

**Tuesday, 6 December 2016 - Legislative Council - Government Businesses Scrutiny Committee A -
Tasmanian Railways Pty Ltd**

LEGISLATIVE COUNCIL

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

Tuesday 6 December 2016

MEMBERS

Mr Armstrong
Mr Farrell
Ms Forrest (Deputy Chair)
Mr Gaffney
Mr Hall (Chair)
Mrs Hiscutt
Mr Mulder

IN ATTENDANCE

Hon. Rene Hidding MP, Minister for Infrastructure

Ministerial Office

Mr Richard Wilson, Deputy Chief of Staff

Tasmanian Railways Pty Ltd

Mr Robert Annells, Executive Chairperson

Mr Damien White, Chief Executive Officer

Mr Steven Dietrich, CFO/Company Secretary

Ms Jennifer Jarvis, Corporate Relations Manager

The committee met at 9 a.m.

CHAIR (Mr Hall) - Welcome, everyone. Minister, I invite you to give an overview.

Mr HIDDING - The financial year 2015-16 was one of contrasts for TasRail. As set out in the annual report, the above-rail business result after depreciation but before tax was a loss of \$5.8 million, influenced by a depreciation charge of \$4.9 million, a \$1.8 million loss associated with the suspended bauxite contract, and a \$2.4 million expense comprising derailment costs and business interruption costs associated with the June flood event, which was a major event for all Tasmania but did not excuse TasRail from its remarkable effects.

The fall in global commodity prices also had an impact, with bulk haulage and shiploading volumes being down. The intermodal freight story is more positive for TasRail, growing evidence that the freight market is taking notice of the growing reliability of rail, combined with TasRail's emphasis on service quality. Steady growth is being achieved, particularly in its non-baseload intermodal volumes, which is helping to diversify TasRail's revenue base.

In late 2015, TasRail set new weekly records for TEU volumes for general container freight, with 1247 TEU railed in one week during November. For comparison purposes, the same week the year before was 750, so it is a major increase. That trend has continued into this last financial year, with November volumes consistently near or above 1100 each week.

The year also saw the completion of the Burnie optimisation project, including the redeveloped rail terminal, combined with a new terminal at George Town, the reopening of the Devonport rail terminal and the Brighton Hub means TasRail is now able to offer a truly statewide service. This is all good news for the freight market in Tasmania for the supply chain as it provides customers with more options, more connections and more competition through its contestable freight market.

Derailment performance is another highlight, with TasRail reporting its best ever performance. The last main line derailment occurred at Nala on 6 August 2015, with none since. This is in stark contrast to its historic performance when derailments were a frequent occurrence. The turnaround in derailment performance is attributed to the implementation of TasRail's derailment prevention strategy, which includes a proactive maintenance regime, improved track inspection and monitoring, new rolling stock, and the \$120 million Tasmanian Freight Rail Revitalisation Program - better known as the IIP program. This committee will appreciate that the IIP investment program of track and infrastructure renewals was only made possible by the Tasmanian Government putting up the \$60 million required to match the Commonwealth's contribution. There has been no time wasted by TasRail in rolling that out. More than nine tenders have been awarded to predominantly Tasmanian companies. As at the end of June 2016, TasRail has committed IIP expenditure in the order of \$33 million. The annual report has the breakdown of that.

The below-rail business, the committee will appreciate, is like the state's road network and is not expected to make a profit. It recorded a \$21.8 million loss, including a \$21.6 million impairment expense. This impairment expense is not a cash loss; rather it is a direct result of the accounting treatment for capital funding for renewal of the below-rail infrastructure. In other words, the higher the capex in a financial year the higher the impairment loss will be in that reporting period. The company had nil borrowings as at 30 June 2016.

It has been an interesting year, one of contrasts but of measurable growth in business performance. The Government is pleased with TasRail's year.

Mr FARRELL - According to the annual report on page 28, only small sections of each of your major rail lines rate well in the track quality index. On the Melba line, just over 39 per cent of rail is rated as good, with almost 45 per cent rated as fair and almost 15 per cent rated as poor. The Bell Bay line has just 40 per cent is rated as good and almost 48 per cent is rated as fair. When you compare the quality index ratings to previous years there are some interesting outcomes. On the Bell Bay line, for example, last year more than 50 per cent of track was rated good compared to 40 per cent this year, while the poor quality percentage has risen from 8 per cent to more than 10 per cent. Why are so many hundreds of kilometres of line operated by TasRail in a substandard condition? Is it because of lack of funding or a focus on other priorities than a focus on track repair, unlike previous years?

