

## **Mr President**

**I seek leave to table a further Government response to the Government Administration Committee A's Report on the Financial Sustainability of TasRail and have the response incorporated into the Hansard record.**

Mr President, I rose on the 11<sup>th</sup> of October to provide an initial response to the report by the Chair of Government Administration Committee A into the Financial Sustainability of TasRail.

Following recent debate in this House, I now provide a more detailed response . . .

. . . Mr President, the Government believes that the Report on the Financial Sustainability of TasRail was a useful exercise which not only provided an independent perspective on this State-owned company, but it enabled a range of stakeholders – 18 in total – to air their views on the subject for the Committee.

Mr President, the Government welcomes scrutiny of its State-owned companies and Government business enterprises, be it through the annual Parliamentary Scrutiny hearings in early December, or through special committees of inquiry such as this.

We should never take for granted the Tasmanian peoples' ongoing support for the manner in which publicly-owned companies such as TasRail operate.

This is particularly the case where the company has been the recipient of very significant taxpayer funding – in TasRail's case both Tasmanian and Australian Government infrastructure funding a very large amounts, – over a long period of time.

The Government believes the people of Tasmania are right to expect its State-owned companies to operate as efficiently as possible and should be able to ask reasonable questions about their long-term strategic and financial outlook.

The Government commends the Committee and its support staff for the breadth and depth of the report and the Committee's efforts to travel the state to hear submissions.

## **Recommendations**

Mr President, there was a theme in both the findings and recommendations of the Committee in relation to the separation of above and below-rail activities.

As Members may be aware, in Australia the operations of rail and road transport are similar in that investment in both roads and rail track are generally regarded as a common good and are therefore funded by Governments – State and federal.

The difference, however, in relation to road and rail in Tasmania is that our roads are Government assets while below-rail investment is accounted for on TasRail's balance sheet.

As a State-owned entity, the vertical integration by TasRail of its above and below-rail operating segments has been consistent since TasRail came into existence in 2009 following the departure of Pacific National.

Successive Governments have supported this vertical integration as it is, for now, a more streamlined approach to operations, and I am advised that this avoids over-investment in maintenance and renewals.

Despite this, in due course, the Government will consider testing whether the comparative costs and benefits of separation of the above-rail and above-road freight task, essentially whether TasRail should be divided into two separate entities.

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Committee Chair, the Member for Rumney was critical in his contribution of the 2015 report that TasRail commissioned from consultants Pitt and Sherry entitled "*TasRail – Delivering for Tasmania*", which was designed to "analyse and report on the value and benefits of freight rail in Tasmania.

The Member indicated that he regarded the report as a self-serving outcome, on the part of TasRail.

It should be noted that this report was commissioned by TasRail, not the Tasmanian Government.

While the analysis in this report contained some interesting findings, particularly in relation to the foregone cost of road accidents and an attempt to monetise the foregone maintenance costs for the Tasmanian road network, the Government will not rely on the content of this report in justifying our continued investment in rail.

Mr President, the value of TasRail's contribution to Tasmania's freight rail task can be seen in the increasing volumes of wood and metal products, cement and intermodal containers.

Committee members would be aware that a well-established road freight company has begun using TasRail to transport an increasing volume of its containers on purely commercial grounds.

While the Tasmanian minerals industry is in the midst of a cyclical downturn, it can be expected that the volume of mineral ores transported by rail will increase again when the inevitable upswing in world ore prices comes about.

Our rail network is also playing an important role in the transport of forest products to the north of the State and can be expected to be highly competitive as the volumes of forest products increase over the next few years.

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Mr President, the Government cannot agree to the recommendation that TasRail should be required to report line-by-line on the costs associated with its operations, comparing one sector of the line with another.

There is considerable commercial sensitivity around this information, not only on the part of TasRail, but on behalf of TasRail's customers.

As a company that has a charter to act commercially and is subject to the *Corporations Act*, it would be irresponsible for TasRail to publicly disclose the cost of its operations on a segment-by-segment basis. This is particularly the case where the line carries products for a very small number of customers.

Nobody would expect TasRail's road transport competitors to disclose their information and the Government believes the same principle should apply to TasRail in order to remain contestable

The disclosure of such information would be regarded by the Government as a genuine risk to the financial sustainability of TasRail.

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Mr President, the Government is pleased to be able to provide more detail in response to the Committee's recommendation that it review its policy position regarding motor taxes and charges, including consideration of a user-pays system.

In my previous contribution I outlined how the Tasmanian Government was represented on the COAG Transport and Infrastructure Council, which is actively investigating heavy vehicle reform including direct user-charging.

