

UNCORRECTED PROOF ISSUE

**Tuesday 2 December 2014 - Legislative Council - Government Businesses Scrutiny
Committee A - Tasmanian Railway Pty Ltd**

LEGISLATIVE COUNCIL

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

Tuesday 2 December 2014

MEMBERS

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

IN ATTENDANCE

Hon. Rene Hidding MP, Minister for Infrastructure

Ministerial Office

Vince Taskunas, Chief of Staff
Richard Wilson, Senior Adviser

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 resumed at 2 p.m.

CHAIR (Mr Hall) - Welcome, everyone. Minister, would you like to give an overview?

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Mr HIDDING - As honourable members are aware, I was appointed Minister for Infrastructure following the March election and therefore my role as minister with portfolio responsibility for TasRail covers only the last three months of the 2013-14 financial year.

The majority of the decisions the committee will be scrutinising today were made under the previous government's watch. However, since assuming the role my view of TasRail has firmed that the company has been working assiduously to transform the state's rail freight business with some success, most notably through the planning and implementation of an unprecedented number of complex capital projects funded by the Australian Government to upgrade the track and related infrastructure, as well as through the state's investment in the replacement of life-expired above-rail assets. A majority of these projects have now been delivered, having been completed on time and on budget and as per the stated project deliverables. All this activity has taken place while the business has maintained and improved its daily freight service operations and whilst TasRail has attracted new freight opportunities, in what is a very challenging market, particularly for the state's commodity producers.

Yesterday TasRail marked its fifth anniversary. Whilst all of us here have been very cognisant that the company has received a substantial amount of funding over that time, we should also reflect on the scale of the task that confronted the chairman and his fellow directors in December 2009. I think we can all agree that when TasRail was created it inherited a business that had been neglected to the point that customers had lost all confidence because it was unreliable and inefficient and the assets were no longer fit for purpose. To address that, there has been a huge amount of work done and the business is in a much better position today, although not without its challenges.

The work over the next 12 months will be to realise the efficiencies that come from new rolling stock and progressive improvements to the track. It will also be to deliver operational excellence while staying focused on capturing opportunities for growth. In short, my expectation of TasRail is that it will operate the above-rail business on a commercial footing and achieve sustainability. In relation to the below-rail operations, as the chairman and the CEO constantly remind me, the rail network is critical infrastructure to the state and like the road network it should not be expected to make a profit. The below-rail business will continue to require the state government to invest in its maintenance and the Australian Government to fund capital works. As per the state Budget and the forward Estimates, the state Government has accepted this hypothesis and committed to the continuation of the operating grant, albeit at a reduce rate commensurate with the expected improvement in the performance of the above-rail business.

Mr FARRELL - Some comments on the ongoing viability of TasRail and where you see it sitting at the moment and where you see it going in the future, post the Federal and state grants

Mr HIDDING - I am going to ask the board chairman to address that because it is clearly something we have been discussing with TasRail. They have a clear understanding of my wish for them to be sustainable above rail but this calendar year has really been a year from hell with three major customers collapsing, one before it even got going, another stopping in tragic circumstances, and Shree as well. There have been three major hits to the business this calendar year and it is a testament to the resilience of the company that they have moved quickly to manage some costs and manage their arrangement. I will ask the chairman to expand on that.

Mr ANNELLS - Thank you, minister. Yes, it has been a difficult trading year but flexibility is the key. It is not always easy to deliver in a heavily capital, operationally safety enclosed,

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business. Nevertheless, our above rail business this year and last year is cash positive and we are moving to a position where we would hope that we are, in a more conventional sense, profitable.

Yes, we have had three of our major customers disappear on us. Hopefully not forever. Our bottom line is impacted by the fact that we try to get in front of the game. When Tasmania has an opportunity to secure a new business, and rail can be part of the process by which the business is secured for the state, then we see our role as to get in front of that game, work with that business, invest in capital works and also in people, to ensure that should that business get up then TasRail is not the reason why they cannot start.

That is a risky strategy at times, but I think it is the only strategy. If governments have invested the sort of money they have in TasRail, they have done it for one reason and that is to make sure that Tasmania has the capacity to take the opportunities that come, often only because we have a rail network to support them. Venture is a very good example. Venture did not get up, but hopefully it will. We have invested a lot of money in advance and Venture tried to do it as carefully as possible but with both staff numbers and cap ex, it has not worked out. That is not to say it will not and it is to say, what is the alternative. We sit back, do nothing until Venture is a done deal and then scramble around for a couple of years trying to provide them with a service? I do not think that is what the taxpayer expects of us, given the amount of money that has been invested in us.

Mr Farrell, I remain optimistic about this business. There are some good signs but every day there is a challenge. Something comes out of the woodwork, somebody makes an announcement and you go, crikey, what does that do to our profitability. In a sense we never stop thinking of ourselves as a business and trying to act like a business but the reality is we are an enabler as well as being a business. We invest money many times that has some risk attached to it in an attempt to facilitate economic development within the state and the regional employment that comes with it.

Mr FARRELL - There has recently been fairly substantial investment in new track, new rolling stock, and new locomotives. There have been stories around that some of the locomotives has not been up to expectations and some of the rolling stocks need modifications. I wonder if you would like to expand on that.

Mr ANNELLS - We have not tried to hide the fact that there have been some commissioning issues. Any project of this nature inevitably has commissioning issues. I have to say that with our locomotives, they were not the sorts of issues I expected. These are, after all, assembled by a Caterpillar-owned company and we have put Caterpillar engines in them. They have made hundreds and thousands of these engines. Yet, in our particular case, because they changed suppliers, these turned out to be a problem. The question is not whether there are issues, it really is how well is the supplier dealing with those issues, and who is paying.

I have to say that without a shadow of doubt the supplier in this instance has stepped up to the plate completely. We are holding retention moneys, as you would expect. The issues are fixable and they will be fixed by the end of January. The main issue here is the breakdown of one component in the coupling between the engine and the generator. It is a rubberised component and for some reason they changed supplier so we are the first people to have used this particular rubber. It has not worked and it is breaking down under load. They cannot explain it, but they can fix it and that is what they are doing.

All of our wagons have performed well. Our biggest issue remaining is with a hold-up of product in our cement wagons. One of the reasons we went to get new cement wagons was to

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reduce the hold-up because every tonne we cart back to Railton is just a tonne wasted. We have dramatically improved the hang-up, but it is still not one hundred per cent. I do not think it is necessarily the wagons. It is much more to do with the way the doors are utilised. They are feathered mid-dump - if you can understand that - to take the pressure off the receiving vessel that is owned by the cement company who do not want to see that damaged by a whole load dumping at once.

The problem with that is these were not designed to cope with that. They were designed to open up and flow, so we are having some teething problems with that. It is nothing unexpected. The Chinese have been fantastic. We could not be happier with the way they have stepped up to the plate, as we are with our American suppliers. I have introduced a lot of rolling stock in my very chequered career, and this is not unexpected.

Mr FARRELL - That is all on mine at the moment.

Mrs HISCUTT - Minister, the Brighton Transport Hub and the Bell Bay Intermodal Terminal up there - how is it going? Do you have any new customers moving into these things? Can you give us an update as to how you see it going?

Mr HIDDING - What I can tell you is that Brighton Transport Hub is managed by TasRail. It is the operator of the Brighton Transport Hub. I had my first good look over it recently and also went through the new \$20 million Toll facility, which is something to behold. It is really a very smart operation indeed.

All rail operations are now out of the Hobart rail terminal at Macquarie Point and are at Brighton. The freight can now be made available for delivery within minutes of the train arrival at the terminal, rather than like it used to be. It was a fairly long wait. That is the Brighton Hub.

Mrs HISCUTT - Sorry to interrupt, minister - I have not been out there but I am going to go for a drive there tomorrow. They tell me that it is sparse with customers with only the two there. Do you see any prospect in the future of filling up some space?

Mr HIDDING - We certainly would like to get another major operator on side. Toll have invested there. The other major company is SeaRoad - logistics and trucking. The company is maintaining cordial relationships with SeaRoad hoping to encourage them to come and invest there. They are buying new ships and stuff at the moment so they are probably a little distracted but it would be good to have them there. That would probably round out a very efficient intermodal hub there at Brighton if that could be achieved.

The other project is the Bell Bay intermodal terminal.

Mr GAFFNEY - Can we just stay with the Brighton one for a second? It was raised to us that there is concern that TasRail's office at the Brighton Transport Hub is not being used while Hobart-based staff continue to work out of an office in Murray Street. I was just wondering the reason for that, as it was raised with us as an issue.

