates Committee A (Sturges) - Part 1**

## LEGISLATIVE COUNCIL

### ESTIMATES COMMITTEE A

**Tuesday 23 June 2009**

#### MEMBERS

Mr Hall (Chair)  
Mr Harriss  
Mr Martin  
Mr Wilkinson  
Ms Forrest

#### SUBSTITUTE MEMBERS

Mr Finch

#### IN ATTENDANCE

**Hon. Graeme Sturges MP**, Minister for Infrastructure; Minister for Veterans' Affairs

#### **Department of Infrastructure, Energy and Resources**

**Norm McIlfatrick**, Secretary  
**David Peters**, Deputy Secretary, Infrastructure  
**Amanda Russell**, General Manager, Corporate Services  
**David Spence**, General Manager, Infrastructure Policy  
**Penny Nicholls**, General Manager, Land and Transport Safety  
**Peter Todd**, General Manager, Roads and Traffic  
**David Hope**, Director, Passenger Transport Policy  
**Bernard Carlington**, Manager, Passenger Transport Services  
**George Pitt**, Manager Rail, Rail Management Branch  
**Colin Finch**, Chief Executive, Marine and Safety Tasmania  
**Stephen Long**, Manger, Resource Management  
**Suzie Jacobson**, Manager, Corporate Affairs

**Ministerial Office**

**Gary Hill**, Head of Office  
**Denise McIntyre**, Senior Adviser  
**Angela Collis**, Adviser  
**Christian Attfield**, Adviser  
**Luke Badcock**, Adviser

**The committee met at 9.30 a.m.**

**CHAIR** (Mr Hall) - Good morning everybody and welcome to our second day of Estimates hearings for this committee. The order of business today is the infrastructure outputs first and then the marine and safety output group data in Veterans Affairs, if you are happy with that.

**Mr STURGES** - I am, Chair. Could I just get an indication for Veterans Affairs. I have got a couple of staffers here who can be going back to their office so it will be not after lunch?

**CHAIR** - Yes, for sure. For the purposes of *Hansard* would you introduce your members at the table?

**Mr STURGES** - Yes, certainly. Sitting to my right I have my acting head of office, Ms Denise McIntyre; to my left Department Secretary Mr Norm McIlpatrick; and to Mr McIlpatrick's left, Mr David Spence, General Manager of Infrastructure Planning and Policy.

**CHAIR** - With respect to questions from the members I know they will be succinct and with respect to your good self I know that you will also be succinct. Yesterday the Treasurer was succinct to start off with but he got a little more verbose as the day wore on as he relaxed.

**Mr STURGES** - Message received Mr Chair.

**DIVISION 5**

(Department of Infrastructure, Energy and Resources)

**CHAIR** - I might open the batting this morning and ask the first question. I understand at the Burnie sittings of Parliament last year you indicated Mr McIlpatrick would instruct to prepare a 10 year strategic plan for rail in the state. Would you like to illuminate us on that? What is the latest strategic plan?

**Mr STURGES** - I can Mr Chair. I thank you for the question. The State 10 year strategic plan is more than looking at rail. It is looking at all our key -

**CHAIR** - I should have mentioned transport.

**Mr STURGES** - It picks up transport, water, energy, communications. I will go through this because there are some misunderstandings within the parliament and the broader community in relation to what this is all about and why we are doing what we are doing.

**CHAIR** - Are we talking about the purchase of the rail at this stage or are you talking about transport per se? The big picture?

**Mr STURGES** - When I was in Burnie last year what I did say is that the Premier had requested that I develop a 10-year strategic vision for Tasmania. The Greens are being very mischievous with this and saying the Government does not have a planning process. What a nonsense. For the first time this is a government that is prepared to take the bold step of developing a 10-year vision. I note the request to be succinct but this is a big issue. If I could go through some of the key points. There is a broad misunderstanding about the provision of infrastructure in Tasmania. There are currently a large number of infrastructure policies, strategies and plans across major infrastructure sectors. Clear decisions about infrastructure provisions are made under these policies, strategies and plans, and this is a situation for all infrastructure sectors including transport.

In relation to transport a great deal of work has been done on these policies, strategies and plans and they include the use of the Auslink corridor strategy, the Southern Tasmanian National Network Investment Program, the Tasmanian State Road Hierarchy, the Southern Integrated Transport Plan, the Strategic Asset Management Plan for the state road network, our Road Safety Strategy, the Northern Tasmanian Integrated Transport Plan, the Clarence Plains Outline Development Plan, the Cradle Coast Regional Integrated Transport Strategy.

To suggest that transport infrastructure decisions - and I am not suggesting you are, Mr Chair but some elements of the Parliament in another place are suggesting that infrastructure decisions are made in a vacuum without reference to any policy - is plainly wrong. I will get on to the State infrastructure plan in a moment but I think it is important that I give you an example.

One of the examples is the \$268 million that was provided by the Australian Government for the Southern Tasmanian National Network Investment Program. There was substantial, rigorous strategic planning and analysis behind the successful Tasmanian bid for funds.

I move on to the State Infrastructure Strategy as opposed to the plan. The strategy is more than a simple list of projects. It is a visionary new approach to infrastructure provision and use in Tasmania. While the strategy will identify a range of new initiatives, its clear objective is to provide an overarching framework for a large number of infrastructure policies, plans and projects that are already in place or are to be developed.

The strategy will address the need for a rigorous decision making process for new infrastructure. It will address the need for integrated land use decisions with infrastructure decisions and it will help identify innovative solutions for the community's current and future needs. The most effective way to meet these needs will not always be the provision of new infrastructure. We need to make the best use of existing infrastructure.

The strategy will also facilitate greater coordination between infrastructure sectors and provide clearer definition of roles, responsibilities and transparency in planning and providing infrastructure. Critically, Mr Chair, the infrastructure strategy will provide frameworks for even greater evidence-based infrastructure decision making.

The infrastructure strategy will encompass the key economic infrastructure sectors of transport, telecommunications, energy and water so we are picking up the lot. The strategy will complement the innovation strategy and the skills strategy, providing a foundation to drive population participation and productivity growth.

Now to the point that I think you will want to really know about. The infrastructure strategy is being developed in two stages. Stage 1 is now completed and that saw the development of infrastructure policy themes to set the direction for the infrastructure strategy. Stage 2 is currently being undertaken and that revolves around the development of strategies to guide future infrastructure priorities and decision-making.

Mr Chair, this has been a very comprehensive process and we do not believe that we should be rushed into some sort of knee-jerk reaction in delivering a strategy to appease our political opponents. Effective consultation in the development of this strategy has been very important. To date we have been involved in extensive consultation in seeking input from local government, from the transport sector, from the telecommunications sector, the water sector, energy and other key stakeholders.

A number of workshops have been held throughout the State over the past 12 months where we have involved organisations such as the TCCI and the Local Government Association of Tasmania. We have invited all local councils to attend workshops and have input. Out of that we have developed five themes and I will finish up on this. It is a big issue, a big-ticket item.

The five themes that have been developed are coordinated infrastructure planning, effective governance and decision-making, viable and sustainable infrastructure, efficient infrastructure delivery, and leveraging our natural advantage. These scenes set the direction for the development of the State infrastructure strategy. This will be a new visionary approach that will put us ahead of other States. I am pleased, Mr Chairman, that you gave me the opportunity to get on the table the difference between the strategy and the current plans that we use in regard to developing infrastructure in our State.

**CHAIR** - I was very accommodating this morning, wasn't I, first up?

**Mr STURGES** - You were. Thank you very much.

**CHAIR** - We know there is a bit of hypothetical questioning going on here and we know that the impending purchase has to go past the Asiano board and also Cabinet of course but now that the intention of the Government is to purchase, is this based on any sort of a business plan for the State?

**Mr STURGES** - Absolutely.

**CHAIR** - Can you provide any details of that?

**Mr STURGES** - Yes. I have a sense of déjà vu with that question, Mr Chairman. We have undertaken very extensive work around rail in this State and in fact I would suggest to you that for the past 30 years rail has not seen so much attention in this State as it has seen over the past 12 months or so.

If I could just give you a brief history, and I think it is important that I do put this in perspective and then I can tell you where we are at with it now, I think it was 11 or 12 June last year that the company Asciano formally advised government that they were going to sell up and leave Tasmania. They made it quite clear at that time that they had no desire to continue business in this state.

Further to that they advised government that they were going to enter into a commercial sales process, which they did and I will not go into the detail of that, but I understand through that commercial sales process there were some four or five potential purchasers with whom they were negotiating. I further understand that through that process they got down to one preferred purchaser and negotiations were conducted with this body. However, on 23 February of this year I received a letter from Mr Don Telford, the Chief Operations Officer of Asciano, advising me that the sale process had fallen through on the basis that the global financial crisis had caused concerns for a prospective purchaser and he then indicated to the Government that they wanted to work with the Government for an orderly transition out of rail in this State. In his letter he gave a firm commitment that rail would be ongoing while we worked through an orderly transition process, and this will come to your answer about our business case and due diligence.

**Mr WILKINSON** - So that is happening now, Graeme?

**Mr STURGES** - Yes. That is why I am trying to give you a bit of an explanation.

**Mr MARTIN** - That commitment was in writing, was it?

**Mr STURGES** - Yes, it was in writing. This has been very involved, believe you me. Around that commitment we negotiated a heads of agreement to take the matter forward. Within that heads of agreement the company insisted that commercial confidentiality be maintained on a number of elements of the work that we were doing so we have adhered to that all along.

From there we set the heads of agreement up. In that letter Mr Telford set out four key elements that he saw - and I do stress that he saw - that would allow an orderly transition out of rail. We did not necessarily agree with those four key elements. I wrote back to him I think it was about a week later. It was a very brief letter. I acknowledged his letter and I said to him the Government is prepared to negotiate with Asciano for an orderly transition. So we did accept his offer to negotiate for an orderly transition. On that basis we set the heads of agreement up.

[9.45 a.m.]