Mr HIDDING - Remember when we came to Government there was an IIP offer from the federal government on the table, and Labor had left exactly zero in the budget. In other words, it had no plan at all to spend \$120 million that we committed to spend. We have had to find the \$60 million. We have done so; a

\$120 million spend is underway - \$33 million to date with some very recent activity. We are looking at more contracts to be granted very shortly.

Mr ANNELLS - I will address this from two perspectives, Mr Farrell. One is that seven years ago when we started virtually 100 per cent of our track would have been rated as poor. There has been a great deal of improvement in that period utilising the funds from both Commonwealth and state. The change year on year I suspect has far more to do with the work we have been doing to better understand our track condition. We have better equipment for doing that now than we have ever had. We now run our track inspection car every three months as distinct from annually, at best, before. We have our own equipment now. In these numbers there is some readjustment based on our having better understanding of just what is there. You would not expect it to be, in that short period of time, related to maintenance expenditure or anything of that nature in particular. That has remained constant. Yes, we have moved our emphasis around but not to a marked extent.

Mr WHITE - The percentages are deceiving because Bell Bay and Fingal lines are quite short lines. Our main focus is on the western and southern lines, and generally they have improved or stayed pretty much the same. The bulk of the IIP works are focused on those two lines.

Mr FARRELL - In regard to that, an update on the use of the tamper. I think TasRail allocated a lot of funding to purchase a new tamping machine. I wondered how many hours that was being used for. There was a contract recently for work on the southern line where it was expected the contractor would undertake the tamping. If TasRail has their own tamper I would like some clarity on why the contract was set up in that fashion for someone else to do the tamping work.

Mr WHITE - Our tamper is fully committed to our own maintenance works. That is one reason we do not deploy it into the capital program. It would be good because it would generate some additional funds for us but we do not do that. The other reason is it would be difficult to hold the contractor accountable for the track standard if we are playing any role in that. Arguably you could provide the tamper to them without the people and they do the tamping, but in the main the tamper is totally committed in undertaking our normal maintenance tasks, not the capital stuff. They are two separate programs.

Mr FARRELL - Is it used on a weekly basis? How many hours would it work?

Mr WHITE - I will have to take that on notice. We have a very intense tamping program. We have put a great deal of attention into continuing to improve the productivity of the tamper by way of improving the reliability and deployment of people in getting adequate track time. We also had some reliability problems in all that, but the productivity continues to improve. It is a fundamental part of our maintenance regime. We are almost starting to become a normal railway in that regard in that the overall condition of the key assets - rails, sleepers, formation - is to the point where the normal maintenance activity is almost solely ballast and tamping. We are starting to get some very close correlation - it relates back to those details on track condition index - between tamping activity and track conditions. Five years ago we were putting out so many bushfires we were not in that space. Tamping is our number one maintenance activity over and above the capital program.

Mr ANNELLS - It is a daily activity.

Mr FARRELL - There was a contract recently for supply of ballast that is substantially basalt based rather than dolerite basalt. I believe the dolerite has better longevity. Is the basalt-based ballast purely a cost-saving measure or there are other reasons?

Mr WHITE - I will have to take that on notice. I know the basis of that tender was about getting better distribution of ballast throughout the state. Previously we would get ballast in the south, some at Launceston and some in the west, which meant we would only load ballast trains in those locations and then have to move long distances to get the work site. Now we have many more ballast sites the supplier will supply to, which

means the transit time for ballast trains is much less and cheaper. I will take on notice the matter of composition.

CHAIR - Members might like to focus on the financial performance before we go any further into operational matters.

Ms FORREST - The Auditor-General and your annual report have talked about the underlying result. A lot of the costs were associated with the flood. I think it impacted on that. There is also the decreased operational grant funding. I would like to explore that a bit further, particularly what happens beyond the forward Estimates with below-rail where the funding appears to be running out. We know it is not something where capital expenditure diminishes in these areas. What is the future for TasRail? We already have underlying losses and we know the below-rail was never intended to be profit making, but it relies on capital from the feds.

Mr HIDDING - To get a spatial awareness of what is happening over the next few years with TasRail, the current IIP of \$120 million, of which some \$33 million is committed and there is some more to come very shortly, half of that is out, so there is another \$60 million of that to go. There is another \$120 million to go after that, over another four to five years. There is a lot more money to be spent into quality of the below-rail. For every dollar spent, it is about performance in terms of reliability and no derailments and the rest of it.

When we came to office the below-rail infrastructure contribution showed, in the out years, a decline of expenditure. It is the same funding profile, as was the case under the former Government. Under the former government, the below rail infrastructure contribution - BRIC - went from \$19 million to \$16 million down to \$12 million. Under this Government, the decline continues from \$12 million to \$8 million. This is also in accordance with TasRail's previous corporate plans. I am as interested as the member who has asked the question. I would expect the corporate plans would be amended if the profile shows the BRIC contribution is not enough for maintenance. Shareholder expectations are income generated above rail will be directed to meeting the below-rail infrastructure market. BRIC is about maintenance. We want to see the above rail starting making a contribution to it.