Mr ANNELLS - The reason is it is complete rubbish. The Brighton office is completely full of operational staff and that was what it was always designed to be. We are not putting office staff out there who need to deal with government and customers. So the distinction is very clear. The

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Brighton office is absolutely choc-a-bloc full. Just because there are empty desks does not mean it is not full. We have people all day doing things in the field and then coming back to their desk.

It is full and it operates extremely well. The very small office we have in central Hobart is partly a visiting office for people coming down from the north. You can understand that the chief executive comes here at least 50 per cent of his time. I need an office in the city. We have business development people whom it would be ludicrous to be putting out in Brighton even if we had the space, which we do not.

Regarding the Hobart office here in town, because of the downturn in numbers, we have actually sublet it for a small part of the space, and we are managing that. We do not want to pay any more rent than we have to. But to mix up the two activities, as the people who have briefed you suggested, indicates that they just simply do not understand the business.

Mrs HISCUTT - Bell Bay?

Mr HIDDING - Last month TasRail announced that it had awarded a civil works contract for the Bell Bay intermodal terminal project. It is a small project funded by federal money - \$5.2 million out of a cost of \$7 million, with the balance funded by the state. The funding had previously been committed under the National Building One Program, so this has some history to it.

It is of strategic importance to the state's freight network, directly linking major industrial customers with the rail network. Physical works include the establishment of storage facilities for logs and containers and upgrades to an access road to enable heavy vehicle traffic. It is a small project but it is going to make a difference to life in the Bell Bay area.

Mrs HISCUTT - With the Burnie port, which is what I am really keen to hear about, how are we going with the upgrades there and the shunting in front of the surf club?

Mr HIDDING - The good news is that shunting is going to come to an end.

Mrs HISCUTT - When?

Mr HIDDING - The Burnie Optimisation Project is getting close to announcement. We would hope to be able to announce that in the next two weeks.

Mrs HISCUTT - So you cannot divulge that you have awarded any contracts or anything yet?

Mr HIDDING - No. The consortium is TasPorts, TasRail and Toll. Toll have put \$2 million in. This is being funded essentially by the money that was put up by the Labor Federal Government - Albanese's money that was put up in response to the loss of the last international shipping service. The Burnie Optimisation Project is going to transform life in Burnie because there will not be that shunt down past the surf club and back up there.

Mrs HISCUTT - Sorry, how long did you say before that announcement will be made?

Mr HIDDING - I would plan to be around Burnie in 10 days, two weeks or so. I will give you plenty of warning.

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Ms FORREST - Before Christmas, minister, you are saying?

Mr HIDDING - It will be. That is probably a better way to put it.

Mrs HISCUTT - That sounds wonderful.

Ms FORREST - Have the plans all been finalised, minister?

Mr HIDDING - Yes.

Ms FORREST - Are they available at this stage or not?

Mr HIDDING - Probably not until before Christmas.

Mrs HISCUTT - Two weeks' time.

Ms FORREST - It will be released at the same time as the minister visits Burnie.

Mr MULDER - You are aware it is December and it's not next Christmas?

Mr HIDDING - Yes, I know.

Ms FORREST - The speculation and discussion around a potential merger with TasPorts and TasRail, in my way of looking at it, makes eminent sense, particularly in Burnie where TasRail is very much part of the port. Is there anything you are able to tell us about that?

Mr HIDDING - You might have noticed in the Budget that we named it up to say that there was an investigation into what we call the better alignment of the operations and investment strategy of TasRail and TasPorts. You are dead right, they are both in the supply chain space and so there is a body of work taking place right now to understand whether there are any benefits in a closer alignment, which could go the whole way or not at all or part of the way. We have an objective of improving the efficiency in the allocation of scarce public resources, including reducing unnecessary duplication and cost across the government businesses portfolio.

The investigation is looking to assess potential efficiencies and savings to be made from a range of models as well as other benefits that may be realised through greater economies of scale such as asset management and infrastructure planning.

There is a project steering committee underway.

Ms FORREST - Who is on that, minister?

Mr HIDDING - It is being driven out of Treasury and the chairman of TasPorts. Both these organisations are subject to Corporations Law so there are niceties and probity to be manager in this process but that steering committee is looking through the prism of what is good for 'Tasmania Inc.' - what is good for Tasmania? Is this the best model for it or not?

I am unable to give you an idea as to progress because they have not been required to report to Government yet.

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Ms FORREST - When are they required to report?

Mr HIDDING - That will be in this coming year, in a few weeks' time we would expect.

Mrs HISCUTT - Good.

Mr HIDDING - That may well be a holding position, there could be further work required. Yes, it is somewhat historic that we have triggered the review by the two companies themselves, with Treasury in there and it is a good process.

Ms FORREST - It makes eminent sense in Burnie because you have the rail head coming right onto the port and all the benefits that go with that. Correct me if I am wrong but you indicated that it could be a partial merger or it could be the whole of TasPorts or the whole of TasRail.

Mr HIDDING - Nothing is not on the table.

Ms FORREST - So it is all on the table, basically.

Mr HIDDING - We are looking at better alignment of the operation and investment strategies of both those companies and therefore you would not want to be constrained in your thinking as to whether it could be an improvement. But I would not be at all surprised if it landed on 'business as usual is the best approach'.

Ms FORREST - If there were to be changes though, and I am sure one of the things Treasury in particular would be interested in is impacts on ongoing funding of a nature that is tied already, like the federal grants, even the Transend contribution to TasRail, could that be threatened or undermined by the process?

Mr HIDDING - I wouldn't think so. I don't think there is any appetite that it would be precisely the same operation of port and rail in one operation. It is more likely to be in the area of a board that runs two businesses in a supply chain but then is able to integrate savings and efficiencies where those have been found.

But, again, I am only speculating and I am not going to require the chairperson to comment on it because that would be inappropriate. They are constrained within the Corporations Law. We are pleased to have triggered the work. We think it is good work to be done and I look forward to advising.

Ms FORREST - It could be an opportunity to get rid of the one of the boards you have been trying to get rid of, minister.

Mr HIDDING - That is not why you would do it.

Mr FARRELL - To refer to the article that has been in the press about the private investigator hired to look into an issue, what prompted this investigation?

Mr HIDDING - I could probably ask you because it was your government that hired the consultant and renewed the consultancy in February. Your government would know more about it than I would, if you want to ring Mr Green and ask him.

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Mr FARRELL - No.

Mr HIDDING - Frankly, I don't and it was something that was triggered during your government's care of this company.

Mr FARRELL - I wanted to know more the details of why a private investigator was hired.

Mr HIDDING - I have not been briefed on it. It is completely operational and I will hand over to the chairman.

Mr ANNELLS - The background of this issue is that a journalist approached us in possession of some information that was private relating to a consultant that we had engaged. That led to a range of things but one of the things it led to was concern that we had a leak in the organisation - somebody who had deliberately leaked this information. We dealt with it strictly in accordance with our policy. You would not be surprised to hear me say that great damage can be done to any business if you have somebody leaking sensitive commercial information. We had a duty to follow that through and we did follow it through. We decided to have an external investigation of the circumstances and that involved some interviews with staff. It so happened that the person we commissioned had a private investigation licence but that was unknown to us and had complete irrelevance to us. He was recommended to us as somebody who was discreet and who could conduct an internal inquiry without causing world war III.

Mr HIDDING - Was he a management consultant?

Mr ANNELLS - He was a former management consultant who, for reasons that completely pass me by, has a private investigation licence. That was not why he was employed. We employed him on an hourly rate. We made an estimate which I think was going to cost \$3 000 and it ended up costing somewhat less than that, and the conclusion of the investigation was inconclusive.

Mr FARRELL - I do not know any of other details the minister was referring to about who was hired or anything, but it was referring to the report that was in *The Examiner* about that.

Mr ANNELLS - Again, take a piece of information that appears to be newsworthy and beat it up for all you can but it is totally irrelevant. The guy did a very quiet job and tried very hard not to upset staff because this is always unpleasant. I have done six of these in my career and every time it ends in tears. But you are obliged to do it. I thought he did a very good job but it was inconclusive and we are all moving on.

Mr FARRELL - That was the result of someone leaving some information in a public space?

Mr ANNELLS - That is what it would appear might have happened but he could not prove that any more than we could. That was the suggestion that was made to us, that someone left this on the copying machine and that is not unheard of. I have known that to happen before. But it still had to move from the copying machine to *The Examiner*. Somebody intervened in the process and said 'I got [? 2.29.23]', and I think it went to the union and the union decided there was some benefit in beating it up.