Something that the honourable members need to be made aware of is that he set a time line with these four key elements with some key milestones that he wanted to achieve but the absolute date for Asciano to exit this State was no later than 30 June 2010. That was the absolute date that was stipulated in his letter. One of the milestones was government taking over maintenance of rail track infrastructure in this State and he had set a milestone of 30 June 2009. We said to him that we thought 30 September 2009 was a more do-able date and on that basis we engaged a consultant, GH&D, to go into the data room. Part of the heads of agreement, by the way, allowed us to get into the data room. Up until such time as we signed the heads of the agreement we had no access to be able to get into the data room and validate assets - firm up on the price of the assets that Asciano had. So we got the consultants into the data room.

**Ms FORREST** - When was that?

**Mr McILFATRICK** - About four or five weeks ago we had access to the data room.

**Mr STURGES** - Yes, and they have been working in there extensively for over a month. We were doing that on the basis that 30 June 2010 was the date that they wanted to exit the State. Sure, there were some milestones that they wanted to meet along the way and we were working with them to achieve those milestones.

**Mr MARTIN** - Were there any you did not meet?

**Mr STURGES** - They did not give us a chance to get to them, if I may say so with respect. I will get to the next point.

We had said we were prepared to look at taking over maintenance of rail but we needed to validate the assets, we needed to undertake some due diligence work, bearing in mind that we are talking about taxpayers' money and I am very mindful of that; in everything that we do we are involving Tasmanian taxpayers' funds. Therefore I thought it was prudent and necessary that we validate the asset and that we go through an appropriate due diligence process. I do not think any of the honourable members would disagree with that.

We have always said that government sees that we have the rightful role to own the rail track infrastructure and up until recently the Melba line, the west coast line, the Emu Bay line, whatever you want to call it, has been in private ownership and I understand that subsequent to our most recent negotiated outcome it will be the first time that Government has owned that profitable, privately run line on the west coast. We have said that our preference was for another operator, a commercial operator, to run above rail operations in this State. That has always been the Government's preferred option but bear in mind the commercial sales process fell over. We thought there may have been an opportunity during the 12- to 18-month period up to June 2010 for a private operator to come on board.

I am trying not to be provocative because we have gone to the table with Asciano in good faith over the last week or so and we have negotiated an outcome so I do not want to damage the good work that has been done over the past few weeks but I have to be open with this committee as well. The company did not advise the Government of its intentions to pull the pin on 30 June 2009. I choked on the corn flakes the morning that I read the Hobart *Mercury* and the exclusive report in the *Mercury* indicated that they were bailing out on 30 June 2009. Bear in mind, and I do not want to give a financial analysis of the company, the company has not been travelling all that well, as I am sure honourable members would know.

**Mr MARTIN** - Minister, can I clarify one thing there. Before you read it in the paper when was the last contact between yourself and the company and the department and the company?

**Mr STURGES** - When you say myself, I do not micro-manage my department. I have very competent officers, and I will answer the question.

**Mr MARTIN** - No, I meant yourself.

**Mr STURGES** - We have had regular ongoing contact; in fact it was only a matter of two or three days before that that senior officials of my department had been at the table with Asciano.

**Mr MARTIN** - What was its position at that stage?

**Mr STURGES** - No comment. In fact, it is interesting to note that, on the Tuesday after the June long weekend, west coast mining companies received phone calls from PNT advising that everything was going ahead and indicating that everything was fine, it was 'business as usual' and 'do not worry about the future of rail'. I do not know why it chose to make the phone calls; you would need to talk to PNT

## UNCORRECTED PROOF ISSUE

**Mr MARTIN** - So at that meeting in the week prior, there was no indication from the company of what was going to happen.

**Mr STURGES** - No.

**Mr MARTIN** - None at all?

**Mr STURGES** - No.

**Mr McILFATRICK** - I would like to clarify that, in a conversation with one of my officers about a week before the *Mercury* article appeared, one of the senior officials in Asciano indicated that they were becoming frustrated by the negotiations. We did not understand why that was the case. They indicated that there was something happening in the following week that we would need to pay attention to, but they would not indicate what that was. At that stage we had been negotiating around the -

**Mr MARTIN** - That would have sounded alarm bells, wouldn't it?

**Mr McILFATRICK** - It did, obviously. We had been negotiating around the rail management maintenance deed but the trigger that they pulled was on the west-coast line which was not part of that deed, so there was an indication of frustration but that was between officers.

**Mr STURGES** - If I could just clarify what Mr McIlfatrick has said in relation to alarm bells going off, and I do not want to be provocative because we are at a very sensitive commercial stage with the company, alarm bells went off quite regularly in relation to the appropriateness of communication processes with my department. In fairness to the secretary, he travelled to Sydney on numerous occasions to meet with the chief operating officer of Asciano so that we could develop a relationship and take this matter forward in a constructive and balanced way, but it has been less than easy to deal with this company.

**Ms FORREST** - Minister, you were saying that the mining industry was assured, only a matter of days before, that everything was business as usual -

**Mr STURGES** - That is the advice that we were given.

**Ms FORREST** - but it is my understanding that it had advice that Asciano was pulling out.

**Mr STURGES** - No. This is where there has been a fair bit of smoke and mirrors. The clear advice I have been given is that, on the Tuesday after the long weekend, phone calls were made to the mining company saying that it is business as usual. On Wednesday, that is the day after the Tuesday of the long weekend - I cannot remember the date - I am advised that a representative of Pacific National Tasmania, of whom Asciano is the parent company, visited the west coast to say that it was pulling out because of issues with the Burnie concentrator loader. It was not until that Friday afternoon that the mining companies received a letter from Asciano. That is my understanding of the time line.

During that period of time we sought to sit down with Asciano and find out what the dickens was going on, and we did. We expressed our disappointment at the way it was handling the situation but, rather than get into an argument about ethical behaviour, we took the decision that

## UNCORRECTED PROOF ISSUE

we had to do all that we could to ensure that we kept freight rail running in this State, particularly given the importance of the Melba line and the mining industry on the west coast. So, we have been channelling our attention over the last ten days or so into accelerating negotiations to get a good outcome for Tasmania and to ensure that we keep freight rail going in this State. It has been difficult; I make no bones about that. The communication process with the company has been less than effective but we have had to deal with what we have been dealt.

**Ms FORREST** - Are you confident, then, that the western line will continue? That there will not be any break in service there?

**Mr STURGES** - I am seeking advice here because we have commercial confidentiality arrangements within the negotiations, and I do not want Asciano to say that I have breached any of those commercial arrangements. We have a representative from Crown Law and senior officials of my department going to Sydney this week to finalise the heads of agreement to take forward a seamless transition of rail in this State. There is one major milestone within the negotiated outcome, and then we would see the full transition occur from 30 November 2009.

**Ms FORREST** - So what about between 30 June and 30 November? Are we going to maintain a rail service on the western line?

**Mr STURGES** - Yes. The commitment that we have from the company, under the negotiated outcome, is that it will continue to operate rail in this State. In fact, I am pleased to be able to say that, all things being equal, subject to the Rail Safety Regulator accrediting the north-south line, the first paper train will be rolling out of Boyer hopefully tonight or tomorrow. We have been working assiduously on this.

**Mr WILKINSON** - I do not envy your position with rail, because anybody who has lived here all their life realises that there have been problems with it from start to finish. In relation to Asciano taking over, there was obviously an agreement entered into between the Government and the company? Is that right?

**Mr STURGES** - Taking over, yes.

**Mr McILFATRICK** - Back in 2007, yes.

**Mr WILKINSON** - That agreement would have set out certain duties for both the Government to and the company to carry out?

**Mr McILFATRICK** - Correct.

**Mr WILKINSON** - The Government, as I understand it, is quite happy that it has carried out its part of the bargain?

**Mr McILFATRICK** - Correct.

**Mr WILKINSON** - What about Asciano? What part has it not carried out?

**Mr STURGES** - The rail management and maintenance deed of agreement is quite complex, so what I might do, if it is okay with you, given your sharp legal mind, is get some people with -



**Mr WILKINSON** - No, not at all.

**Mr STURGES** - I am not being facetious. It is quite often selectively misquoted and misunderstood by the shadow spokesperson for rail in the lower House, Mr Morris. It is a very complex document, so therefore I will defer to the secretary and maybe to the general manager to talk more about the deed.

**Mr McILFATRICK** - I will just give an overview. The deed set out an agreement between the parties and, at the same time, the Tasmanian Government took over responsibility for owning Tasmanian rail network excluding the west-coast line. We took ownership from the previous owner. The deed set out a series of obligations and contracts between the parties where Pacific National Tasmania would operate the trains on the network at a zero access fee. In respect of that, it would provide system control services at their cost. It would also provide maintenance services and provide the capability for maintenance services, and under the deed the State Government would pay up to \$4 million towards that maintenance.

**Mr WILKINSON** - That is maintenance on the track?

**Mr McILFATRICK** - Yes, maintenance on the track. It also committed to make capital investment, as an offset to that, to the rolling stock and the locomotives of up to \$38 million over the 10 years. So we had a \$40 million commitment from the State and a \$38 million commitment from Asciano or Pacific National. At the same time in negotiations with the Federal Government there was commitment for a capital upgrade for the Tasmanian rail network.

**Mr WILKINSON** - That was \$78 million?

**Mr McILFATRICK** - Which was the \$78 million.

**Mr STURGES** - This is the Rail Rescue Package referred to.

**Mr McILFATRICK** - With regard to the west-coast line, although there were mentions in the deed about a potential future take-over by the State, there is no direct contractual relationship under that deed for maintenance of the west coast. It is totally owned, operated and the contracts are provided by Pacific National.

[10.00 a.m.]

There are a number of trigger events under the deed where deed gets changed if events change. One of the trigger events is a loss of volume of contracts from Pacific National's business viability. If they lost a certain number of contracts or volume then they could legally avoid their obligation to provide capital into the locomotives.

**Mr WILKINSON** - But surely that loss should not have been as a result of their doing, because if that loss was as a result of their doing I would have thought that -

**Mr McILFATRICK** - So one specific trigger event which was legally enforceable was when the Commonwealth coal contract to the south of the State was lost. They were able to then legitimately say we can no longer avoid to make capital investments into the locomotives and the rolling stock. At the same time the State Government, I believe, could have avoided their obligation to continue maintenance but we continued because we believed the track, given we owned it, needed to be maintained.