Ms FORREST - The above rail is still making a loss?

Mr HIDDING - Yes.

Ms FORREST - In a previous committee we heard there was an expectation it would become profitable perhaps sooner rather than later. What is the forecast now we have had loss of some customers? What is the likelihood of the above rail actually becoming profitable?

Mr HIDDING - It is getting better every year, as I said in my opening comments. I will hand over to the Chairman to reflect upon the profile for becoming profitable and making contributions to the BRIC.

Mr ANNELLS - It is still our expectation and our hope we will move into a reasonably significant cash surplus position within a relatively short number of years.

Mr HIDDING - For above rail?

Mr ANNELLS - For above rail, yes.

Ms FORREST - A short number of years?

Mr ANNELLS - Every time I make these predictions - I have been coming here a long time - I get proven to be wrong with floods and other things. As it is my last appearance, I can probably be a bit less fanciful.

Ms FORREST - Be a bit less cautious.

Mr ANNELLS - A bit less cautious. Throw the next Chair under the bus.

Ms FORREST - Under the train.

Mr ANNELLS - Under the train. I have just been shown something that means nothing to me. I do not understand what it means. I believe our above-rail business can be cash positive within the next 18 months, all things being equal. All sorts of things play a role. The final outcome of our insurance claim, for example, will have a bearing. It is going well, but we have not yet received the final amounts, et cetera.

If the Tasmanian economy continues to grow strongly, that has a huge bearing on us. We do not need to kick too many goals on the west coast in terms of production increasing or mines restarting. There is a lot of discussion going on with us at the moment, all of which is extremely positive, but as we know from Venture, ABx and others, these are difficult projects to get up. We do not need too many of them to get up and suddenly it flows straight to the bottom line.

Ms FORREST - What are you relying on then? Because Copper Mines of Tasmania is still in care and maintenance, and the pumping has been cut back. The chances of that restarting in the near future are probably, particularly with mineral prices where they are, pretty low. What are we relying on? Eighteen months is not very long.

Mr ANNELLS - No, but we are not far away from it either. If you take out the extraordinary factors we are dealing with this year, largely to do with the flood, but also some very unexpected adverse issues in terms of payment of superannuation and other things we were not expecting such as leave provisions from an unrelated case that flowed to us, we are not far away.

I am extremely optimistic on that front. It was always intended and the reason why in our forward estimates, not the Government's estimates, where we envisage we could deal with the situation where our BRIC dropped to \$8.5 million. That is our number. It was not imposed on us by anybody, but it is a number now six or seven years old. It has taken this long to flow through because we gave a 10-year prediction.

That is a number we will have to deal with. It will be difficult. It was always our thought that at that point we would have quite significant cash surpluses to supplement it. That probably is not going to happen in the first year but I would anticipate it would be available the year after next but there will be surpluses.

These things are never straightforward because the further we get out and the longer we are in business, not only do we have maintenance issues but we start having capital renewal issues confronting us. For example, our high rail vehicles are now getting to be seven years old and when we came in they were 15 years old. They were unsafe and we replaced the whole fleet. We are not that far away from needing to start to think about replacing parts of that fleet again.

Ms FORREST - Going back to the below rail and the cost associated with that, I am aware of some potential opportunities for the rail use but some of these are currently on disused lines. If they were to be reinstated would that be a TasRail expense?

Mr ANNELLS - No, we don't have access to those sorts of funds nor does the Commonwealth arrangements envisage that they would provide funds.

Mr HIDDING - What were you saying?

Ms FORREST - If there was an opportunity, say a mine, or some other freight task, to use a currently disused line that would need significant upgrade, then this is a whole new question.

Mr HIDDING - Ordinarily that would be part of the project costs for that line. You are right, TasRail wouldn't be required to do it.

Ms FORREST - There are no funds available for that? It has to come from a separate entity?

Mr HIDDING - However, the IIP is about upgrade of the rail as we know it now - the current operational line - we shouldn't be talking of diverting it in any other way.

Ms FORREST - You are talking about an operational line; you are not talking about from Burnie west - that is not operational.

Mr HIDDING - No, that is not operational.

Mr ANNELLS - From our point of view, we need to be a little sensitive about the discussions we make publicly available but the board did receive yesterday a very interesting briefing on what is happening in mining opportunities, which surprised me in terms of its scope.

One should not lose sight of the fact that we don't necessarily have to haul the ore - we will call it 'ore' for want of a better word - to make money out of this. We operate the ship loader through Burnie so, for us, mines that would commence that are not on an operating railroad, that doesn't mean they are not valuable to us because they end up in our storage shed.