Ms FORREST - With regard to that, I believe one of the claims that has been made is significant degrees of nepotism perhaps within the engagement of senior staff, and that is allegedly. I have no reason to believe or deny that.

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Mr ANNELLS - I would absolutely reject that and if there is any evidence of it, it should put to the board or the Auditor-General and dealt with accordingly. I know it is not your accusation.

Ms FORREST - No, it is not.

Mr ANNELLS - It is like the other two issues that have been drawn to your attention this morning. It is complete rubbish.

Mr HIDDING - Someone has missed out on the job.

Mr ANNELLS - We are a big organisation and we employ the best people we can for the job. We are lucky to get some of them because this is Tasmania and we are working in a very specialised field. We are often lucky to recruit people and sometimes we have to pay a premium for it.

Ms FORREST - Minister, are you or the chair or the CEO able to describe the employment process and policy, how it applies when you are seeking a senior person in the business?

Mr ANNELLS - If it is a permanent job, it is advertised and goes through a selection process, like any other selection process, and people are appointed on merit. Our situation over the last several years has been that we have had a need for a large number of specialist skills for a short period. That is usually a matter of finding, where you can, somebody to fill that job.

Ms FORREST - On a consultant basis?

Mr ANNELLS - On a consulting basis, sometimes as a contractor and sometimes as a consultant, but never on a full-time basis. If you are going to convert that job to a full-time basis, we would advertise it and the person acting in the position would have the chance to apply.

Ms FORREST - Are head-hunters used in that process?

Mr ANNELLS - We use head-hunters occasionally for specialists. We would use them for senior management positions, if we needed to. We are not a big user of head-hunters in TasRail but we use them for particularly senior management or particular specialist skills. We have had dozens of them over the five-year journey because we have done 37 major projects and you could not expect, within an organisation of our scale, that you are going to have people who are very good at replacing very difficult bridges on the north-west coast or developing a train control system, et cetera. Mostly these people come for a very short time, three months or six months. Sometimes it drags on and that is unfortunate but you do not want to employ somebody on a full-time basis because ultimately it is very difficult and expensive for them to be moved on.

Ms FORREST - In terms of your permanent senior management team, what is the process for performance evaluation and review?

Mr ANNELLS - The primary responsibility for senior management staff for performance appraisal rests with the CEO. I have a quirk that not all boards agree with - I like to be involved in that process. I like the board to have a discussion around the assessment of the chief executive of the senior staff. We do not make the decision, it is their decision, but we get involved to the extent of having a discussion about whether we agree or disagree on some elements of that assessment. The chief executive is entirely vetted by the board, and ultimately me.

Ms FORREST - Is this an annual process for all senior staff?

Mr ANNELLS - Absolutely, and in this particular company it is very thorough.

CHAIR - Minister, coming out of the Auditor-General's report and based on current levels of profitability, TasRail is unlikely to operate beyond the forward Estimates without ongoing financial support. Strategically, looking forward, has the Government considered that at this stage and what levels of support might be needed? I think we have always known - I was in on the first TasRail Estimates when Mr Annells was here, and the former premier, Ms Giddings - and that was an indication given to us.

Mr HIDDING - You alluded to the first Estimates and we are now five years on and that is probably not a bad point for the chairman to lay out where this is likely to go. The state and the Government is watching carefully. We need to project levels of assistance down the track but we want to see the above-rail profitable - 'washing its face', as we called it last year - and the below-rail existing on decent investment of maintenance and watch the business grow from there. I will hand over to the chairman. He has been here all of the five years.

Mr ANNELLS - The business is split into two in practice but the reality is it has to operate as a whole. When we were established we always recognised that the below-rail side of the business has no income other than income it receives from internal transfers with access charges. That 'by rail' business charges the above-rail business.

Fundamentally, that is it only income and that is about \$2.8 million if my memory serves me correctly.

Mr HIDDING - That is done on an industry standard. We are not making that number up. It ought to be funded about that.

Mr ANNELLS - If anybody was to ask me how it is made up, it is beyond my capability.

The reality is that the cost of maintaining the below-rail - forget about the cap ex - but the op ex, in terms of below rail, is a significant amount of money. We have 600-plus kilometres to maintain and have to keep that track to a decent standard and it costs a considerable amount of money.

CHAIR - Can I ask a question, Bob? With the ongoing expenditure on cap ex or upgrading that rail, do you see those maintenance costs coming down?

Mr ANNELLS - They will. They will come down across the business, both in the above-rail in terms of our rolling stock maintenance, et cetera, and below-rail as we replace aged track and sleepers with better quality. Undoubtedly it will, but it never gets to zero.

If you look back over the five years, in the forward Estimates we were required to estimate what our likely requirement for operating support would be into the future over many years. It started somewhere around about the \$16 million, \$18 million, mark. It has sat reasonably high at that level and then it drops next year by \$4 million and the following years it drops by another \$4 million. We had a long debate around our board table about that. We have set the task for management to meet that drop. What was supposed to be an estimate has turned into a goal. That is the way Treasury always does it.

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We are dealing with numbers that we forecast four years ago now, but we will meet that \$12 million odd number. We will meet it by legitimate reductions in maintenance. I will make the point that there are two sorts of reduction in maintenance. There is legitimate because you do not need it and there is illegitimate because you just decide it is a balancing item and you only spend as much as you have. That is the worst place to be. You do not want to be in the latter. We will never take this company there.

We think we can do the maintenance we need to do with the Government support that is in the forward Estimates. The challenge for us to pick up that \$4 million will be very considerable but that is what we have said to management. In the years beyond that all bets are off. This company will not survive on \$8 million. That is a forward Estimate number and we will need to talk to Government and convince them of a number which will probably be much closer to \$12 million.

CHAIR - On the other side of the financial ledger you have those operational costs. The other way to increase your viability is through revenue and you talked about somewhere, might have been in the annual report, of probably increasing customer revenue by about 8 per cent per year. What do you predicate that on and how will that be done.

Mr ANNELLS - That had in it, I am confident, some allowance for Venture so there is a challenge straight away. We are growing our revenue. Regarding the question that was asked by Leonie about Brighton Hub, the vast majority of the north-bound freight from Hobart is controlled by either Toll or SeaRoad. SeaRoad does not use rail because it goes in and out of Devonport and that is a challenge in itself for us. We have to find a way to get in and out of Devonport. We have set that task for management.

We have worked very hard at achieving other trade out of Hobart and I would ask Damien to tell you a little story which is instrumental, I think, in demonstrating how things have changed in the five years. Do you want to tell that story?

Mr WHITE - People are aware of the recent derailment we had that we try not to mention any more. When I went down there that morning, I literally did not know whether to laugh or cry because, if that train was operating five years ago, at best it would have been empty containers. But what I saw in front of me was Cadbury's sugar, fish food, chicken meal, coiled steel, lead acid batteries, eco decking, reinforcing steel, Avgas and probably some other stuff. We had to pick all that up. It was a huge reputational issue for us but it did demonstrate the diverse freight that we are now carrying and the positive reputation we have with our customers.

Mr ANNELLS - That is all going inbound to Brighton. It is not because of Brighton, but it has been made a lot easier.

Mr HIDDING - I would like to take the opportunity for the company to clear up the lingering question that with all the money that has gone into the rail, was this not a section of rail that had been recently re-sleepered and therefore the accident should not have happened? As minister, clearly the first question I asked was: is everybody okay? Yes. Where the heck did it happen? It happened on that section which is the new section. And why did it happen? That was not immediately clear. I have now been made aware of that and I think the Tasmanian people deserve to know some facts of that because it is a reputational issue about all the money we have been spending on the rail.

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Ms FORREST - When you are answering, could you also indicate the total cost of that derailment?

Mr HIDDING - Then we will take that conversation on to the new train control system, which would have stopped it. It would not have happened under that and we are not far away from doing that. It is a good opportunity to clear the record of doubt out there. Either the chairman or CEO, I do not mind.

Mr ANNELLS - I will have a first crack at it and the CEO will correct me as he so often does. The results of the formal inquiry are not in. The problem is that a formal inquiry usually comes in about six months after the event by which stage all the reputation damage is done. We are necessarily being fairly circumspect about what we say because there are people involved and careers and so forth. What we can say absolutely is that the inquiry to this point has, I think, one hundred per cent established that this was not the kit. It was not the rolling stock and it was not the track either.