There are other trigger events in the contract which would bring the contract to an end in some parts and allow the Tasmanian Government to have the first option to purchase that rail network or those rail operations. None of those trigger events has been indicated yet. Those trigger events would relate volumes on what is called the intermodal network, so if the volume on the north-south line or the east-west line fell below a certain reference point then they could trigger, but those have not been triggered.

The thing that brought us to the table much earlier than we had considered was the decision by Pacific National not to accept an extension of their lease on the Burnie loading facilities. That is a complicated deal. The land is owned by TasPorts, a State-owned corporation, but the equipment is owned by Pacific National. So by not extending that lease that gave them what they believed was a forced measure event which could allow them to advise their west coast customers they could no longer provide services. So they basically owned the loader but they did not have any lease on the land underneath it. It was that event that brought us to the table very quickly because there was no way we were going to, within our powers, allow rail services on the west coast to cease if we could avoid it at any measure. Now any measure did not mean paying the world for the rail network but it meant very seriously coming to the table, and that is what brought us to the table 10 days ago.

**Mr STURGES** - It is very important to stress that TasPorts had offered an extension of that lease arrangement. That offer had been formally made to Asciano and the extension period was through until 30 June 2010. Now have some have said, why was it not longer? Well why would you make it longer when they have indicated that they wanted to bail out of the State at the latest -

**Ms FORREST** - Why was that lease extension rejected by them? What was the problem with it as they saw it?

**Mr STURGES** - They wanted to be out of the State. With respect, what I have found rather difficult is that - and I am not suggesting you are the honourable member -

**Ms FORREST** - I want an answer to the question, though.

**Mr STURGES** - I am going to answer your question but we have had a company in this State who clearly did not want to operate in this State, a company that was suffering some financial challenges to say the least, looking for any opportunity to get out of the State. I have found it rather difficult, in fact very galling, for the opposition parties in the lower House to come to the table and defend this company that has been less than a good corporate citizen in our State.

**Ms FORREST** - Can you tell us what was wrong with the lease, though; what were the grounds?

**Mr STURGES** - Nothing. We would have to go back in history where they failed to renew their lease. This is a good story. We do not want to be a kicker because we want to get a deal.

**Mr McILFATRICK** - The situation with the lease was that there was an opportunity in April 2008. The lease had expired under its current term but there was an option to renew, which Pacific National Tasmania did not take up. Now whether that was an omission on their part - I think it was probably an honest omission.

## UNCORRECTED PROOF ISSUE

**Mr WILKINSON** - But the lease still runs its term, doesn't it?

**Mr McILFATRICK** - Under the terms of the lease, TasPorts has to then, I believe, issue a notice to quit. Then the lease is effectively extended by a mechanism where TasPorts offers to extend a notice to quit to a certain date and Pacific National accept.

**Mr MARTIN** - What was the time period of this?

**Mr McILFATRICK** - April 2008. Then over the last year that lease has been extended. Once was on offer to extend during the sale process, which was accepted by Pacific National Tasmania.

**Ms FORREST** - Until what date?

**Mr McILFATRICK** - Until 1 March 2009 or the completion of the sale process.

**Mr STURGES** - It was in the first quarter of this year because they indicated they wanted the commercial sale process ready.

**Mr McILFATRICK** - That was done and accepted. So once the offer to extend was accepted this it was afoot - so the lease remained afoot. When the sale process was nominated to us to have expired on 23 February, TasPorts obviously became aware of that and we then went into negotiations with the first deadline - from Asciano's view - which was 30 June 2009. TasPorts made a subsequent offer to extend a notice to quit to 30 June 2009, which was the next sort of milestone.

**Mr STURGES** - 2010.

**Mr McILFATRICK** - 2009 initially.

**Mr STURGES** - Then it was 2010, yes.

**Mr McILFATRICK** - That was accepted. So we have had two events where the notice to quit has been offered and accepted. We informed TasPorts in that process that we were, in early June, continuing negotiations. We probably had a September date in mind. Asciano had an absolute date of June 2010. TasPorts made a further offer to extend a notice to quit to 30 June 2010. That was not accepted. Why it was not accepted would be in Asciano's mind. I cannot go to that.

**Ms FORREST** - They did not give any indication of what was unsatisfactory about that?

**Mr McILFATRICK** - No, no indication, apart from indication by observation that it may have given them a legal right to inform their customers they could not supply services. I and the customers firmly believe that that decision could have been challenged legally. But as the lawyers present would know a legal challenge takes some time and we had no way of keeping services running while that legal challenge was afoot. So our decision then became very urgent, to get to the table and move away from the position we had in our mind that we could bring a third-party operator to the table by negotiation with Asciano. The next step in our mind was to bring to the table the people who had been negotiating with Asciano to buy the company and see whether the Government could assist that process. We could not do that in 10 days. We needed

## UNCORRECTED PROOF ISSUE

to keep rail services running and that is why the deal, or the essence of the deal, was done last week. We will be getting the Asciano board to sign off on the final head of agreement in the next week or so, and our Infrastructure committee of Cabinet to do the same.

**Ms FORREST** - Does that include an extension of the lease out to 30 November; was that what you said?

**Mr McILFATRICK** - No, the extension of the lease should be to 30 June 2010. That is what has been offered. The finalisation of a head of agreement with Asciano to go through a process of acquisition and to take over the business as a going concern should be completed by 30 November 2009, which would give us a bit of space as an owner and operator of a rail network to negotiate with TasPorts on the lease.

**Mr WILKINSON** - Thanks for that background. What you are saying is that you believed that Asciano were in default of the lease - the agreement?

**Mr McILFATRICK** - I believe they could have accepted to extend the notice to quit to 30 June 2010, which was their original target date for exit from this State.

**Mr WILKINSON** - The Government in no way were in default of the agreement that was entered into?

**Mr McILFATRICK** - In our agreement with Asciano on the rail management and maintenance deed, no. I cannot speak for TasPorts about the lease between Pacific National Tasmania and TasPorts on the loader. That is a matter for TasPorts.

**Mr WILKINSON** - I can understand your wanting to continue on with the rail and therefore the negotiations are delegate, but do you believe that at any stage there is an action for damages against Asciano, or will that be part of the negotiating tool you will be using at a later stage?

**Mr McILFATRICK** - I think once you enter negotiations in good faith, actions for damages need to be set aside because you are looking to make an arrangement that meets the desires of both parties, and if you are negotiating with damages on the table you're negotiating under duress.

**Mr STURGES** - Could I from a political perspective answer this. I do not have a legal mind but certainly the advice that I received is that there was capacity for Government to contemplate a course or courses of legal action around matters pertaining to rail in this State. But as the secretary of the department has quite rightly pointed out, that would take a significant period of time. A significant period of time without rail in this State was an option that the Government did not want to contemplate. Over the past few weeks we have had around an additional 100 truck movements per day on the Midland Highway. I am advised that truck movements on the Murchison Highway would have, as a minimum, doubled.

Purely from an economic and road safety perspective it was not an option the Government could contemplate. I think it might be appropriate if we indicate that the work we have undertaken, particularly over the past 10 days or so, fits very nicely with the direction given to us by the infrastructure subcommittee of Cabinet. We did not as a department unilaterally decide to go out and take a course of action; this have been the Government's position, and the Premier has made this quite clear, that not to have rail in this State is not an option, that we need a mix of road and rail freight. Norm, do you have the decision, just for the record?

**CHAIR** - That was very brief; there are a lot of questions we want to ask.

**Mr McILFATRICK** - I can summarise it and get the actual decision on the record. I can give you that in writing. The summary is that we had a clear direction from the subcommittee of Cabinet on 15 June where the Government had reinforced their desire to retain the integrity of the Tasmanian rail network including the option to protect specific rail services. At that stage we were talking about the west coast.

The Government wished to ensure the continued operation of rail in Tasmania and our preferred model, a commercial entity to operate the rail transport service, was the option. To achieve the objective the Government may need to own and operate aspects of the rail in the short to medium term. A clear separation between the rail above-rail and below-rail entities should be maintained.

Any agreement with Asciano would need to have regard for the long-term obligations to the Government, so it was not just let's buy it and see what happens, and the infrastructure committee of Cabinet would need to endorse any proposal that the Department of Infrastructure, Energy and Resources reached with Asciano in relation to the ongoing operations.

So we have an agreement now with Asciano that is not yet endorsed by the subcommittee of Cabinet and I expect that to be tabled within the next week.

**Mr STURGES** - Can I just make one critical point if I may - something that should not be lost on the committee and should not be lost on the Tasmanian community. Apart from ensuring that we provide vital rail freight services going forward in this State, there are between 180 and 200 employees and their families who need to be taken into consideration around this too.

We believe that we are providing certainty for rail going forward in the State. I do not deny that there is a lot of work that needs to be done and we will need the cooperation of the Federal Government as we go through. To that end I have had discussions with the Federal minister and I have further discussions coming up in the very near future with the Federal minister. Bear in mind, though, that we are talking about 180 to 200 Tasmanians and their families that were out there in limbo during this period of time. It has been a very difficult period for them over the last 12 months.

**CHAIR** - Minister, you talked about the fact that it a good deal for Tasmania. Can you give an indication of what the cost of the purchase might be for these rail operations?

[10.15 a.m.]

**Mr STURGES** - I am very mindful of my requirements to provide information to parliamentary committees so I am prepared to give you the cost in camera.

**CHAIR** - We will talk about that shortly in camera, and also where the funds might come from.

**Mr STURGES** - In camera I can provide you with a lot more information. But what I can say, for the benefit of the media that are present in the room today, is that as the minister responsible, once we get the appropriate tick-off process through Cabinet and the Asciano Board

## UNCORRECTED PROOF ISSUE

tick it off and we have a clear direction going forward, my intention is to get the price and the terms of the arrangement out there in the public arena.

**CHAIR** - I understand that.

**Mr STURGES** - We hope to do that sooner rather than later.

**CHAIR** - We will talk about that as a committee and I think we will go in camera and I take it that there will be some pertinent questions there. Thank you for that.