Mr HIDDING - Shree Minerals - trucks - but then they are ship-loaded.

Mr ANNELLS - They end up in our storage shed.

Ms FORREST - Shree is not operating at the moment though, minister. Shree Minerals is probably not a good example.

Mr HIDDING - No, but you know what I meant.

Mr ANNELLS - They put two small loads through. When you look at the opportunity for the forest industry - in the private forest industry, in the plantation industry - the opportunities for TasRail are extremely positive but bringing them to fruition, like any business in Tasmania, is a challenge. In the seven years I have been Chairman I haven't seen a circumstance that we would have as many prospects being actively discussed as now.

Underpinning all that is there is very strong growth in our intermodal business and, interestingly, that growth is not all coming from where it was expected to come from, which had been Hobart, Hobart/Burnie. We are getting tremendous growth into and out of Launceston. We are getting a lot of growth in and out of George Town to Burnie. Devonport is starting to really pick up and will pick up much further with the new ship.

Ms FORREST - A container freight.

Mr ANNELLS - Container freight - it comes into East Devonport.

Mr HIDDING - Very interesting.

CHAIR - I understand, minister, the analogy is with roads. The below rail stuff is always going to be a big money sink - that is the way it is. The CEO is painting a much rosier picture towards the above rail eventually getting into a profit situation. The question is then, if it does or when it does, would that be a consideration for the Government then to sell it off to somebody else, do you think?

Mr HIDDING - There is no question, it was canvassed during your recent upper House inquiry into TasRail as well. There is no reason why the above rail and below rail companies cannot be held by two different entities, none whatsoever. It just so happens that at this particular time when there is still so much money to be spent on the rail to bring this whole business up to a good modern rail, this wouldn't be a good time to do it. I have indicated that as a Government, when the IAP program is more mature with the next lot of funds to come and start being expended, that is something you could consider.

On the question of around the world, competitive neutrality of two separate organisations, one charging the other and the rest of it, on the face of it is good; there are a lot of benefits as well if they are held by the same entity but operated as two separate businesses. The Chair has a strong view on this, I know.

Mr ANNELLS - I do. The reality is that the inefficiencies that occur in a railroad are largely to be found at the interface between the below rail activity and the above rail activity. That is, the people who have to make the track and continue to make the track safe to operate, and all the bridges and everything else, inevitably involves taking possession of chunks of the track at different times to do work. Whether it be maintenance work or major renewal work, that is what the below rail part of your organisation does. It needs access to the track.

That is completely inequitable to the above rail people who want to run it. They want to run every day, 24 hours a day, unfettered and they can't. The real challenges occur at that interface. The ability, either deliberately or much more likely inadvertently, for the below rail operator, in order to become as efficient as they can possibly be and therefore as cost-efficient and as close to profitability as they can be, inadvertently they end up making it harder for the above rail operator to operate. Then you end up with endless recriminations about 'Well, you didn't take the speed restrictions off when you could have and that is impacting our ability to service our customers' - and so it goes on.

Ultimately, the worst situation that has happened in many other places is, you have an accident and then the recriminations start. Was the accident because of poor track maintenance or was it operator error, or is it a mixture? Then there is allocation of responsibility and all this sort of stuff with insurance companies.

Mr HIDDING - They start suing each other.

Mr ANNELLS - I could go on and on about this simply to say, one of the great advantages Tasmania has in its short-haul railway is its vertically integrated nature and the fact that we are one - I will use this word - profit centre, hopefully not to Merv. That is what we are, we're a profit centre with one consolidated set of accounts, so internally when something happens our focus is on fixing it not on squabbling about who caused it or who might -

CHAIR - If I can just interrupt you there, Bob. Are you saying in other jurisdictions that the below rail and above rail are run by separate entities essentially?

Mr ANNELLS - In some situations, yes. Inevitably if you talk to the operator of both, they go, 'Should never have done it'. If you have more than one above rail operator, you don't have the luxury of having vertical integration. If you do, then the second operator becomes at a significant disadvantage because they are at the mercy not only of the below rail operator, but their above rail operation as well in terms of pathways, time tables and goodness knows what else. If there was a serious alternative to TasRail that is the point at which you would have to consider splitting the two in equity.

Mr HIDDING - Not just an alternative, it could be in addition to, because after all our rail is open access. There could be a second player with a hand up wanting to run on the rail as well, at which point they are required to run together. For example, if the Craig Farrell rail company wants to enter the market on rail -

Mr ANNELLS - TasRail would facilitate as the operator of the network. If Craig Farrell rail became a serious player, you would have to think about whether on balance to be equitable you needed to split TasRail -

that's when you would think about. If you don't have another operator, I would strongly advise you do not even contemplate it.