That is very good news for us in one way because if it had been either of those two things - the track and/or new rolling stock - then serious questions would have been asked of the board, quite properly, about how that happened. The third element in all of this becomes the human element. We are still working through the telemetry that comes off these new locomotives to establish just what happened and why. The driver is obviously in a very difficult position and is in a state of shock, but has been totally cooperative and fully working with the inquiry.

We are talking human factors here. The problem with that from our point of view is that our new train control system, which is about three weeks away from being rolled out on this track, would have had alarms and bells going off in the cab saying, 'You are going too fast'. Unfortunately, that did not happen. We are three weeks short of it.

Mr MULDER - So speeding was the cause?

Mr ANNELLS - We believe that speeding was the cause of the crash and that is yet to come. It will come out in the final thing but about six months down the track is too long. There is absolutely no doubt that the train was moving too quickly and it damn near got around the corner. But in the end, it did not.

Ms FORREST - And the cost?

Mr ANNELLS - The cost is yet to be fully determined but it is about \$4 million, of which about \$3 million will be paid by TasRail.

Mr FARRELL - Are the locomotives salvageable?

Mr ANNELLS - They are absolutely salvageable. It stood up to it extremely well, with mixed results on the wagons. All of the material that Damien was describing spilled all over the track and was completely gone. There is a big bill in that alone.

Ms FORREST - Are you insured for that sort of thing?

Mr ANNELLS - We are insured. The cost of the actual derailment to us will nudge up against the excess, in a common terms. So we will not get anything back on that - about \$2.5 million.

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Ms FORREST - \$2.5 million is effectively the excess, is it?

Mr ANNELLS - It is the excess and that is what it will cost us to repair the wagons, locomotives and the track. Actually the track damage was not so bad. Then there are all of the issues about the material we were carrying. We have taken the view - and I have said this publicly at our function last night - that our customers need to know that if they entrust their goods to us and they do not arrive, for whatever reason, then we will reimburse them. We will argue about the insurance and the legalities of later. If we are not seen as a business that takes its responsibility to its customers absolutely seriously, then we will never grow it.

Mr HIDDING - From the Government's point of view while it is heartening to know that it was not as a result of rolling stock or track, it is not disheartening, either, to understand that there was human error. It is comforting to know that in a number of weeks this train control system is going to ensure that it does not happen again. From our point of view, we are just so grateful that the driver is safe. We thank her for cooperating and we just wish her all the best. It must be a dreadful time for her but we all get human error, particularly those of us in Parliament. We are far from infallible.

Ms FORREST - Is she back at work?

Mr ANNELLS - No, she is on leave.

Mr HIDDING - I am sure we all wish her the best and thank her for her cooperation.

Ms FORREST - On the point of staffing, Mr Chairman.

CHAIR - Yes, but I will go back to my original line of questioning. Just in regard to revenues - and we talked about that increased rate - what other opportunities can you see where you can increase your freight?

Mr ANNELLS - There is bad news and there is good news. The reality is that subsequent to this financial period, we have picked up Australian Bauxite through a tender process.

CHAIR - That is the new development up near Campbell Town?

Mr ANNELLS - The new development at Campbell Town and the possibility of Fingal and their future. We were particularly pleased that we picked it up in a tender process which included, I think, several trucking operators. The reasons that we won it were just on price. It was I think a line ball on price but it was sort of social licence stuff and getting trucks off the road and a range of other factors. It was not our decision but we were trying very hard to win that business and we did and Damien and his team did a fantastic job. We will make money out of that business - not huge money, we do not make huge money out any business. But it will put us on very tight operational time line, as would have Venture - careful what you wish for stuff. Venture would have required us to run at levels of performance that were unheard of; we would really have had to work very hard - and so we should and we are happy to do that. Bauxite is not quite that tough but it is tough. But with our new equipment and a completely new approach to the operational and planning aspects of our business, and I think we have come a long way in that regard, that is a really good sign.

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There are other mining prospects being talked about, how real they are and it is very hard to tell. We learned our lesson with Shree. We took a very sceptical view about Shree and they got up. They could not withstand the drop in the price but in the end they did get up, and while they were running we ran a good service. We did not run train services for them but we ran ship loading services. We learned a lesson out of that, which is that we need to take everybody seriously and put resources behind putting up a train plan to ensure that should they get up, we are front and centre.

CHAIR - Norske Skog could still be an underpinning factor of the term of your customer base. They are looking pretty solid.

Mr FARRELL - In relation to that, are there any opportunities now that they have gone to the lightweight coated paper to deliver by rail their clay product? They have a fairly big mountain of the stuff there.

Mr ANNELLS - We are talking to them about that. There are several back cart opportunities in Norske Skog which include logs, clay and coal. They, quite naturally, want to be convinced that we are competitive. We are discussing some of these issues with them right now. I have no clue whether they will be successful or not but the way to make money in a rail business is back cart. If you can get someone going back the other way, it makes such a difference. In Tasmania there is not a lot of back cart but we are developing that and getting better at identifying it.

Mr MULDER - Are all of your lines, if you take out the below-rail stuff, profitable?

Mr HIDDING - How do you mean 'lines'? Do you mean products?

Mr MULDER - The ones the trains run on, the ones TasRail has.

Mr ANNELLS - Yes, broadly, there are some lines that are profitable and there are some that are not. We would be more comfortable, if you do not mind, if we gave you that information on notice.

Mr MULDER - Yes. It was a general statement because the issue is that if all your lines are profitable, what are you doing about the unprofitable ones and as a business enterprise, if they are unprofitable and you have no plan to turn them into profitability, why wouldn't we get out of those?

Mr ANNELLS - It is a logical and good question. The answer is, like most things in rail, a bit circular. We as a railroad have to have certain capacities that end up going into the overheads as cost. If you are recouping your overheads from an operation even if you are not making any profit on it, that helps considerably lower the price at which you can make your services available across the whole of your business. The issue of overhead recovery is the second part of the question. Are you profitable? Yes, might be or no. But are you getting the costs back, the contribution to overhead, and if the answer to that is a resounding yes, and it should be, that is one reason why you do it.

The second reason you do it is, if we do not cart it, in some cases no-one can cart it and therefore the enterprise would fail. There is an element here of hidden subsidy that governments have to deal with on a regular basis.

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The third issue is that some of our lines are used by more than one customer. Even though a particular customer may not be a profit-making enterprise, the fact they are using the line and we can offset our overheads against it makes the other one worthwhile. We review our customer base - we do not have that many of them - on a very regular basis and we know exactly what the financial position is of each of them. We do not split it by line, but we could.

The second part of your question was, 'What are you doing about it if they are not profitable?' The answer to that usually is cost control. It is very rare we put the price up. If we could have put the price up we would have long ago, so it is about cost control. That is an issue we are working on constantly. My chief executive reminded me this morning when I used an inappropriate analogy to say we have all this new kit and we ought to be making savings; I think I might have said it was a free kick in front of goal for management, and he bit on that like a trout. The reality, however, is that we are making substantial cost savings as a result of the new kit and the work that is being done by management to ensure those cost savings are secured. We have a 30 per cent decrease in our fuel costs for year to date and 35 per cent in our maintenance costs.

Mr MULDER - When you say you cannot put the price up or you would have done it years ago, why would you not put up the cost to those customers? It is basically a business subsidy if they are not paying the true cost of moving their gear. I am talking to a business enterprise being run now by a free-market government and all I am hearing are the sorts of answers you would get from a socialist government.

Mr ANNELLS - That is very hurtful. If that is what it looks like, I can only apologise. It is not the way it is. We have concerns and responsibilities that go beyond just our bottom line; we see it that way. The analogy you use that it ought to be run like a private company, a private company would not have got its capital for nothing. The taxpayer, whether commonwealth or state, has invested massively in this business and in managing it we need to marry the desire we all have to operate absolutely as commercially as possible when on the other hand there are state issues about regional employment, economic activity, survival of existing businesses where we have to be careful that in trying to act commercially we do not create a bigger problem for the state than we are solving. That is the way I have run this business with the rest of my board for the last five years. We now have a new government and my riding instructions have not changed. If they do, we will act accordingly.

Mr HIDDING - Suffice to say you are not carrying freight for people at a price under what they are prepared to pay.

Mr ANNELLS - The market will demand they pay.

Mr HIDDING - They are in a very competitive environment and for 20 cents they will get off and go on a truck.

Mr MULDER - That is called 'the market'.

Mr HIDDING - It is, but what I am encouraging you to understand is that these people operate in this highly competitive market and do remarkably well in that space. They need to build the business as well.