**Ms FORREST** - Could we ask where the funds are going to come from? It should not need to be discussed in camera, I wouldn't have thought.

**Mr STURGES** - Why wouldn't you think that?

**Ms FORREST** - This is a matter that the State and the people of Tasmania have a huge interest in, obviously. If you factored in the cost of just upgrading the road to the west coast, for example, to take trucks that would need to be used if rail was not on the west coast, the sums clearly would not stack up. This is money that obviously has to be found somewhere.

**Mr STURGES** - Correct.

**Ms FORREST** - Whether this is money that we need to access from the Federals - it is a matter for the broader population of Tasmania as to how this is going to be funded.

**Mr STURGES** - Correct. What I have said, possibly about 60 seconds ago, is that once this arrangement is ticked off through the appropriate process of Cabinet and the board, we will put out how much we paid for it and we will put out the terms of the negotiated arrangement. But, at this point in time, I think it is inappropriate to publicly disclose that. Suffice to say, the State Government is committed to ensure that rail continues in this State and we will find the money. I am having discussions with the Treasurer now about options that are available to us.

**Mr HARRISS** - Mr Chairman, before we go off, Ruth might like to pursue that further. Whether we are buying a rail or a Metro bus or providing whatever other service from the Consolidate Fund or from the Treasurer's Reserve or from wherever, it is part of the State Budget. If I can just hypothesise, there could be some arrangement with PNT for an equity retention by them. If there are those kinds of mixes, well yes, but there has been no provision made in the Budget, notwithstanding the Treasurer and I think the Premier, pre-Budget both said, 'Watch this space, we will announce matters in the Budget', consistently during that week in the lead-up to the Budget in question time, as to the funding streams to facilitate the purchase of the business.

**Mr STURGES** - Did they?

**Mr HARRISS** - Yes.

**Mr STURGES** - I definitely recollect the Treasurer and the Premier saying, 'We are committed to ensure that we have freight rail in this State.' We have delivered on that. What I will say to you now is that we have a negotiated outcome with the company, Asciano. That negotiated outcome is going to their board for tick-off. The negotiated outcome is going to

## UNCORRECTED PROOF ISSUE

Cabinet for tick-off. Included with that negotiated outcome will be a discussion around options for funding the purchase and that has not been ticked off. So, therefore, until I go to Cabinet and until Cabinet decides on how the purchase arrangement is going to be made, I am really not at liberty to speculate. But certainly, the Premier has made it quite clear that not having rail in this State is not an option and I will be taking a detailed submission through the appropriate processes of government to seek approval of my Cabinet colleagues for the purchase, which will outline in detail the negotiated outcome.

I cannot speak for my Cabinet colleagues and there is a process that I have got to go through. Regularly this Government is criticised by people like you for not following due process. Well, I am going to follow due process and if that frustrates you on the way through, I apologise. I will give you whatever information I possibly can. I have said that we have to respect Asciano's role in this as well. That needs to go to their board. They need to go through this process. I am more than prepared to go in camera and talk to you about the offer that we have made, the terms of negotiations that we have gone through at this point. I am not about trying to fudge issues with you. What I am about trying to do is follow due process.

**Mr HARRISS** - In a measure of good faith, of course, we will go through that process but it may be that in that process we can indicate to the minister that if we talk about the funding process and the streams that are available then it might be a matter for immediate public disclosure. That is for that discussion.

**Mr STURGES** - Coming out of an in-camera discussion?

**Mr HARRISS** - We will see how we go when we are in camera. Of course we are not going to come out and breach our Standing Orders and breach an in-camera discussion. What I said was that we might be able to convince the minister that the process which he is suggesting to us is not confidential and if we can convince you of that, so be it. If we cannot, we won't.

**Mr STURGES** - What also I need to do is ensure that I follow due process on the basis that funding announcements are made by the Treasurer. I have had discussions with the Treasurer. The Treasurer has had a very keen interest in the negotiations around this matter, and the head of the Treasury been in constant contact with my secretary. The funding arrangements certainly is not an issue that has been lost on us and we are looking at options available to Government to ensure that we secure rail in this State.

**Mr WILKINSON** - Graeme, I hear what everybody been saying. I can certainly understand going in camera if the purchaser is an independent party or there is something in relation to the agreement that certain moneys are going to be spent by an independent company. Where I struggle at the moment is that, if the Government is going to pay for the upgrade and for the rail itself, I cannot understand why the Government would not come forward and say we are paying for this; we are paying for it in the State and also out of the Commonwealth.

**Mr STURGES** - I understand where you are coming from.

**Mr WILKINSON** - But if it is an independent company I can understand the commercial confidentiality.

**Mr STURGES** - We have a negotiated outcome at this point in time that is yet to be endorsed by the board of the company with whom we have been negotiating, and yet to be

## UNCORRECTED PROOF ISSUE

endorsed by State Cabinet. It is just that after two days of very intense and very hard negotiations. I commend the officers of my department, the secretary and the officers of the Rail Management Unit, that sat around the table for that 48-hour period and for the work that they put in. I commend the work that people have done in relation to the due diligence process, but we only have, at this point in time, a negotiated outcome that both the board and Cabinet need to contemplate. On that basis I am not at liberty to divulge the outcome of those negotiations. Once we get the tick I will be out there telling the Tasmanian public how much the deal was struck for, because at the moment I do not know whether the Asciano board may say well it is not enough. They got to that stage through the commercial sales process where an offer was made - and I do not know the exact offer. An amount has been put out in the public arena. It got to the board and the board said it is not enough. So it has not gone to the board yet. We understand, from the good faith discussions we have had, that it is highly likely the board will endorse the negotiated outcome. I cannot speculate on what the board may determine, just as I cannot speculate on what Cabinet may determine.

**Ms FORREST** - Minister, I hear what you are saying. You have made the comment that your Government is going to maintain rail services.

**Mr STURGES** - Subject to Asciano's board accepting the negotiated outcome.

**Ms FORREST** - No, the statement was that Tasmania would maintain rail services. How that is achieved at this stage looks to be by a possible arrangement with Asciano. That is yet to be finalised and I appreciate that, but the commitment to rail in Tasmania was made even prior to that.

**Mr STURGES** - Correct.

**Ms FORREST** - Having committed to that there will need to be some funding for it one way or another. Unless the Government can somehow find another purchaser to buy the set-up off Asciano, they are going to have to take it over. We have heard that the Government's intention is to take it over. So either way there must be some money spent here. I believe the people of Tasmania have a right to know what sort of processes the Government are considering for funding that, regardless of whether the sale from Asciano goes through or not. Will it mean to the people of Tasmania that some other project is going to be shelved, that you are going to have to put money from some other area into it?

**Mr STURGES** - No.

**Ms FORREST** - Has borrowing been considered as an option?

**Mr STURGES** - There are definitely no plans to shelve any major infrastructure projects in this State.

**Ms FORREST** - Have you talked about possibilities of partnerships with -

**Mr STURGES** - I understand that you are doing your job and trying to extract answers from me, and that is fine, but we are looking at a whole range of options that are available to Government. As the minister with portfolio responsibility, I now need to take those options to Cabinet. I need to work with the Treasurer as we work these options up. Cabinet needs to say to me, 'This is our preferred option. Go down this path'.



**Mr MARTIN** - So are you saying you do not have a preferred position at the moment?

**Mr STURGES** - Yes, I do. I have a personal preferred position but I have not shared those options with Cabinet just yet. We are working on that right now. Bear in mind, all of this happened in a very short period of time. These negotiations have effectively been condensed by 12 months. We have been around the table having some very intense negotiations to get what effectively is a heads of agreement for the transition of rail in this State. Asciano leaves and the Government takes over on 30 November 2009. We have done our due diligence work and we understand the value of the assets we are talking about.

**Ms FORREST** - So you do understand the value of the assets then? You have done a valuation?

**Mr STURGES** - I did say, with respect, that we had gone through a due diligence process. We had an independent consultant in the data room. We did not have access to the data room during the commercial sales process.

**Ms FORREST** - That is why I asked the question about when that happened.

**Mr STURGES** - This is a bit more information about the sale that I will put on the record. I am advised, and I am not a rail historian, that this will be the first time that the State Government has control of the rail track infrastructure on the west coast. I see that as a major opportunity for Tasmania. As part of the due diligence we made an inspection of the track so we know what condition it is in; we know what needs to be spent on it.

**Ms FORREST** - So you have a valuation figure? That has been completed?

**Mr STURGES** - Absolutely. Not only are we picking up Melba, we are also picking up the concentrates loading facilities on the Burnie wharf - a critical piece of infrastructure. We are picking up the maintenance workshops in Launceston. For the first time it will give us the opportunity to have lock, stock, barrel and locos - and I am not being cute when I say that. It gives us the opportunity then to have the whole train set.

**Mr WILKINSON** - Every kid enjoys the whole train set -

**Mr STURGES** - I do not know if it has been that enjoyable thus far.

**Mr WILKINSON** - but at the moment what we have, 'we' being the Government, is that the Government owns the rail itself?

**Mr McILFATRICK** - The Tasmanian rail network, excluding the west coast, is owned by the Tasmanian Government.

**Mr WILKINSON** - You mentioned the maintenance department in Launceston and other workshops; who owns those?

**Mr McILFATRICK** - Asciano - Pacific National Tasmania.

**Mr WILKINSON** - And Pacific National owns the trains and the rolling stock?

## UNCORRECTED PROOF ISSUE

**Mr McILFATRICK** - Correct.

**Mr WILKINSON** - So really the negotiation you are having with Pacific National is in relation to the rolling stock and the maintenance of that stock?

**Mr McILFATRICK** - And the workshops, the west coast line, the Burnie loader and, very importantly, the transition of this business as a going concern and the 180 people who are currently employed there. This is not an asset purchase; this is a business we are negotiating to keep as a going concern. They are very important people.

[10.30 a.m.]

**Mr WILKINSON** - Sure. But if Pacific National have not abided by their part of the contract and another buyer is willing to come in, that buyer then would take over the contracts that Pacific National have.