CHAIR - The CEO explained the strength of the commodities now on our rail, which is very good. The other side is if you happen to lose a major customer there is always that risk. You might be able to explain how Boyer is going - the tonnages anticipated and what is happening out of ANM - the old Boyer mill.

Mr HIDDING - There is no question that Boyer is a major customer of TasRail. The only way TasRail could lose some of the business - if it's contestable against road, you could lose some to road. A lot of its freight is very heavy and has to be on rail. TasRail is well placed to take product in and out of Boyer. What you are proposing is that if Boyer was to wind down or close it is going to make a substantial difference to the whole Tasmanian economy, not only TasRail. For that reason, the Government is watching closely and working with the parent company, Norske Skog, to ensure Tasmania remains the preferred southern operation producing this coated paper.

Mr ANNELLS - On a positive note, and I am not privy to Norske Skog's long-term plans, what we are seeing now are extremely strong volumes and demand from that customer, which six, nine, 12 months ago was in some doubt. They were grappling with a range of issues, but at the present time we are extremely pleased with the volumes coming out of Boyer.

Mrs HISCUTT - Can you see improvements in the Bass Strait freight shipping service? Is that going to benefit you? Your annual report mentioned moving coal from Fingal to Boyer - is there a possibility of securing a contract? Are you able to comment?

Mr ANNELLS - I will ask Damien to deal with the second one, the rights to the coal haulage contract. As to Bass Strait, there are two things at play. First, there is a lot of new shipping tonnage coming on. We think it is extremely good for us because both those customers, one in particular in Toll, they have a long-standing relationship with TasRail and a relationship, which is strengthening and morphing with much more emphasis on Launceston - and Launceston-Hobart as distinct from Burnie-Hobart. Toll's arrangements are very strong and they have two new ships on order.

In relation to the Devonport service, I have said before this committee previously, one of the frustrations we had in the past was that we could build no relationship with Searoad. That is in the past. Our relationship with Searoad is growing and is very positive. It's quite strong. The volumes are still not large, but as an article of faith in rail the new management at Searoad are proving to be extremely open to using rail. We are pulling freight for that customer out of Devonport and George Town to Devonport and Burnie.

Mr HIDDING - What is remarkable is the principal shareholder in that company runs a tracking company and there is that contestability against his own company. TasRail is winning work into East Devonport where they are going to pick it up by truck and bring it round to the other side - the town side of Devonport and then bring it round to East Devonport.

Mr ANNELLS - The other issue is the freight equalisation scheme which others are much better placed to comment about, how important that is to Tasmania, but it is very important for us and is generating new cargoes for us on a daily basis. From our perspective we now have a really good terminal at Burnie. We have an adequate terminal at Devonport. We have a good terminal at George Town. We are working hard to get a better terminal in down town Launceston, and we have Bell Bay, and we have Hobart which is an excellent terminal. All the pieces are in place now. What we know is that as the freight task grows, we will get more than our share of that growth.

Mrs HISCUTT - It sounds like you are expecting to.

Mr ANNELLS - We are absolutely expecting to. That is why we bought the new locomotives and new kit.

Mrs HISCUTT - Coal will only add to that?

Mr WHITE - Sorry, the question on coal was?

Mrs HISCUTT - How are you going securing a contract? That might be commercial-in-confidence but your report said you are investigating it.

Mr WHITE - We have recently increased the volumes in relation to Fingal. It had been predominantly coal from Fingal to Railton for Cement Australia. Recently, in the last couple of months we have started a new contract for coal from Fingal to Boyer for Norske Skog so that is good use because that is something we had been pursuing for some time. That has directly come off road. The other one in that area is a proposal with HardRock mining where we are still in contact with the proponents and it can simply be the change in coal or iron or prices by a few dollars a tonne that suddenly turns some of those prospects from negative to positive.

Mrs HISCUTT - That is good.

Mr FARRELL - On that, with the increase in traffic that you are hoping for how will your locomotive power cope with that? Are you using the new fleet to capacity or will extra locomotives be required? Has that been thought through?

Mr WHITE - We are using all the locos; it is being deployed based on our current train plan. They are fully utilised if that makes sense. We have a project, probably over the next six months or more, and there is also some stuff we are doing well before it, looking at getting an optimisation tool to throw our whole operation up in the air because currently the way our train services operate are largely based on historical demands from customers, historical constraints, in some cases curfews in metropolitan areas, and so forth. What we want to do is understand if we, in the first instance, were very selfish about TasRail and said what would be the best cost outcome for us in terms of deploying resources, that is what we would throw into the optimisation tool, into the black box. It would come out and say that is great but this is going to be your impact on your customers and so on.