Mr MULDER - From my perspective - and I probably did not get the answer I wanted - the only really profitable rail systems are ones that handle bulk cargo from a single point with

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automated loading to another single point with multiple loadings and diversified cargo does not fit that bill because once you have it on the truck at the factory, why would you take it off the truck, put it on a train, to only take it off the train, put it on a truck to deliver to your customer. When it is on the truck in the first place why not send it with the truck. I am trying to get my point across, do you have any examples in the world where there is a diversified rail system that operates, profitably, outside that bulk single -

Mr HIDDING - It is an interesting concept of short haul versus long haul.

Mr MULDER - Yes, my notes say, 'Short haul versus diversified freight'.

Mr WHITE - There are plenty of container operations on the mainland that operate profitably by private organisations so it can happen and does. In Tasmania it is more problematic. We have a short corridor. However when you have a look at Brighton and what Toll has done with its investment, it has effectively cut out that pick up and delivery operation so it consolidates all its freight at Brighton. It is loaded directly on the train.

I guess the one advantage Tasmania has from a rail perspective, being an island, is when our train gets to Burnie it has the same interface costs as a road operation. The container has to get off the truck into the ship, likewise with the train. From the work we are doing, and the Burnie Port redevelopment will help further, we are seeing our rail operation, notwithstanding it is short haul for container operation, we expect that to be profitable.

Mr ANNELLS - But your basic premise is correct. The way to make money out of railroads is to carry heavy goods long distances.

Mr MULDER - Bulk cargo.

Mr ANNELLS - Absolutely, but that is not what we have but there are a number of firms - everybody from Nyrstar to a number of mines - that if we were involved with the cargo, it would not exist. It is as simple as that. It is too heavy. You cannot put zinc on trucks, not for very long.

Mr MULDER - That is my point, with those sorts of bulk cargos, why wouldn't you be charging them a proper cost to make that line possible for that cargo?

Mr ANNELLS - Let's not talk about a specific client but we charge what the market will bear. We are in constant competition with the trucking industry, as we should be, and there is no point in us setting a price that they simply move from us onto a truck where they can, but where they cannot we have to be careful that we do not opportunistically hold them to ransom and sent them out of business.

Mr HIDDING - Nobody can be held to ransom at the end of the day because a factory will be measured against the one in South Australia and their freight costs (FOB) are cheaper than here by factory. This is the tightrope these guys are walking and they have to be creative in their business model to extract what they can from it.

But the notion that you have to capture customers and say they have to pay the costs for the entire line will not stack up because they will walk. No factory these days makes that much money.

Mr MULDER - Walk or fold.

Mr HIDDING - That is what I am saying, walk or fold.

Mr WHITE - The strategy is about diversifying our freight base so, not unlike any organisation, you have some great businesses you can make some money out of and you have some that you do not. You try to diversify your risk by getting as much volume as you can.

Mr MULDER - What I am saying is if the line is unprofitable for certain kinds of cargo, you cannot make it more profitable by moving more unprofitable cargo.

Mr ANNELLS - If that was an issue that was confronting us and we saw no prospect of improvement, we probably would close the line. We would do it in consultation but we would. We are trying to run a business so your point is made well. We are not a charitable organisation.

Mr HIDDING - And the shareholders are not charitable either.

Mr MULDER - That gets back to the line that the chairman trotted out, which he mostly read directly from the Auditor-General's report, where he says he cannot see the business continue to operate without government support for time immemorial. I have not heard anything different, yet there is a lot of talk about the profitability of the line.

Mr ANNELLS - Does the Department of State Growth anticipate any time soon that it will not require money from the state purse to maintain the road network? What is the difference?

Ms FORREST - And the Commonwealth.

Mr MULDER - Bear in mind that road network - it is a nice example, it is off the track, but it is a really good point - the road network is funded by 25 per cent of the fuel excise, not 100 per cent of the fuel excise, but 25 per cent, so the users are already paying for their road when they buy their fuel. They are paying four times what they should for the road they run on. It is not a great argument.

Mr HIDDING - The point is made.

Mr ANNELLS - I would be happy to have it. I suspect it is a better argument than you are allowing for.

CHAIR - I suppose we will get into all sorts of public subsidies and Metro, it is \$35 million isn't it?

Ms FORREST - The minister needs to get electric trains that can run directly from Hydro generation and then we will be right.

Mr HIDDING - A big long power cord.

Ms FORREST - A big long power cord all up the Midlands. And one from Lake Margaret to help out the west coast and sort that problem out.

Going back to some staffing issues and linking that to the potential merger of TasRail and TasPorts, if it should happen, in regard to whether that goes ahead or not in view of the position

taken by the Treasurer - I think he made a comment about a recent payout for a senior executive with the merger of the two energy entities. Minister, have you issued any directions to either TasPorts, TasRail, or any others under your control about termination arrangements should those sorts of things occur?

Mr HIDDING - Not directly on staffing matters. As a corporation they have their own set of laws to comply with, but generally, in terms of cost constraints, we have asked all GBEs to identify cost saving opportunities, including board fee savings and frozen board fees. We have amended remuneration guidelines to ensure that reporting in annual reports is more transparent. We have set new bands for senior appointments. There are none going in TasRail, but in many of my other GBEs there have been much more modest outcomes in terms of salary. We have written to GBEs advising of the Government's expectations that we are going to adopt a prudent approach to expenditure, including discretionary expenditure, to ensure the remuneration policy is consistent with both the director and executive remuneration guidelines and the Government's wages policy. We have written to businesses noting the Government's concern with excessive termination benefits and requesting that no further such agreements are entered into without shareholders approval while the review of the remuneration guidelines is being progressed.

Ms FORREST - That is for the future, which is important. All you can really manage, taking over as minister, I accept that. We saw the historical aspects to the significant payout to the former CEO of Aurora. Could we see that sort of thing happen again and is there any way of preventing that sort of magnitude of payout in a termination sense?

Mr HIDDING - The review of the remuneration guidelines is underway now and in the meantime we have asked all GBEs to enter into no such termination benefit agreement.

Ms FORREST - But if the termination was to occur, in spite of any legacy issues that may be there?

Mr HIDDING - They are not to agree without shareholder approval.

Ms FORREST - It has to come back to the ministers?

Mr HIDDING - Yes. They are not to enter into any of those kinds of arrangements without first discussing with and assessing shareholders' expectations. It is fair to say we have taken that position in reaction to at least one.

Ms FORREST - They were here this morning.

Mr HIDDING - We have amended overseas travel guidelines and bits and pieces like that, which is just a fiscal discipline and restraint that we have asked. All departments are doing it, Parliament is doing it, and we all have to and businesses have absolutely accepted the position of Government on this and I know this one has as well.

Ms FORREST - With regard to staff, particularly in areas of senior staff, how many FTEs do you have at the moment across the whole business? How many are there in the senior staff? Can you provide any details about staff turnover in the last two or three years? It would be helpful to know how many people stay for how long, particularly in those senior positions.

Mr HIDDING - I will see what the CEO can give us.

Mr WHITE - In terms of what I can report, current staff levels are around about 239.

Ms FORREST - FTEs?

Mr WHITE - FTEs as at the end of June this year. That is down from 264, so it is about a 9 per cent reduction in that time.

Mr HIDDING - Those are the separations that recently took place.

Mr WHITE - We would rather be growing our business and employing more people. But due to both rationalisation to do with the new assets and some projects not coming off, which we spoke about earlier, we have had to reduce train drivers, our rolling stock maintainers and a number of administration and senior managers. There is an active process. If anyone leaves the business, we do not just simply replace them, particularly those in the administration roles.

The actual turnover has been quite high. Historically, it has been about 2 per cent to 3 per cent. Over the last six to 12 months with those exits, it is probably more around 9 or 10 per cent.

Ms FORREST - Do you have a breakdown in senior staff levels?

Mr WHITE - In terms of numbers or turnover?

Ms FORREST - Both. Numbers and turnover. How long do people stay in positions?

Mr WHITE - I will have to take that on notice.

Mr ANNELLS - Off the cuff, there has only been one turnover I can think of for a senior person, and that is Neil. Jennifer went and came back again. She loved it so much. The rest of the senior team has been in place in different roles. We have moved people around with them in place basically for five years.

Mr HIDDING - You had a commercial manager change, didn't you?

Mr ANNELLS - That is Neil. He left and has not effectively been replaced. We brought somebody up into that role. We have a very low turnover of our senior staff but I would expect a decent churn down below that because we are moving from a capital-focused, project-focused organisation to running a business. We have had to run a business alongside being capital-focused but a lot of the people on the capital side will be moving on.