**Mr STURGES** - What contracts are you referring to?

**Mr WILKINSON** - They haven't got any. Is that right?

**Mr STURGES** - I don't know. I am just asking you what contracts you are referring to.

**Mr McILFATRICK** - You mean to the commercial customers?

**Mr WILKINSON** - If they have contracts to the commercial customers that have then got to be transferred to the new owner, that is another issue that you obviously have to take into account.

**Mr McILFATRICK** - Sure.

**Mr STURGES** - It is not a big issue.

**Mr WILKINSON** - All right, so you are saying they haven't got any contracts?

**Mr STURGES** - I am just saying it is not a big issue. There have been bigger issues, bigger fish to fry.

**Mr WILKINSON** - Okay, that is good.

**Mr McILFATRICK** - I would clarify that a little bit in that in going forward over the next five months it will be very important if we reach the head of agreement stage that we work very closely with Asciano and Pacific National to transition the employees, to retain that employee base, to maintain the customer relationships that are there that are critical to the business going forward, for both the customer and the company.

**Mr WILKINSON** - Can the Government say, 'Take off, Pacific National. You don't want to be here. If you don't want to be here, we don't want you here', and then bring in another operator and forget about Pacific National? That is obviously an option as well, is it not?

**Mr STURGES** - That certainly is an option, but at this point in time our attention and our focus has been on negotiating an exit strategy for Pacific National and Asciano and we did not see

## UNCORRECTED PROOF ISSUE

that that exit strategy, given the fact that the time frame has been condensed so much, allowed us to have a third party involved in this. I make no bones about it, we have been put between a rock and a hard place, and we took a decision that we should accelerate discussions to keep rail going in this State. But certainly, dare I say somewhere down the track, there is an option to look at a whole range of matters that may involve a third party operator.

**CHAIR** - Aside from the funding issue, which other members may still pursue, I have a couple of other questions that you should be able to answer, I think.

**Mr STURGES** - I will do the best that I can. I am not trying to be obstructionist.

**CHAIR** - I know, yes. Would you envisage that the new entity would operate with a similar community service obligation like Metro? Is that the way that you would envisage things would work, and have you considered a PPP down the track? Is that something that could be on the cards?

**Mr STURGES** - A PPP, a third party operator, all of those things somewhere into the future I am not going to rule out. What was the first part of your question?

**CHAIR** - Community service obligations.

**Mr STURGES** - It is something I will not rule out. I have to be very careful with this too because government does not want to set up a situation where we are supporting rail over road. There should be good, sound, commercial practice around the conveyance of freight in this State, but it is not something that I will rule out because again I make the point that there are road safety implications that we need to take into account and there are other matters that need to be taken into account in relation to ensuring that we have rail going forward.

**Mr MARTIN** - There are market forces considerations too if you subsidise rail at the expense of the road carriers.

**Mr STURGES** - Correct.

**Mr MARTIN** - So that has been taken into account?

**CHAIR** - If I could be the devil's advocate there, Minister, obviously the west coast component is the profitable part of the business.

**Mr STURGES** - There are a couple of good profitable lines, the Railton and west coast lines.

**CHAIR** - Yes. Quite a bit of the north-south line, if I might, is probably nineteenth century infrastructure, and that is successive governments, and we all acknowledge that.

**Mr STURGES** - I know. We are bringing it up to twenty-first century.

**CHAIR** - The point of my question is, if I could be the devil's advocate for a moment and talk about that north-south bit, as has been mooted before and I think I might have mooted it last time, have you looked at the option of a four-lane highway to carry that and to put it all on road rather than trying to bring up a very old infrastructure at a cost of many hundreds of millions of dollars? Have you looked at that, has the department looked at that option?

## UNCORRECTED PROOF ISSUE

**Mr STURGES** - Yes. In fact I have said to the Liberal Opposition, 'Give me the quote that you have and we will build it'. They have not given me their quote; \$400 million they reckoned from Bridgewater to Breadalbane.

**Mr MARTIN** - What is your cost?

**Mr STURGES** - Our analysis is \$2 billion. But of course they have now come out and said, 'Well, we won't bypass Campbell Town, we won't bypass Epping and we won't bypass Perth', so it's the Clayton's dual-lane highway. I do not know if there is anything further that David or Norm want to add in relation to that.

**Mr MARTIN** - The key question is what is the cost of the rail upgrade?

**Mr McILFATRICK** - It is not just a matter of whether you can put large loads onto rail or onto road and it is a neutral decision. If you took the paper mill at Boyer, for instance, it is a much more efficient exercise for them to load their paper onto a train and have it delivered to Bell Bay or anywhere else on a train because of the logistics of doing one load per day and getting it out.

**CHAIR** - How many trucks a day are they sending?

**Mr McILFATRICK** - It is not just the trucks a day; it is the capability of the trucks to handle it. For instance, a train might be able to carry three rolls of paper and a truck one and a half, which is not very efficient, so it comes down to the purpose, the transport fit for purpose nature, and I think for certain aspects of a lot of production happening on a daily basis, going onto rail makes sense. If you do not have rail, you could possibly put forever the cost of transporting something like paper up by a factor of maybe 50 per cent.

**CHAIR** - As I was saying, I was being the devil's advocate there. Have you got a total cost of the rail upgrade, say, from Brighton through to Bell Bay?

**Mr McILFATRICK** - Well, put it this way; I guess we could put the trucks on the road, the current Midland Highway, without upgrading it, because they could operate at night, but it would still be a much higher cost for the company to do it that way so it is not an infrastructure cost, it is a transport cost.

**CHAIR** - Yes, but the question still is, have you got a cost to refurbish and get the existing north-south railway line up to twenty-first century standards?

**Mr McILFATRICK** - There is an initial commitment to remove quite a number of the old meandering bends out of the southern section. The northern section beyond Oatlands is quite straight. The initial work just to remove and improve efficiency on the bends in the Rhyndaston and Colebrook area is about \$55 million. If we were to build a completely new alignment from, say, Brighton to Oatlands, it would be in the order of \$300 million to \$500 million.

**CHAIR** - About \$500 million?

**Mr McILFATRICK** - From \$300 million to \$500 million; that is a ball-park figure.

## UNCORRECTED PROOF ISSUE

**CHAIR** - That is the cost of a four-lane highway.

**Mr McILFATRICK** - No.

**Mr STURGES** - No.

**Mr McILFATRICK** - Let us take the cost of a four-lane highway; the Brighton bypass which we are building at the moment with the Federal Government's assistance is \$164 million for a four-lane highway and that does not get us anywhere near Launceston.

**Mr STURGES** - That is 10 kilometres; do your sums.

**Mr McILFATRICK** - So to say that you can build a duplicated highway to Launceston for \$400 million is using probably 1960s figures.

**Mr STURGES** - I think that is important. Seriously, I have been trying to say this for some time and people just do not listen. That is a great example. The Brighton bypass which is just on 10 kilometres of dual-lane highway - it is all dual lane, isn't it, David?

**CHAIR** - Well, most of it. On the Public Works Committee we did that; Mr Harriss and I did that so we are pretty au fait with that but there are some extra bits.

**Mr STURGES** - It is mostly; I did not want to mislead the committee.

**Mr PETERS** - It is only once you get to the East Derwent roundabout.

**Mr STURGES** - That is correct. Regarding \$164 million for 10 kilometres, do your sums; Bridgewater to Breadalbane, \$400 million? I do not think so. That is what we are saying; the department has done analysis, the department has crunched numbers and the expert engineers in the department who build roads every day have said to me that you would not do it for under \$2 billion. As time moves forward you can probably put another 10 or 20 per cent on that estimate.

**CHAIR** - As you can with the rail no doubt.

**Mr STURGES** - Well, yes, but bear in mind that we were criticised when we bought \$20 million worth of steel sleepers and track. Mr Morris put a media release out saying what an excessive waste of money it was for the Government when we bought them and the media release said they are going to lay on the sides of the track - because we had them strategically placed to be laid into the network - they are going to lay there and rust. Where are they now?

**CHAIR** - As I understand it, the current gauge is fairly narrow. Does that allow for the efficiencies for the trains -

**Mr STURGES** - Yes.

**CHAIR** - It is wide enough?

**Mr STURGES** - Yes.

## UNCORRECTED PROOF ISSUE

**CHAIR** - That has been criticised because we have had that dog's breakfast all over Australia with all the different gauges.

**Mr STURGES** - One good thing is that we do not have a bridge across to Melbourne with the trains going over but we are advised that with the appropriate rail track - and we are putting in 41 kilo track - we can accommodate it. I back up what Norm was saying. One of the key projects that we need to undertake is around \$55 million and that is straightening the 'dog's hind leg' at Rhyndaston.

Over the past few weeks the work that has been done since north-south rail stopped has involved the replacement of 500 new railway sleepers, the replacement of 1 293 lengths of rail, totalling 17.7 kilometres. What we have done is take the opportunity to do work between Bridgewater and Antill Ponds. It is about 84 kilometres.

**CHAIR** - So there is no new alignment there?

**Mr STURGES** - We are bringing the existing track up to good efficient operating standard. The upgrades will occur separately because there is a big task involved. There is land acquisition, there is heritage assessment, there is geotechnical work, there are all those things that need to happen. Our priority has been to bring the existing rail track infrastructure up to scratch.

Down south we have done work on the Jordan River bridge - I think it is about \$1.5 million - put in a new bridge and been criticised for that by the Greens; undertaken rail realignment work with that job so we have done 1 293 lengths of rail totally 17.7 kilometers and we have had three contract companies working on them. Fourteen hundred specialist welds were made to join the rail together. The works also included the upgrading of 45 curves over 50 kilometers from Bridgewater to Rhyndaston so we have undertaken curve radius work so that we can ensure -

**CHAIR** - Another question - if that line is upgraded from north to south or even through the western line which goes through to Burnie -

**Mr STURGES** - There has been a lot of work on that western line too.

**CHAIR** - Yes, I know. It runs past my place and I keep an eye on it every day.

**Mr STURGES** - So you would have seen all those blokes out there on the track I am sure.

**CHAIR** - I have.

A criticism of the existing rail operator is the time that it takes now to get freight from Burnie to Hobart. If you have done all the work and you have spent, I do not know how many hundreds, or it might be \$2 billion, it might be like the stretch of the four-lane highway. How much time is it going to take off and make that rail efficient?