We will continue to do iterations until we find something that is both customer friendly and driving improvements in the utilisation of resources. For instance with locos, even before that, we can be doing things like doing a bit of a banking operation up to a place like Parattah for example. The coal train currently uses two locomotives and with a driving van we could bring that back to one and a few other things. There are enough obvious things we can be doing in the short term to drive better levels of productivity around locos and then as I said the optimisation tool would take us to another level.

Mr FARRELL - Are the new locos on the Melba Line yet?

Mr WHITE - No. We are waiting for the completion of the Melba Line works under IIP. That is taking out all the joints which I think is September next year at this stage.

Mr FARRELL - The previous fleet, has that all been disposed of?

Mr WHITE - No.

Mrs HISCUTT - When we were doing the committee report on TasRail we had a good look around the Burnie Port. It looks really good. I am waiting for the jumbo jet to come and land. Just because it is in my area, is that the finish or is there anything more to go in there?

Ms FORREST - Is there a jumbo jet landing at the port?

Mrs HISCUTT - That would be lovely, wouldn't it. It is jumbo jet-standard asphalt.

Mr ANNELLS - Yes, it is.

Mrs HISCUTT - Is the port optimisation finished, or is there anything more to come in our area?

Mr HIDDING - Yes, there is. There is something called an underfloor lathe. As I understand it, currently with locomotives you have to jack these locomotives up and the wheels have to come off. They have to go onto a lathe if the wheels get out of round or are at all warped or twisted. It is a long job to do. TasRail is developing a below-floor lathe in Burnie. The total project cost is \$5.5 million to a local contractor who won it, Stubbs Constructions, so good local work. The lathe itself is extra. The project will create some 28 jobs, including 12 subcontractors, so it is a pretty big job for Burnie and quite an exciting one. It will be completed September next year. It will reduce maintenance costs for rolling stock, reduce time for wheel turning and reprofiling, productivity improvements, increased asset availability - ordinarily the loco would be offline for an extended period of time - and reduced wheel and rail noise for people who live along the line. This is pretty exciting and great for the local economy.

Mrs HISCUTT - Any permanent jobs coming out of it from TasRail - extras?

Mr WHITE - Not extras, but we will be moving staff who are involved in that who are currently at Launceston to Burnie.

Mr HIDDING - The wheel experts.

Mrs HISCUTT - How long did you say it would take?

Mr HIDDING - About September next year it will be finished.

CHAIR - Just one more question following on from before in regard to freight capacity. Have you any new markets or any other people that you are pursuing at the moment to increase the volumes? Are there any other opportunities that exist that you haven't tapped into yet in the state that you might consider?

Mr HIDDING - The committee would understand that TasRail sees itself - and we have had that discussion over the last few years in these sessions - as very much part of the supply chain and a barracker for growth. Therefore, with the ABx contract, the bauxite, it got well involved in that to help them to set up. It is problematic right now with the price of the product but hopefully it will change. TasRail will be in a good position to go back in to deal with those opportunities. Certainly there is a strong focus on new business. I suspect, as the board has been discussing, with the minerals in the western area, the western line opportunities as various mines are seriously looking at reopening, that is where the growth is.

Ms FORREST - Are some of those linking into the disused line?

Mr HIDDING - Some of them are.

Ms FORREST - As well as the current Melba line.

Mr WHITE - Avebury is on the horizon, I think that has been announced in the past, and forest products. Much of our growth to date is being converting existing freight from road to rail. There is an existing freight solution for the customer, so our ability to convince someone to move it from something that works for them to rail is challenging. We want to make sure we are not doing that solely on price. We will continue to chip away at that. We have been quite successful. Customers are now starting to understand benefits other than just price of using rail.

I guess the next level of strategic growth is about what are those existing industries that are emerging and growing - aquaculture, agriculture and forestry - where instead of us being compared to existing freight solution

we can actually be on the front foot and say, 'We have a different supply chain solution for you which is far more efficient than what you might have been using in the past', and therefore set the die that road transport needs to compete with us, if you like. Taking that approach should enable us to get far, far better margin than simply trying to compete with road transport.

Then there is - I call Uber opportunities -

Mr HIDDING - Not anymore.

Mr WHITE - Where we can completely change the supply chain for some of those customers relating to the way things are dealt off the island. You can engineer the way things are done on the island that can have some off-island benefits for customers.

Ms FORREST - Minister, you mentioned when I was talking about the underlying loss previously about an unexpected leave payment you had to make, can you elaborate? I cannot find reference to it specifically in the notes.

Mr WHITE - In our enterprise agreement, which is signed off by Fair Work Australia and the unions and everyone else, when someone was made redundant or they left -

Ms FORREST - A particular person or people in general?