Ms FORREST - If the CEO is able to provide a bit more detail around numbers that would be helpful to the committee afterwards.

Just one other point, Mr Chairman. I noticed in the CEO's report, his closing comment in his statement to the annual report is that TasRail is literally the backbone of the state's integrated freight network carrying the lion's share for the task. Can you, minister, or whoever you want to handball it to, give us a bit more information about what you really mean? What is the split between the various means of freight and how does that compare cost-wise? We have accepted that there needs to be a lot of money spent on rail because of the state at which the Government took it over and

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established TasRail. Could you provide a bit more detail about what you are referring to with the state's integrated freight network and TasRail's role in that?

Mr WHITE - We had a five year birthday yesterday. When we look back at the first corporate plan, I do not think anyone had expected us to grow freight volumes in that investment period because we have simply been operating with old kit. Certainly, the track was incrementally improved but we have only really had the new equipment less than six months since it has been fully commissioned. Even in that period, simply by re-engaging with customers - and I can understand with the previous organisation there is no point in re-engaging with customers if you are going to get hit around the head.

Customers understand that there is a long term plan for rail in this state. They can put more goods on rail with some confidence that it is not going to shut down in six months time, which was not the case in the past. They understand what the investment program was - what the expectations were to deliver. They were extremely high quality services and competitive pricing. By getting our costs right, we have been able to convert freight in that five years. There is also our ability to be competitive to win businesses like Australian Bauxite and Venture. It is parked; we are still already for it and we are hopeful that it will come back. They certainly have not shut it down. They have suspended the project but -

Ms FORREST - They are still drilling. They are still exploring, aren't they?

Mr WHITE - Yes. Assuming the price gets right, that can well come back. We were the obvious choice for those guys because, particularly on the north-west coast, you would never want that volume of freight on the road.

Ms FORREST - Especially not when the rail line goes almost right through your tenement.

Mr WHITE - Yes, and that as well. That is the outlook in terms of our customers.

When we talk about integration, although there is the review on TasRail and TasPorts, both TasRail and TasPorts and indeed State Growth with the road cleaning people work extremely closely together. We do not go out on a limb to do a certain project or chase a certain piece of business without working closely with those other organisations. That is the benefit of the state owning the rail network. In full private ownership people are a lot more selfish around the benefits that might accrue from the organisation whereas we take a bit wider view of the world.

Ms FORREST - What percentage of the freight task do you look after?

Mr WHITE - These are statistics provided by State Growth. In terms of what they call the contestable freight market - where road and rail can compete with one another, and there is a criteria around that - my recollection is we are in the order of 22 per cent of the contestable freight market.

Ms FORREST - How much of your freight is noncontestable then - that only you can do it?

Mr HIDDING - That is Nyrstar, the very heavy stuff.

Mr ANNELLS - Maybe the mining, too, minister.

Mr HIDDING - There is no other choice.

Ms FORREST - So Queenstown when that is operating?

Mr ANNELLS - Again, there is a bit of a debate about some that could be on road, and it is quite difficult.

Ms FORREST - It goes on road to Queenstown to Melba Place.

Mr ANNELLS - It is not an easy number to give you but if you like, we will talk to State Growth and come back and give you a split as best we can. The contestable is fine and we can probably do that easily enough. Then we will just give you a number on the uncontestable. My memory was that we are in total terms - and my memory is not as good as it used to be - about 28 per cent of the total freight task in Tasmania is undertaken. But we need to get that figure for you.

Ms FORREST - How do you measure it, in tonnage or -?

Mr ANNELLS - By tonne.

Ms FORREST - A tonne of feathers is the same as a tonne of iron ore, but it is a much bigger volume obviously. If tonnage is the only way to measure it, it is not really comparable in some respects, is it?

Mr HIDDING - The only other measure to use is 24-unit equivalent containers but in this case, what would you do with your bulk minerals? It goes back to tonnes, essentially. It is a reasonable 'apples with apples' comparison, I suspect.

Ms FORREST - How do you intend to measure that then? I am sure you have heard the Auditor-General emphasising the importance of having outcomes-based key performance indicators and actually reporting outcomes and measuring the benefit, particularly of the investment that has been put into the rail with the new rolling stock and the below rail upgrades. How are you going to measure the expected improvement, and how will that be recorded? We do not really see any of that yet, but I suppose it is a bit early to measure much of it.

Mr WHITE - There are some key measures we use internally. As the Chairman mentioned earlier, we separate our business into above and below rail. Below rail we treat it like the road network. We should maintain that as cheaply as possible but that is not designed to make a profit. But our above rail business does and can and should.

As I said, the new investment has really only been online this year. We are seeing a 30-plus per cent improvement in fuel consumption, which is actually far greater than we expected, and we know there is much more to come.

Ms FORREST - Do you put that into dollar terms when you report some of this stuff in your KPIs?

Mr WHITE - Do we?

Ms FORREST - Yes, do you and will you?

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Mr WHITE - Some of it is sensitive, so we do not want to necessarily want to hand it all back to customers. But we certainly want to fly the flag that we are making some improvement.

Mr HIDDING - They would love to know some of this stuff.

Mr WHITE - At the end of the day the Government has made the investment and the benefits will accrue to them. Our rolling stock maintenance costs are reducing by approximately 50 per cent, a significant step change. In terms of our service quality, we are delivering now four continuous months of 100 per cent of what we call freight availability for our container service.

Ms FORREST - Turnaround times?

Mr WHITE - This is freight delivery. The time we promise our customer a container to take delivery of is four months of greater than 98 per cent of the time. There is still a lot of work to do to lock that in so it becomes normal routine, business as usual. At the moment there is a lot of effort going into achieving those outcomes but that is the level of improvement we are expecting.

Mr ANNELLS - We will report that in our annual report. Those are the reasonable metrics that the business should be now judged on. We are trying to develop metrics for reporting to the board - and we will put it in the annual report - which show how we are delivering better service to the customer. We are not running the railway for the fun of it; we are running it to make a profit. We are cash-positive above rail despite Venture not getting up, so we are getting closer to a profit. We will measure and report those in the annual report.

Mrs HISCUTT - I would like to ask the minister if he could turn his mind to community safety. On page 49, the near-misses with people, vehicles, collisions - it does not seem to have improved over the previous year. As you know, the new horns were Australian standard and very loud for Tasmanians. I can appreciate it needs to be like that. There were a lot of complaints in my electorate on the north-west coast in Ulverstone. How are you going with that? What are you doing to improve public safety? Have the complaints about the horns eased off a bit? What are you doing to alert people to be wary on level crossings that go through places like Ulverstone?

Mr HIDDING - First, if anybody around this table has any silver bullet idea as to how we might be able to educate Tasmanian drivers - that you would play chicken with the very few numbers of trains we have, it is not as though one is coming by every hour and it is an annoyance and then you cut in front of it. It is astonishing. I know TasRail has visual recording of every train operation. I am reminded by this question to discuss with Tasmania Police some better management. We are going to get tougher -

Mrs HISCUTT - Minister, did you say there are cameras in the trains?

Mr HIDDING - Yes.

Mrs HISCUTT - So you can follow up on people who shoot across in front of a train?

Mr ANNELLS - The cameras do not move so we do not always capture their numberplate, but you certainly capture the incident. You rely on the driver to get the numberplate. Many of these incidents are reported and the police follow up. As to the horn issue, we have changed our horn-blowing protocol now. We are blowing it much less, it is still loud but much less. We think

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that is still operating in a safe way but, unfortunately, there are pockets of behaviour that are just inexplicable, particularly with motorists playing chicken with the train.

Mrs HISCUTT - I see it has only dropped by five, it is still up near 100.

Mr ANNELLS - With the minister's approval, I ask Damien to give the committee a bit of background on the work we are trying to do on this. It is slow going.

Mr WHITE - We have a good relationship with the police. When the trains were running down here we had a level-crossing camera at Granton. It was a fixed camera capturing silly behaviour and there were a number of prosecutions out of that. We have since relocated that camera to Devonport. I am not sure how many or whether we have had any prosecutions out of that but certainly vision has been captured there. Our drivers also report events and they get fired up by the police as well.

Mrs HISCUTT - Damien, in Granton, where there were prosecutions, did that reduce the incidents or did it have any effect?