**Mr McILFATRICK** - Every bit of work that we do will be justified in regard to the safety aspect, how it makes it safer and how it improves the journey time. We will be making incremental changes which will be noticeable on the network and there are already noticeable changes in terms of the transition times for trains just from the maintenance work we have done already. We would never get to what you call broad gauge standard. That would be akin to trying to change from the left-hand side of the road to the right-hand side of the road for driving. It

## UNCORRECTED PROOF ISSUE

would be almost impossible to envisage a change of broad scale. The big step in improvement would be if we could find \$300 million to \$500 million to do the straightening of the line between Brighton and Oatlands and that would be on our long-term vision rather than in the short-term. What we are looking for at the moment is to get best bang with a buck out of those \$55 million that has been committed to the Colebrook region.

**CHAIR** - A question from Mr Martin, then Ms Forrest and Mr Wilkinson.

[10.45 a.m.]

**Mr MARTIN** - Mr Chair, I have three or four questions going all over the place as we have swapped topics a bit. Just to clean up some of the issues we have been talking about: Norm, you mentioned before, the comparison with cost between road transport and rail transport. Have you got those figures?

**Mr McILFATRICK** - No, the figures that I mentioned are typical and come from the customer in their assessment of what they believe is the cost of rail versus the cost of road transport.

**Mr MARTIN** - But you must have some figures in the department on which you do modelling?

**Mr McILFATRICK** - I can certainly get those figures but I do not have them with me today.

**CHAIR** - Could they be tabled - the comparisons table?

**Mr STURGES** - I can confirm that will be provided to us as a question on notice?

**Mr MARTIN** - Yes. That is the comparison costs, the figures that you are using to compare the costs of road transport to rail transport. Minister, to clarify another thing. The process from here, do you have to take it back to Cabinet or the sub-committee of Cabinet for a final decision?

**Mr STURGES** - It goes back to Cabinet. I will be providing a report to the infrastructure sub committee of Cabinet but ultimately it will be Cabinet that makes the decision.

**Mr MARTIN** - And what is the timeframe for that, is that next Monday?

**Mr STURGES** - I intend to provide a report as soon as possible and I am targeting next Monday. Cabinet is meeting next Monday.

**Mr McILFATRICK** - I believe the sequence will be Cabinet endorsing it to go to infrastructure committee of Cabinet on the following day.

**Mr STURGES** - Cabinet ultimately makes the decisions regarding the directions of Government in this State, let me make that quite clear, but because of the complexity of work involved in developing infrastructure projects and I have to say that over the past 12 months that has not been lost on me - the complexity of work in designing roads, planning roads, going through assessment processes, approval processes and what have you. It is important that we do have this sub committee in place which involves the secretary of Treasury and Treasury officials and it involves representatives of DPAC, the secretary and representatives of my department that we can get down and do that work at that level.

**Mr MARTIN** - It is likely Cabinet on Monday and the sub-committee the next day or so?

**Mr STURGES** - As soon as we possibly can. We are accelerating this process but we are ensuring that we have a structured process through which we take this. It is very important that we do that because, I stress again, we are talking about Tasmanian taxpayers' money.

**Mr MARTIN** - And when do you expect a decision from the company?

**Mr STURGES** - Definitely by 30 June this year, so in seven days.

**Mr MARTIN** - I am trying to work out whose court the ball is in at the moment. Are they waiting for you to get back to them with a final tender position or vice versa?

**Mr McILFATRICK** - This is a continuing joint development of a head of agreement that the negotiating teams believe that they could, in parallel, take to their board in Asciano, and our Cabinet. So we will be working in parallel with that target in mind and have the head of agreement endorsed by the end of this month.

Whether it is a day or two after that - but when you are around the negotiating table you agree a timetable and we have agreed that we need to do this quickly so that we can then use the next five months to make the transition.

**Mr MARTIN** - You will be seeking, apparently, funding from the Commonwealth Government in relation to this? According to the Treasurer. Do you know what the figure might be?

**CHAIR** - That was the evidence we were given yesterday.

**Mr STURGES** - I am having discussions with the Federal Minister. I have discussions again with the Federal Minister this week and we are predominantly talking about capital upgrades. I can say in particular what we envisage will be required on the West Coast line. I am not here to tell you that the West Coast line is in pristine condition but we believe that on our assessment that a capital injections will make it a lot more efficient. There are a whole range of funding options to purchase rail that we are currently working through and that I will take through the appropriate process. Subject to obtaining approval, either I or the Treasurer will make an announcement as to where that money is coming from.

**Mr MARTIN** - Have you any idea of what figure you will be seeking from the Federal Government for the combination of both the purchase and the upgrades?

**Mr STURGES** - I can tell you that in the forward Estimates we have a commitment from the Federal Government of around \$210 million for capital upgrades to the rail track infrastructure.

**Mr MARTIN** - That is the money that has already been promised.

**Mr STURGES** - Yes.

**Mr MARTIN** - Is there additional funding you are seeking?



## UNCORRECTED PROOF ISSUE

**Mr STURGES** - We are having discussions with the Federal Government.

**Ms McINTYRE** - Out of that \$210 million, about \$130 million commences this financial year and rolls out over the next four years. There is a significant amount of funding there for capital works on rail.

**Mr MARTIN** - Apparently you are seeking more money in addition to that?

**Mr STURGES** - We are having discussions with the Federal Government.

**CHAIR** - Does the minister sound amenable?

**Mr STURGES** - I make this point too. The lazy and ignorant Oppositions in the lower House suggest that we have obtained no funding from the Federal Government. We have got a package of \$250 million committed for rail in this State right now. So we have been doing the work while they have been throwing rocks across the fence onto my roof. We have a good, solid relationship with the Federal Government. Personally, I have a good working relationship with the Federal Minister, Mr Albanese, and I will be talking to him again as we take this matter forward. The State Government is committed to ensuring that we have rail freight in this State.

**Mr MARTIN** - Reading between the lines, there is obviously a funding announcement coming up with the Federal Government about more funding.

**Mr WILKINSON** - That is the same book I am reading Terry.

**Ms FORREST** - There is \$120 million this year for capital works out of a total of \$250 million in Federal funding. Are you suggesting here that some of that money could be used to purchase and take over the rail or will it be quarantined for capital works?

**Mr STURGES** - Upgrade of the rail track infrastructure.

**Ms FORREST** - Where does the Wiltshire line fit into that then?

**Mr STURGES** - There is \$30 million allocated for that.

**Ms FORREST** - There have been some questions raised as to whether that is the most appropriate way to spend it.

**Mr STURGES** - I do agree. I think that is a valid point. As you would well know, being the active member on the north-west coast, I have spent a lot of time up there recently and there is some debate within the community about the appropriateness of spending that on the Wiltshire line. But at the moment it is allocated for the Wiltshire line track upgrade.

**Ms FORREST** - What I am hearing from you is that the money allocated to capital works will not be used for anything but capital works?

**Mr STURGES** - Correct. It will not be used for anything but capital works.

**Ms FORREST** - Capital works on what?

## UNCORRECTED PROOF ISSUE

**Mr STURGES** - The rail track infrastructure.

**Ms FORREST** - So \$30 million will be spent on capital works on the Wiltshire line?

**Mr McILFATRICK** - That is a decision for the Federal Government. It has committed to the Wiltshire line but not yet said in which year it is going to be spent. It is seen as critical to the pulp mill project so that is why the Wiltshire line allocation is known.

**Ms FORREST** - The State is not putting any money into that then?

**Mr McILFATRICK** - No, that is a Federal Government commitment.

**Mr STURGES** - That is more money we have negotiated from the Federal Government but the Liberal Opposition reckon we have got none.

**Ms FORREST** - The question remains, is it the most appropriate use of that money? That is the issue.

**Mr STURGES** - It is a good question and it is an issue that is being discussed.

**Ms FORREST** - What are you doing about that? What are you doing to ascertain whether it is the most appropriate -

**Mr STURGES** - I am talking to the Federal Government and I am talking to the local -

**Ms FORREST** - There is no use talking to the Federal Government when you have decided how you are going to spend it. They have allocated the \$30 million to that line.

**Mr STURGES** - I know that but I still need to talk to them and I need to talk to the community. I have been talking to the community on the north-west coast to find out what their opinion is, and my assessment is that it is certainly tilted one way.

**Ms FORREST** - Which way?

**Mr STURGES** - What is yours?

**Ms FORREST** - I am asking you to tell me the Government's view on the future of this line?

**Mr STURGES** - The message that I am getting from the community at the moment is that, dependent on the pulp mill, it may be that the money could be spent more appropriately on other parts of the rail track infrastructure on the north-west coast.

**Ms FORREST** - But it is not only logs that come out of that area, there is a lot of freight that travels on that road.

**Mr STURGES** - I know that.

**Ms FORREST** - The line goes only to Wiltshire, not into Smithton. So, does the Government support upgrade of that line to enable at least a functional line to Wiltshire?

## UNCORRECTED PROOF ISSUE

**Mr STURGES** - The money has been allocated and there is some debate within the community about the short-haul nature of freight from the Wiltshire area into Burnie, or for that matter, into Devonport. Let us not forget, Devonport is also a key strategic port.

**Ms FORREST** - That is a functioning line at the moment, though. I am talking about a line that is not being used.

**Mr STURGES** - I know that. There is a view that, if you have put something on a truck, whether from a factory or a logging coup, you might just as well haul it into Burnie.

**Ms FORREST** - I am asking about the Government's view on that line and what the direction is?

**Mr McILFATRICK** - I can talk about where we are strategically. It is Federal Government money. So we can evaluate a decision that was made back in 2006, to say that the emphasis was on the Wiltshire line, subject to a pulp mill going ahead. What I have asked our infrastructure, planning and policy area to look at is, where could we best spend that money and then advise the Federal Government where it can best spent that money to improve safety and efficiency on the north-west transport corridors.