Mr WHITE - People in general. There was not a need for us to pay out their leave and was agreed in the enterprise agreement. A subsequent decision through another company found that to be not right. I can only expect many companies would have been in the same boat and hence we now make a provision for employees to pay out that leave.

Ms FORREST - What leave are you talking about, long service leave, sick leave, annual leave?

Mr WHITE - Annual leave.

Ms FORREST - How much has that meant you have had to make provision for?

Mr WHITE - For the past financial year it was \$600 000.

Mr HIDDING - That changes the numbers.

Ms FORREST - The chairman was referring to earlier is there a potential to sell the above-rail. There was a discussion with the Auditor-General about this. TasRail is a state owned company and particularly the below-rail was never envisaged to be a profitable business. State owned companies are expected to be commercially operating and profitable and return money to the shareholder. Why is this not a Government Business Enterprise? This was done before your time, minister, and this is a question for you, but has consideration been made to that? There was a move under a previous government to make all GBEs, state-owned companies that did not go anywhere and may was when that was on the table.

Mr HIDDING - It has just escaped me for the moment the niceties between the two. In practical terms it makes no real difference to the board. Yes, we require GBEs to act commercially.

Ms FORREST - State owned companies?

Mr HIDDING - Yes or GBEs to act commercially. Metro starts with a \$42 million subventure. Clearly, they cannot make money and public transport costs money. If we are just talking policy here, the past decision to sell TasRail's below and above-rail assets to a private company sounded and looked terrific. Off-loaded this

dog onto someone else, was a terrible decision because they made a bad thing worse. They spent no money on below-rail at all and eventually it had to be brought back into public ownership. Therefore, one would imagine future governments of Tasmania would only ever consider selling or disposing of the above-rail business so it is fully contestable, but not the below-rail because that would be like selling our highways.

As to whether one should be a GBE or a state-owned company -

Ms FORREST - You cannot have half and half, I accept that.

Mr FARRELL - Pages 85 and 86 of the annual report show an increase across the board between this year and last year. There are two that stand out. The total package to the chief financial officer this year was \$340 665 compared to \$309 432 in 2015 which is an increase of more than \$30 000. The chief operating officer this year was \$308 505 which was an increase of \$36 500 from the \$272 026 package in 2015. These seem to be fairly generous increases to someone's salary. Can we get an explanation as to how those figures are justified or how they are worked out, or what is involved in having \$30 000 increases to the executives?

Mr HIDDING - The Government has reasonably strong remuneration guidelines but companies such as this have to operate in a market where their own staff are of great interest to other players in the market. I will hand over to the Chairman to explain the company's thinking on these matters.

Mr ANNELLS - I don't like doing this but can I take that one on notice? I agree that it requires explanation. Most of it is in the Other Benefits column. It seems to be. These are provisions relating to leave not taken. The big increase in Other Benefits in both cases for the chief financial officer and the chief operating officer, if you compare it to the previous years, it is roughly a \$35 000 increase. Those increases relate to provisions for untaken leave, year on year. I will -

Mr HIDDING - I will undertake to provide that in detail.

Mr CHAIRMAN - Yes.

Mr FARRELL - Not on that in particular but as far as the buy-local policy of the current Government, on page 47, 48 per cent was from Tasmanian businesses. I don't know how well that sits with the Government's benchmark but I am sure the minister will explain that. The local purchases amounted to just over \$30 million. You would assume that \$30 million went interstate or overseas. The report outlines that those non-Tasmanian businesses benefited because of goods that were not available in Tasmania. I think there were \$6 million for rail and sleepers from South Australia. There was \$5 million for new wagons and \$500 000 for a train control system, the communications technology. There is about \$20 million spent offshore that I can't seem to find where that went to. Are these offshore purchases definitely things that can't be purchased in Tasmania? Is there an extensive search for supplies within the state before tenders are awarded overseas?

Mr HIDDING - TasRail is subjected to the same procurement guidelines as all government businesses and the government itself. They are also subject to the agreement between states that there is free trade between states, and so you cannot guarantee that 100 per cent of expenditure - setting aside your specialist purchases of train control systems - or mandate that they will be within the state. This is a good performance, without question. This is good news for Tasmania. The CEO might be able to give some examples of expenditure.

Mr CHAIRMAN - Sorry, minister, we are down to about five minutes. We have a couple more questions. If everybody is succinct, we will be right.

Mr WHITE - Certainly rail and sleepers have come out of Whyalla in South Australia. There are Chinese options as well and other overseas options. Through a tender process we continue to get rail out of OneSteel at Whyalla. The wagons out of China were on the back of the previous whole tender process. We still had a pricing under that original tender to get more wagons. That was from a value perspective, the right way to go

with that. The train control system is now from a German company. That's where it has picked up where the funds are going to but there are probably a lot of people in Australia, not in Tasmania.