Mr WHITE - We put signs up as well, so everyone knew the camera was there. Our reporting of incidents appeared to drop but it was over a reasonably short period. For us to understand sustained changes, it needs to be over a longer reporting period. We have done some independent surveys on what is the demographic of people, trying to understand who respects the railway and who does not and that should give us some guidance around our PR programs. We are a member of a national organisation called TrackSAFE so that we are not reinventing the wheel around these messages. In many cases, we are able to ride on the back of what other people are doing but making it Tasmanian-centric. We do a lot of work on social media.

We have released some of the CCTV vision, particularly during Rail Safety Week, to the news organisations and that is always good. We have had some of our drivers out talking to schools. It is recognised that if you get people early in their life you have more chance of success. We do lots of work around rail safety.

Mrs HISCUTT - Are you getting fewer complaints?

Mr HIDDING - Yes, on the horn complaints, there have been far fewer because we wrote to the same people who complained before about the new protocols that were in place and assured them they would experience a different outcome and most of them have not come back to us. There are areas on the coast where the trains run very close to the houses and therefore a toot of the horn can be somewhat stressful. The duration of the horn blow on a near approach to a level crossing is reduced from a minimum of four seconds to one second and the train driver must also sound the horn for one second prior to entering that crossing. The horn is to be switched to the low note. It goes from D to E, noting this facility is not available on the older fleets which may still be operational on the network from time to time. The horn is no longer required to be sounded during the off-peak hours in the following circumstances prior to moving: at whistle boards, prior to entering a tunnel, when entering or passing through long cuttings or curves.

These protocols set a minimum standard only and the overriding safety requirement remains for a train driver to sound the horn in any situation where he or she perceives there to be a danger.

Ms FORREST - A cow on the track because there are no cow-catchers on the front anymore.

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Mr HIDDING - I suspect a blast from one of these air horns would shoo the old cow off the rail.

CHAIR - That is a reasonable point to bring up because there have been many instances - and I could not find them in the annual report - of stock on the line still. It is obviously a fairly major safety concern. Outside Campania, where are the main hot spots on the line?

Ms FORREST - Outside your property.

Mr FARRELL - On the other side of that, complaints about the loud horns, has anyone called in and congratulated you on the much quieter engine noise of the locomotives?

Mr HIDDING - There is that, yes. We do not get those calls.

Mr ANNELLS - We have had the odd person.

Mrs HISCUTT - If there is nothing else on safety, Chair, I would not mind moving onto tourism trains. Nothing else on safety?

CHAIR - Getting back to the stock issue. Fencing requirements are borne by the landowner. As we know, it has been a festering sore for many people for a long time. Are there any particular hot spots? Is it a significant issue or have the instances reduced with regard to stock on lines?

Mr ANNELLS - I will pass over to Damien. As somebody with a vested interest, the interaction with stock can occur when they stray onto the line, either getting through a fence or a gate is left open. Equally as dangerous is where the farmer is crossing stock across a line and is unaware that a train is in the vicinity. We have pitched our efforts more to the latter because we see that as more preventable. The sheep are under the control of the farmer. I have to say that my staff took a distressingly long time to understand the logistics of trying to move 500 sheep across a railway crossing but they finally got it and we have given a much truncated process for farmers to ring our train control system. I will let Damien take it from there, but it is getting a lot better in that regard.

CHAIR - From personal experience, it works very well. You get the information exactly when the train is coming through. It is very important and it is very good.

Mr WHITE - Good feedback. There has been an improvement from year to year. For the year just gone, 153 livestock incidents, the previous year was 183. That is a substantial improvement. Most in the north-west but plenty down south and in the north. Based on those incidents the chairman described, those being controlled by the farmer, we targeted the farms that make the majority of movements and introduced those crossing procedures with them and put together some stickers which we hand around. You have probably got them, Chairman, but stickers and fridge magnets.

Mr MULDER - Coming from an electorate that does not have a single rail running through it I do not see much need for that.

Mr WHITE - Farmers can put them on their little tractors and utes. The feedback through farmers is that the new system is much more streamlined and the results are indicative that it works.

UNCORRECTED PROOF ISSUE

Mr ANNELLS - It is like people playing chicken with the train - if somebody leaves a gate open you have got yourself a problem.

Mrs HISCUTT - Minister, I wonder whether you could touch on tourism trains - the Don River and the Derwent. How are they going with their push to get on to the track?

Mr HIDDING - There is a fair deal of work and interest around Tasmania from different sources, not just from Don River Rail but tourism heritage rail stakeholders in various areas. Some of them they are proposing to use decommissioned line. Others are proposing to share the main line with TasRail's current operations.

In terms of access to the operational rail network, the TasRail board resolved in 2012 that access for tourism heritage operators was not achievable in the medium term for a range of reasons including advice that TasRail's only insurance policy is at risk if the track is used to carry passengers and acknowledgement that is not possible for tourism heritage operators to indemnify TasRail or to hold TasRail harmless for any consequential commercial and reputational losses as a result of tourist operations on the network. The reality is that the track is maintained to a standard to support freight rail operations only and the next level for passenger rail is a whole big step up from that.

There are a number of things that have moved forward a little from that. One of them was a meeting convened by some Government members, Federal and state, in Braddon, where the Don River Rail has long held a desire to restart tourism services on the operational network, particularly between Devonport and Burnie, but also on other sections. The catalyst to Don River Rail ceasing rail services in 2005 was not public liability insurance premiums nor the removal of points. It was Don River Rail's reliance on the then operator of the railway, Pacific National, to assume full accountability for technical competence liability and accreditation liability. Pacific National withdrew the support, which meant that was the end of those arrangements.

The threshold issues for Don River Rail therefore remains its capacity and competency to secure its own full rail accreditation with the Office of the National Rail Safety Regulator.

Ms FORREST - Also, minister, we were told - probably before your time - that the points were subsequently taken out after this decision was made.

Mr HIDDING - But if you could wave a wand and put them back in, the issue still is that Don River Rail does not appear to have made any progress resulting in some threshold issues, which is getting its own certificate of competency. Actions arising from this recent meeting was that TasRail was to confirm the current impact on its insurance if Don River Rail was to operate on the main line and that work is in progress. TasRail is undertaking that work. Don River Rail to work with TasRail and the Office of National Rail Safety Regulator to identify the likely costs involved with securing rail safety accreditation and to explore the potential to auspice such accreditation under an umbrella arrangement with like-minded tourism and heritage operators. There is movement, but it is seriously difficult.

Mrs HISCUTT - Minister, are you aware of any of those costs? Is that within a group like the Don River? Do you reckon it is outside their finances?

Mr HIDDING - I could not speculate, but it is going to be seriously expensive and I would have thought -

Ms FORREST - Volunteers.

Mr HIDDING - Volunteers would probably be the answer, but from what TasRail tell me the cost of any project starts with six zeroes and goes upwards from there. There is no such thing as a cheap work on the railway line it seems to me. Also, other than Don River Rail, which I know is in your area, the Tasmanian Transport Museum has engaged an experienced consultant who I have met with a couple of times and who is very experienced. I have seen the first cut of a business case for the decommissioned Hobart line that is of interest. Anybody would be interested in the amount of work they have done. I think we are waiting on the next step from Tasmanian Transport Museum but while it would require some underpinning to get it going, there is no question that their market work shows that there is a business of a nature there, which generally, as minister, I say to tourism and heritage rail stakeholders, do not bring me ideas, do the homework properly. Do not yell at the Government and say someone should fix something, we should be on the rail. There are standards that are put in place by other people than us and that is why we have the National Rail Safety Regulator.

Then you have the north-east trail, the Dorset Council working with TasRail on the decommissioned line up there, which still exists, and there is a case being put to the Federal government for funding under the Stronger Regions Funding and we have provided a letter, which has allowed for them to apply for this Federal funding. I am quite hopeful that they will be able to pull this off.

Further up your way, there is the now newly redundant Forth rail bridge, you might recall. The five councils in the area have been doing wonderful work with a walking and cycle track along the coast. There is a proposal gone in for Federal money under this project funding, just last week and TasRail provided a letter of acknowledgment to the Cradle Coast Authority and I provided a letter to the Central Coast Council that should they be successful in getting those funds, we would be likely in a position to hand this bridge over in its current state. It would be a pretty exciting addition to the trail they have and it projects them towards Devonport. We could end up seeing Devonport -

Ms FORREST - Or towards Ulverstone - it depends on which way you are going.

Mr HIDDING - Yes, indeed, but the fact is they already go to Ulverstone and so it takes them over to Leith and further that way because of that rail bridge. It is a great opportunity.

Mrs HISCUTT - It is a well-worn track with a lot of cyclists and walkers, it is good.