We know that our general freight and forestry task is increasing in that area, irrespective of whether we have a pulp mill, and you have acknowledged that. We have freight analysis systems in place look at how we respond to that increasing freight task. We have commenced initial planning and modelling to identify which road and rail infrastructure options would meet those future State tasks. We hope to have that modelling done by September.

**Ms FORREST** - Is extension of the line into Smithton included in that modelling?

**Mr McILFATRICK** - All of the modelling is around where the freight task is coming from and how it could be best handled in a road and rail environment. I have made a commitment to the minister that we will get some of that information back to him by September. That will obviously involve discussions with our counterparts in the Federal Government. It is their money and they need to see the logic of it. We need to understand how that money can be best applied. It may turn out that the Wiltshire decision, which was made in 2006, is still the right one, but we will not do that in isolation of thinking about the other options.

**Ms FORREST** - If the modelling concludes that the only way for it to be a cost-effective and financially viable outcome is to extend the line to Smithton and upgrade the whole lot or, alternatively, that you do not upgrade the Wiltshire line, that would be your recommendation to the Federal Government and we could see that \$30 million spent in another way?

**Mr McILFATRICK** - In the north-west, yes, exactly. But we have to do that modelling thinking first.

**Mr STURGES** - I want to stress, we are not about trying to dud the north-west community. We acknowledge the importance of the west coast and north-west coast to the Tasmanian community. If, through appropriate modelling and analysis, we believe that we could spend that money more sensibly and wisely to facilitate freight movement either by road or rail in the north-west and west of the State, then that is what we will be taking forward. We are undertaking that analysis now.

**Mr WILKINSON** - One of the issues that is of concern obviously is the amount of derailments per freight kilometre. You would be aware, I suppose, that this question was coming; it is an obvious question.

**CHAIR** - We will do it under rail safety.

**Mr WILKINSON** - Okay, we will leave that.

**CHAIR** - Minister, it is 11 o'clock. Perhaps if we break for morning tea and then come back 15 minutes later and go in camera to deal with that. It makes more sense to get it out of the way. Are you happy with that?

**Mr STURGES** - So you want to go in camera to talk about the negotiated outcome?

**CHAIR** - In camera to talk about those issues you raised before, yes.

**Mr STURGESS** - If that is the wish of the Chair then that is what will happen.

**Mr HARRISS** - That would be convenient.

**CHAIR** - It is more convenient to break and do it like that.

**Mr STURGES** - Just before we do, Chair, can I say for the public record - and I want to make this quite clear - this is not going behind closed doors for the sake of going behind closed doors. At the appropriate time, sooner rather than later, it would be my intention to ensure that the Tasmanian community is made fully aware of the offer that has been made, ultimately the purchase price and the terms of the arrangement that we have negotiated.

**The committee suspended from 11.01 a.m. to 12.06 p.m.**

**CHAIR** - We will resume the hearing. We are continuing with some of the overview issues.

**Ms FORREST** - There was a discussion about the importance of buying the business as a going concern. I think there should be some discussion in open session about that. I think it is important that we get some of that information on the public record as it is potentially going to be an asset that we own, if the deal goes through.

**Mr STURGES** - We can talk about the employees and the implications of the rail management deed. Is that what you are looking for to get on the record?

**Ms FORREST** - Yes.

**Mr McILFATRICK** - I will repeat what I said in camera. We had an opportunity to consider purchasing the west coast rail network to add that to the Tasmanian rail network, which was a pretty obvious decision that we have had in our mind for a long time. The other option was to acquire the assets under the rail management maintenance deed, if and when Asciano triggered the events under the deed.

My remaining concern was that that enabled us to perhaps purchase rolling stock and locomotives. It gave us the opportunity to negotiate different elements of the business but there were some elements which could be withheld and may not have been negotiated to keep the rail network operating. They included the workshops, the critical workshops in Burnie and Launceston, and the loading facilities at the concentrates wharf in Burnie.

The other critical thing was that in a segmented purchase of assets, even if they could be successfully negotiated, they would have been prolonged, and I was very worried that we would not be giving certainty to the employees of Pacific National Tasmania who are now a hidden value in this business. If we did not have the majority of those employees on board, we would not have an operating network in Tasmania.

The whole of business transition became, in the circumstances that we were negotiating last week, the aim, and where we have got to is an agreement at the moment to take over the whole of business on 30 November 2009 providing we agree on the head of agreement and we go forward over the next five months in good faith to make that happen.

The other thing that was very critical to our negotiations was that we will not go through the next five months unless there is a guarantee, in that head of agreement, that rail services on all lines continue while the five-month transition is afoot. Whole of business became the only way forward to guarantee that we would have rail and rail services in this State.

At 30 November, given Asciano has already indicated their desire to be out of the State and not be part of any operations in the State, it will be appropriate to extinguish the rail management and maintenance deed at that point for the State to take full responsibility for the whole operation, including maintenance and operation of the line and the above rail assets.

**CHAIR** - Given that the Auditor-General gave you a bit of a bagging with regard to risk assessment processes, could I ask, now that you have gone into these negotiations and worked through that whole process, has an adequate risk management process taken place on what you are going to buy? You are not going to buy a lemon, in other words, that is going to cost you more than you might expect.

**Mr STURGES** - Absolutely not. I want to make a very respectful comment in relation to Mike Blake, the Auditor-General, but the department's opinion is that the auditor has misunderstood the fundamental intent of the RMMD.

**CHAIR** - We did talk to him about that yesterday and I understand that he is going to have some reference from the secretary on that.

**Mr STURGES** - Correct. But I would like to get this on record, and I do want to be very respectful to the Auditor-General,

**CHAIR** - He is a fine operator.

**Mr STURGES** - You will get no argument from me there. But the purpose of the RMMD is a point of fundamental difference between the department and the Auditor-General. The outcomes attributed to the department by the Auditor-General's report are not the outcomes of the RMMD for government but rather the responsibility of the operator. There is the fundamental

## UNCORRECTED PROOF ISSUE

difference. The purpose of the RMMD is to secure rail operations in Tasmania, to properly manage the expenditure of Australian government and State government funds and, importantly, to ensure that the Government did not accept liability for any environmental or other defects which existed before it took over ownership of the rail asset. The report acknowledges \$26 million of improvement works that have been contracted in the first two years of the 10-year life of the RMMD. Total capital works running over the 10 years is \$78 million, Federal Government money. The department supports the recommendations of the report but considers that the management practices were and remain appropriate for the complexities of the RMMD. I want to put that on record. We are still deciding whether or not we will write to the auditor but bear in mind we are focusing now on moving forward, taking over control of rail on 30 November this year and, quite frankly, extinguishing the deed. So it may be work that is unnecessary.

[12.15 p.m.]

**Ms FORREST** - Just on that point, Minister, there was an opportunity as there always is with the Auditor-General's reports. He sent out his comments to the relative department and there is an opportunity for the department to respond. I understand there was no response at that time and since then or the response did not claim that he misunderstood the detail that you are now claiming. Can you explain why this criticism came after publishing the report rather than at the draft stage?

**Mr STURGES** - I am happy to table this if you like, Chair. This is a response contained in the report from the department. It is quite comprehensive.

**Mr WILKINSON** - That is in the report, isn't it?

**Mr STURGES** - It is in the report at page 11 headed Department of Infrastructure, Energy and Resources, rail management and maintenance deed. It goes on to say a fundamental point of departure is the purpose of the rail management and maintenance deed. The outcomes are mentioned in 1.2. So there is a comprehensive response from the department where in fact we put our position.

**Mr McILFATRICK** - In other respects our response was we agreed with the Auditor-General's comments and we would take action, so we were not in disagreement with the whole report, it is just a fundamental argument about where our responsibilities lay under the deed.

**CHAIR** - Minister, as we know, you have Federal funding but then again there was the Federal infrastructure fund, that \$22 billion infrastructure fund, and the previous Premier, Paul Lennon, did criticise that your submission had been lacking. Have you spoken to Mr Lennon about those criticisms of the fact that the department's submissions were lacking and that you should have had a bite at that \$22 billion infrastructure fund?

**Mr STURGES** - In answer to your first question no, I have not spoken with Mr Lennon about his comments but what I would like to do, Chair, is to take the opportunity to put on record some clarity around the Infrastructure Australia audit process. I have to say that it has been very disconcerting to me to read and hear unfounded criticisms about the Government because it reflects on those very hardworking staff in my department who put in many, many hours around this submission. I won't ramble but I have some words prepared which I think will go a long way to explain clearly just what IA is all about and how we in fact worked with IA to put in a very

## UNCORRECTED PROOF ISSUE

comprehensive submission. I will run through the process and then address some of the misunderstandings, and I am doing this for the record if I may, Mr Chairman.

**CHAIR** - You will encapsulate it as much as you can?

**Mr STURGES** - I will be as quick as I can.

The Australian Government established Infrastructure Australia in April 2008 as part of a new approach to planning Australia's future infrastructure. Infrastructure Australia provides advice to the Australian Government about infrastructure gaps and bottlenecks that impact on national economic growth, identifies investment priorities and policy and regulatory reforms for national infrastructure investment.

IA's first major task was to undertake a national infrastructure audit and provide an infrastructure priority list. Transport was only one of the sectors considered by IA. Also energy, water and telecommunications were included. The focus was nation-building infrastructure. IA developed and maintained a strong focus on strict project criteria that supported this objective. The assessment process of Infrastructure Australia developed over time. The process involved a number of steps, starting with a comprehensive infrastructure audit in each State. Tasmania's audit was submitted - and I do stress submitted - in July 2008 and is publicly available and has been publicly available now for around about seven months. Tasmania's audit is a very comprehensive document that identifies challenges and priority projects in the transport, energy, water and information communications technology areas. In the transport area, rail, road and port projects were identified. This is in the initial submission.

Infrastructure Australia developed selection criteria for projects for further consideration. Criteria were rigorously applied. Again, the criteria developed over time. After extensive consultation with Infrastructure Australia the Tasmanian Government submitted five priority projects in November 2008. Bear in mind, rail, road and port were in our initial July 2008 submission, but the criteria were developed over time and after extensive consultation with IA, we submitted five priority projects in accordance with their criteria. Those projects were submitted after careful consideration of Tasmania's strategic transport needs, IA's selection criteria - and I do stress that we had to work within IA's selection criteria - and funding for projects that we had achieved from other Australian Government sources.