Mr ANNELLS - Mr Farrell's question was those are the numbers that are here. If 48 per cent was represented by \$30 million, there is another \$30 million elsewhere.

Mr ARMSTRONG - After the floods there was tracking used for companies, so who bore the cost of that tracking? Was it TasRail or did the companies pay?

Mr HIDDING - TasRail immediately arranged a contract with trucking companies to pick this freight up. It was a very complicated system, where they brought it into Conara, put them onto trucks and went from there. TasRail was absolutely committed to losing no customers and customers losing no time and to a great extent that was achieved. It was a terrific performance by TasRail. There was a hiccup in the economy of Tasmania but it was seamless within days that the freight was flowing again. It was completely picked up by TasRail.

Ms FORREST - A video was put out by the company, too.

Mr ANNELLS - We made a conscious decision we would do that because our view was our customers entrusted their freight to us to get from Hobart to Burnie or Burnie or Hobart. They didn't care how it got there. Their interest was that it did get there, so we picked that up. We did an analysis after the event of costs of making that decision. The alternative for us is we could have exercised an option under our contract to declare force majeure and say, 'This is not our problem'. Under our contracts we could have said that but we didn't. The additional cost overall of undertaking that program was miniscule. We picked up in other areas and because the temporary arrangement put in place on Conara worked as well as it did, it turned out to be very efficient. We moved something like 4500 boxes through Conara.

Ms FORREST - It revitalised the whole town.

Mr ANNELLS - It is not a long-term thing. Once we were able to reopen the track, we went back to business as normal. The short answer to your question is that we picked up that cost but the overall cost to us was minimal. We lost no customers and lost very little volume. The volume stayed up all the way through and therefore we got the benefit of that income, otherwise we would have lost the income.

CHAIR - I have another question relating to the floods. The Kimberley bridge, which is major infrastructure built in 1970, fell on its sword again. I understand you had to get the western line open again to get everything moving. There was some criticism that it could have been engineered in a different fashion - there was some criticism from local landowners that that was the case - but I also understand you had to get the line open again.

Mr HIDDING - It was reopened in record time. It was an amazing performance by Pitt and Sherry, VEC, and Hayward Steel to get that rail service running again. We committed to the landowner at the time that we would do full hydrology works to understand whether their worry that the current style of the bridge creates a raft if there is a lot of logs coming down. That is being looked at and, if that can be proven, the state of Tasmania has an issue. It will have to be dealt with one way or the other - through TasRail, the state government or whatever. There are issues there but we committed to that landholder and to the downstream landholders that we would look at it pragmatically and properly to understand.

CHAIR - Thank you; that is of some comfort.

Ms FORREST - Is there a time frame for that?

Mr HIDDING - Yes, it is currently underway.

Mr WHITE - The hydrology is out for tender at the moment. We expect to get that back at the end of December.

Mr ANNELLS - Given that the most likely alternative that may come out of the hydrology is another span in the bridge replacing what is currently an earth embankment, when we put the abutment back in place we strengthened that to ensure that if we need to put another span hanging off that abutment in future we can do so.

Mr HIDDING - It was a good project all around. We are well placed and are committed to those people. We will look at it properly.

CHAIR - Thanks for that.

Mrs HISCUTT - I remember doing the same thing when Bryan Green was the minister. I was saying to him at the time that if there was not a train off the track where I live then there was a car off the roundabout. There have not been many trains off the track. There has been one recorded this year. There was a big one a couple of years ago. They are getting less. Is that because of this new train control system, or driver training or what do you put it down to?

Mr HIDDING - It is the whole thing. The train control system is clearly a major breakthrough, but the infrastructure investment project with the federal government is bearing fruit already and will continue to bear fruit.

I can announce - I was not able to speak about this because it was not agreed at the board meeting yesterday - that a subcommittee has today announced TasRail has approved a tender recommendation for a track upgrade of the south line to be awarded to VEC. This is another one of theirs. Thirty-four thousand new sleepers and almost 23 500 metres of new rail will be installed on what is the state's highest volume rail link. This tender is for the labour component of the project, with TasRail supplying all materials, so it is about a \$20 million project in total. The buy local part of that shows there are side benefits of some \$7.5 million flowing from the VEC thing itself. This is terrific news; that is the reason derailments are hopefully behind us. Along with the management of TasRail we are very confident that every time we release another of those contracts the work gets done and we are closer to a derailment-free future.

CHAIR - Thank you, minister, and thank you very much to your team this morning.

The committee suspended at 10.03 a.m.