Mr President, I can confirm that the Transport and Infrastructure Council has been tasked with accelerating Heavy Vehicle Reform, including identifying steps to transition to independent price regulation by 2017/18. Early practical impact of this cost-reflective road pricing is already being reflected in registration charges currently being rolled out for Tasmania's heavy vehicle fleet.

Further, the Transport and infrastructure Council is investigating the benefits, costs and options for applying direct user-charging for all vehicles, across Australia.

This would include options to reduce all other Commonwealth and State road-related taxes and charges, such as fuel excise, as part of the introduction of a market-based model.

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Mr President, recommendations five and six of the Committee Report go to the matter of barriers to heritage, tourist and commuter rail services – effectively passenger rail or the rail network, which has for some time been exclusively used for freight.

The Committee's finding in relation to these recommendations are that there were a number of possibilities for tourist and passenger trains. The Committee also identified barriers such as rail access, insurance, accreditation and infrastructure challenges.

To that list could be added certified levels of competency, adequate operating capital and the development of business plans that would justify the level of taxpayer support necessary to establish and sustain operations.

While the Committee has invested a great deal of rigour in the commercial analysis of TasRail's financial sustainability as a freight rail business, the Committee does not appear to not apply why that same rigour to proposed passenger services, which in most cases are clearly less commercially viable than freight, on all available evidence. Further, passenger rail standards for rail infrastructure are set at a higher level than for freight.

Despite the identified barriers to passenger service operations on the Tasmanian rail network, I am advised that the Minister has had a number of constructive interactions with the tourist and heritage

rail sector, including the Tasmanian Transport Museum at Glenorchy and the Derwent Valley Railway.

I am advised that the Minister for Infrastructure is optimistic that the Government can work with both these organisations towards eventual limited access arrangements to the non-operational rail network.

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Mr President, the Committee recommended that the Government develop a long-term freight plan for the State (post 2035) including an assessment of the future of the north-south line and the long term viability of the rail on its current alignment.

As I mentioned in my initial response, the Government's *Tasmanian Integrated Freight Strategy* does represent a long-term strategy and this is a valuable contribution to the efficient development of the freight sector in Tasmania.

The Strategy does not cast forward beyond 2035. But it does address important strategic planning issues in relation to Tasmania's main land freight corridor between Hobart and Burnie.

It is true that this freight corridor has road and rail operating in parallel for much of its length. This can be both a strength and a weakness, but its alignment is largely an accident of history and all Governments work within these realities.

The *Freight Strategy* identifies that two-thirds of Tasmania's land freight task travels on this corridor for at least part of its journey. Most major freight origins and destinations are located within close proximity to the corridor. For containerised freight, the proportion that uses this corridor is much higher.

The Burnie to Hobart freight corridor is listed as a priority initiative on Infrastructure Australia's priority list. Infrastructure Australia has also sought clarification on the Tasmanian Government's objectives for its parallel road and rail network between Burnie and Hobart.

Mr President, it is clear from the volume increases that we are seeing on the Western Line and Southern Line that commercial decisions are today being made to use rail over road. The Government is advised that this trend is likely to continue. We welcome the fact that businesses have this infrastructure choice.

With this knowledge, while the Government is not in a position to cast forward beyond 2035, it can look at the near and medium terms and be confident in backing TasRail to continue to increase volumes.

Mr President, there is no doubt that alignment of the South Line is not optimal. If we were to design the line from scratch today it is unlikely that it would take the same alignment.

This line is not unique in this respect. Tasmania's rail lines do not enjoy the topographical advantages of flat land that are typical throughout much of the rest of our continent. Some sections of the line impose speed restrictions – again not optimal.

However, that is not to suggest that long-term strategic realignment cannot occur. The argument for realignment will be strengthened as the take-up of rail improves.

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Mr President, the Government does not intend to address in any detail the Committee's final recommendation in relation to the management culture of TasRail, except to note carefully the points made of governance culture at Board and Management level.

The Minister advises that matters are raised and discussed as required at the regular meetings with the Chair and CEO and that he has an open dialogue on these matters with the Chair, as he does with all of his five state-owned Company Chairs.

The Minister has also had interactions with representatives of the Rail, Tram and Bus Union, which also has coverage over employees at Metro Tasmania.

I am advised by the Minister that he has confidence in the Board and executive of TasRail in relation to the management of its corporate culture and that he would be pleased to raise any credible allegations of shortcomings with the Chair.

Thank you Mr President.

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