The five priority projects that we got to after working extensively with IA were land reclamation work at the port of Bell Bay, extensive work on the Brooker Highway, around what I call the clover leaf area at Lower Domain Road, work for the Frankford-Birrreele freight corridor, work on west coast freight, road and rail, but bear in mind at that time we did not own Melba, and also work for the Midland Highway.

Rigorous economic analysis was conducted on each project. All five of the Tasmanian projects were accepted by IA in their December 2008 report for further analysis. Again, this document is publicly available. Following further detailed discussions with Infrastructure Australia, a detailed analysis was conducted on one project and that was the Bell Bay intermodal expansion. This project has now been identified by IA as one of only 28 what they call pipeline projects for further analysis.

The Secretary, Mr Nom McIlfatrick, met with Mr Michael Deegan, the infrastructure coordinator, shortly after the Australian Government Budget. The key message was simple. The

## UNCORRECTED PROOF ISSUE

Bell Bay project is a project with real potential. DIER is now working closely with TasPorts to provide IA with the required detail on the project.

Through the whole process the Tasmanian Government remained in close contact with Infrastructure Australia and responded quickly and in as much detail as possible as the process progressed and developed. All States were in the same boat.

In the 2008-09 Budget the Australian Government announced the Building Australia Fund. The recommendations of IA's infrastructure audit and priority list would guide funding commitments. In the recent Budget the Australian Government announced - I will skip through this, if I may, because I know that time is on the wing.

If I can I can get to some of the misunderstandings around IA, unless of course you want me to go through in more detail?

**Mr MARTIN** - Just to clarify one thing, do you know why the other four projects were not short-listed?

**Mr STURGES** - Yes, I do and we can talk about that in detail, if you like. But if I can get to the misunderstandings, Chair, because I am very mindful -

**CHAIR** - Very quickly, yes.

**Mr STURGES** - It is a very important issue and there is a lot of misunderstanding, both in this House, the lower House and the broader community. In relation to infrastructure projects, IA provides advice to the Australian Government; it does not determine funding or projects. IA applies very strict criteria for the selection of projects to be recommended. Projects are not recommended on a State-share basis. Such an approach is contrary to the rationale for the establishment of IA. Focus is largely on nationally significant projects.

In relation to Tasmania meeting the IA deadlines, DIER adopted a professional, rigorous approach to the work required by Infrastructure Australia. Over 1 000 written pages were put forward in its submissions and 70 000 spreadsheets were provided as part of the cost-benefit analysis process.

**Mr MARTIN** - Meeting the deadline?

**Mr STURGES** - Yes, absolutely meeting the deadlines and I will just get on to that, if I may. Where necessary, deadlines were negotiated to ensure IA was provided with the required level of detail and they were satisfied all the way along. Tasmania had regular and detailed contact with Infrastructure Australia, the audit body. Tasmania fulfilled all requirements from IA as they developed through the process.

Priority rail projects were identified in the Tasmanian infrastructure audit after detailed consultation with Infrastructure Australia and, for sound reasons, these were not carried forward into Tasmania's subsequent submissions. That is those subsequent submissions where we actually started putting dollar amounts to them. So it is very important that we understand the broad but comprehensive initial submission in July 2008, and the work that then went on with Infrastructure Australia which led to us putting forward five priority projects.



## UNCORRECTED PROOF ISSUE

Substantial Australian government funding has already been committed for rail projects. As we have spoken about before, under the rail deed there is \$78 million of Federal money for capital expenditure. Federal election commitments delivered under the Nation Building program, which was formerly known as AusLink -

**Ms FORREST** - This is all in the budget papers.

**Mr STURGES** - With respect, you have asked me about the IA project and I am explaining it to the committee. If you do not want to know, that is fine but I am explaining that there has been significant misunderstanding within both Houses. There has been significant mischief-making, particularly by the Liberals and Greens, around our IA submission and the media have not fully understood the difference between all the funding processes that are available from the Federal Government.

**Ms FORREST** - We are neither Liberals nor Greens - and we are not the media.

**Mr STURGES** - I am happy to stop now if you understand it all, that is fine.

**CHAIR** - Yes, I think we get the drift.

**Mr WILKINSON** - Can I ask why we missed out?

**Ms FORREST** - That is the nub of the question.

**Mr McILFATRICK** - We did not miss out. We still have a priority pipeline project. I received a letter from Mr Deegan just yesterday indicating what the proposed next steps are for refining the pipeline project and for adding any new projects of significance that come out of our planning. They are still quite tight. In July to August we will be having further workshops with IA; in August through October we will be continuing our collaboration on the development of initiatives. By the end of October, any new submissions or reinforced submissions around Bell Bay will be presented to Infrastructure Australia to present in their next round of submissions to Federal Cabinet.

**Mr MARTIN** - As an example, why would something like the Lower Domain cloverleaf on the Brooker Highway, which is a shocking piece of 1960s road engineering -

**Mr STURGES** - Can I quickly respond. We are still in the mix as far as the Infrastructure Australia audit goes. I do want to make a point that is overlooked quite regularly; I am not having a cheap shot here but I want to get this on the record. We have an \$800 million package of road and rail projects committed to Tasmania by the Federal Government over the next four years in the Nation Building program. The Australian Government is investing \$156 million in road and rail infrastructure in the 2009-10 budget. That is an increase of over 50 per cent of what we received in the 2008-09 budget.

**CHAIR** - With respect, Minister, I think we know that. What we are talking about is why with the IA stuff we did not -

**Mr STURGES** - With respect to you, Chair, that is what I am explaining.

**Ms FORREST** - Are you saying you are satisfied with having that extra funding?

**CHAIR** - It is the \$22 billion that we are talking about.

**Mr STURGES** - No; you said we have missed out. I have said we have not missed out. There were very rigorous selection criteria -

**Mr MARTIN** - Didn't we meet them?

**Mr STURGES** - Yes, we did and all indications from IA were that things were looking pretty good.

**CHAIR** - So, you would have been very disappointed with Minister Albanese, no doubt.

**Mr STURGES** - We have a very good solid working relationship with the Federal Government, Chair. We are in there working; this is still a priority project. There is another funding round coming up in the near future.

**Mr McILFATRICK** - If I could go to Mr Martin's question, the criteria they set are different to normal road and infrastructure criteria. They set a much higher hurdle. The benefit test, which had to be above 1, was -

**Mr STURGES** - National productivity.

**Mr McILFATRICK** - Yes, it was national. If we take the Brooker clover leaf, the criteria would be its value and ability to expand Australia's productive capacity, to increase Australia's productivity, to diversify Australia's economic capabilities, build on Australia's global competitive advantage, develop our cities and regions, reduce our greenhouse emissions and improve our social equity and quality of life.

[12.30 p.m.]

**Mr MARTIN** - Does it not meet all of those?

**Mr McILFATRICK** - It meets all of those but it does not get over the hurdle that was set, which is a high hurdle. Those four projects still sit there in negotiation with the Federal Government for their roads program, not necessarily Infrastructure Australia which had a much higher hurdle.

**Mr WILKINSON** - As a result of what occurred on the last occasion, you say things are still happening. Are we going to do anything differently when the next round comes, taking into account what occurred on the last occasion? If so, what are we going to do differently?

**Mr McILFATRICK** - We are going to continue negotiations on the same basis. We believe that Bell Bay in particular meets all of those criteria and was close to getting an investment decision. What we will do over the next six months is refine the elements of the Bell Bay bid, which will hopefully take it further up the priority order. There was one issue in relation to ports, which Infrastructure Australia clearly found during the process. As the minister said, this was an iterative process that set up some objectives and then, during that process of bidding, they learned there were a lot of port bids from around Australia. They decided that, to make any significant decisions in regard to ports, Infrastructure Australia needed to review the National Ports Strategy. For instance, they did not give some money to Port Kembla which might have starved Sydney

## UNCORRECTED PROOF ISSUE

ports of customers. We are not that close to some of the other ports, but the umbrella over the top of their ports decisions is what impact it makes on the National Port Strategy. We need to read that into our submission to make sure we now add that little element to it.

**Mr STURGES** - Just to supplement what the secretary is saying, we will continue to work and meet the criteria. There were over 1 000 projects submitted, 15 ended up getting funding, 28 are priority pipeline projects. I would like to be up there seeing the bulldozers working at Bell Bay; I would like to see work happening on those five priority projects. The reason we did not put in for a dollar amount for rail - but it was listed as a priority project and I want to stress that again - was that IA did not want to consider that. Part of that was the 70 000 spreadsheets that we put forward with detailed analysis but they did not want to consider that. We had to work to their criteria, which is what we have done. We are advised there is another round imminent. If in the next round the criteria are different and have a stronger focus on roads, for example - I do not know because I am not determining that - we will work very hard to be at the forefront with our submission. We have done a lot of work, we have a lot of analysis, and we want to have keys in the bulldozer and plans on the shelf to give to the Federal Government to lobby for money.

**Mr WILKINSON** - When a number of applications were not accepted, did they give you a reason they were not accepted? Did they say, 'Please apply at the next round', or something along those lines? I think that is important.

**Mr McILFATRICK** - I had an initial meeting with Infrastructure Australia and they have indicated no definite reasons, but they have more detail which they will discuss with us in July-August. They have indicated that their officials and the consultants they used in the process will be available to us. We have put our models forward and will now see the two sides of the picture and how our model stacked up with their valuation. That will be a valuable process.

**Mr STURGES** - I do not want to live in the past about what has been reported and who said what, but we were commended for the thoroughness and timeliness of our submission. We had a dedicated team within our department working very long hours preparing these submissions. As the secretary has said, the guidelines, the criteria were a work in progress. I take the opportunity now to commend and thank all those staff in my department, and the consultants we engaged, for their hard work. I am sure at the end of the day we will play four quarters and we will end up getting a win. We are not going to go off with our tail between our legs; we have done some good work.

**The committee suspended from 12.35 p.m. to 1.33 p.m.**