Mr HIDDING - We have been very active in this space just in the last week or so making sure that these bodies are in a position to apply for substantial federal funding. Mr Farrell will be interested the Maydena Railtrack Riders are looking for a new licence to facilitate their activities on a non-operational section of the Derwent Valley line. TasRail needs to comply with its obligations under the Rail Infrastructure Act, specifically to formally assess the condition of the rail infrastructure to ensure it is fit for permitted use as defined in the licence. It is one thing to say that you can use the track as we do not use it, but they have a responsibility to make sure that it is suitable and they have only just recently - I read a briefing note this morning - completed that and have advised the Maydena Railtrack Riders that the new licence has been executed now.

UNCORRECTED PROOF ISSUE

Mr MULDER - While you are on that issue, you said that there are standards set by the national regulator which our freight lines do not meet, can we have some idea about what kind of things needs to be improved to allow passenger -

Mr HIDDING - What would be the general step up?

Mr MULDER - Yes.

Mr ANNELLS - I cannot answer that off the top of my head. In those sections of the track that we have put concrete sleepers and new rail in, I would think for the type of passenger service - not a general passenger service but for a restricted passenger service - you would get away with it. Where we are dealing with older track that has not been upgraded, you will need to upgrade it, I think, or you would need to impose very slow speeds on it but I do not have a specific example.

The standards that need to be met are not just about the track; they are actually about the accreditation of the operator. That is the main problem and to do that, you have to have a range of skill sets that you can draw upon - which may be voluntary but you have to be able to demonstrate that you can get them and that is a big call. Some people are having a crack at it.

Mr MULDER - As someone who goes overseas and loves to jump on trains as a means of travelling around, I have done a few of these things and there are tonnes of trains around the world. I often wonder, having ridden the line once many years ago was, for example, about the Melba Flats to Burnie rail. You would make a motza if you chucked a couple of passenger wagons on the back of that train and it would be zero cost because you are adding more to it. It is a spectacular line complete with wonderful bridges that could come out of a Wild West movie as it crosses the Pieman and bits and pieces like that. On this issue of tourist trains, I just do not know why and the only reason I heard was that they do not meet the standards. I am also wondering if we went to a wider gauge, rather than our little narrow one, as we upgrade some of these lines that would allow your trains to travel a little faster and it would also -

Mr HIDDING - You would need expanding bogies as they went from narrow to wide, of course. I hear what you are saying.

Mr MULDER - Some of us moved to mobile phones even though we had perfectly good ones connected to our home but sometimes you have to move with the times if you want to stay in business.

Mr HIDDING - On the question of rail gauge, Queensland has the same gauge as us, and South Africa.

Mr WHITE - A third of the world's railways have narrow gauge.

Mr ANNELLS - I agree with you.

Mr MULDER - A third of the world does not have water and sewerage either but that is no excuse for us not to have it.

Mr HIDDING - In what way would it improve the service to have wide gauge?

UNCORRECTED PROOF ISSUE

Mr MULDER - That was what I was asking. Would having a wider gauge allow us to meet some of those standards? And then, the question is, why can't we? What particular standards stop us from throwing a couple of passenger cars on the back of the ore train as it heads up the west coast?

Mr ANNELLS - Now we are in difficult territory. I can assure you that our insurers would have apoplexy and our insurance premiums would go from the outrageous level they are now to a stratospheric nature. That is never going to happen. The question is, could you put a standalone train on the track and the answer to that is: probably, if there was a business case for it - and I agree with you, it is a fantastic experience. We have gone slightly differently. We have said the best way to manage all of these competing demands would be to put people on hi-rail vehicles on that track, like the bus with the capacity to move.

The issue for us is that had Venture got up then there would have been no pathways for us to give to another train for passengers, certainly as they would want to run it. But it is much less difficult to accommodate some sort of hi-rail vehicle. Overarching all of that up, until we rolled out the train control system on the west coast line, you would never have been able to mount a case that you could meet the safety regulations. Now we have our train control system and we have separation and we know where everybody is, and provided that vehicle or whatever it was had the appropriate machine tracking equipment in it, you could run it.

Mr HIDDING - Could I indicate there is a proponent interacting with TasRail about access to that Melba line for a hi-rail bus.

Mr MULDER - I am wondering how do other railway corporations who run the passenger -

Mr ANNELLS - The governments underpin the insurance costs. In every case in Australia that I know of, and several around the world, the government picks up the third-party insurance cost.

Mr MULDER - Okay, that is the tourist railways and that could make a case for a bit of balance subsidy if your tourist numbers are up.

Mr HIDDING - It could be.

Mr ANNELLS - We still have to get the accreditation and that is the difficult thing to do.

Mr GAFFNEY - I noticed in September there was some removal of noxious weeds and trees in the central coast area near the little towns. Over the last four years, what has TasRail spent on vegetation management? I noticed in your 10-point plan it says, 'The amount of slashing and selected spray is very much dependent on the available budget,' which I appreciate but I would be interested to know what has been spent over the last four years - a question on notice, perhaps, if you could provide that for us. It is to ensure that there is ongoing maintenance work. I know that there is regular spraying and whatever but it would be interesting to see what that is because it does impact on some of the community, especially gorse and that sort of thing.

Mr WHITE - We can certainly provide that information. We also have this that is being sent out in conjunction with the TFGA about vegetation management.

UNCORRECTED PROOF ISSUE

Mr GAFFNEY - That is the one that is on the web. It would be interesting to have that information, thank you.

Ms FORREST - Going back a bit, I may have misunderstood what you were saying that the above-rail is profitable or you plan for it to be profitable?

Mr ANNELLS - We plan to be cash-positive now.

Ms FORREST - When you look at your net cash flow from operating activities, it is a loss of \$3 million, so where is it demonstrated that the above-rail is cash-positive and turning a profit?

Ms FORREST - It is not profitable?

Mr HIDDING - It is getting towards profitability because at least it is now cash-positive, which does not mean it is profitable.

Mr ANNELLS - We would be better to take this on notice because if we get into it, I am going get lost and we need to give you proper advice. We will do something within 24 hours to give you a split-up of that to explain why, what looks to be a negative, is actually a positive.

Ms FORREST - Creative accounting?

Mr MULDER - You should throw that question to the minister. He has the spin doctors who can turn negatives into positives.

Ms FORREST - To clarify, the above-rail is cash-positive but not profitable?

Mr ANNELLS - That is right, because of depreciation and -

Ms FORREST - Do you expect it to be profitable?

Mr ANNELLS - Yes, subject to the caveats I mentioned before that when you lose a \$28 million piece of business like Venture in a day, it makes a big difference.

Ms FORREST - For that to happen, does it require Venture to come online or another significant business before that is going to happen? Say, if CMT get going again, that would help?

Mr ANNELLS - That would help considerably.

Ms FORREST - Will that turn it?

Mr ANNELLS - No.

Ms FORREST - It requires another big customer basically to come in before you can see that happen?

Mr HIDDING - There are a couple of opportunities. There is a coal opportunity in the Fingal Valley, HardRock Coal. They have invested a lot of money.

Ms FORREST - Will Avebury be using that rail if they get going?

UNCORRECTED PROOF ISSUE

Mr HIDDING - Yes, they are looking for a full rail loading solution at Bell Bay and there has been a lot of work done there. They back companies because it is unsafe not to. In spite of the fact it might not get up, you have to do the stuff because a number of them do. But you only need one of those to strike and come home for you and the numbers will change.

Ms FORREST - With regard to the release of Venture's \$1.8 million guarantee that is described on page 52, can you give us some more detail around that?

Mr HIDDING - That was a shareholder directive. Not to put too fine a point on it, Venture was being ridden into the ground in the federal courts by -

Ms FORREST - A small number of people.

Mr HIDDING - By a small number of people that could only be described as a vexatious process which cost millions. TasRail had required this security of \$1.8 million to cover the capital costs associated with the purchase of 18 new ore wagons which would be needed for the substantial number of new rail and bulk handling services that Venture had contracted. The situation was that Venture said that without the release of that, they would likely need to announce the project was over. The State Government took the view that we should issue a shareholder directive to release that \$1.8 million bank guarantee. We did it eyes wide open. We did not want to be holding that and then lose them altogether and then, with a favourable court hearing, find they had timed out with their own banks. As it happened, we ended where we ended but we did release them of that \$1.8 million bank guarantee.

Ms FORREST - Does that \$1.8 million then become the responsibility of TasRail or the Government?

Mr HIDDING - There is now no responsibility. TasRail was upgrading its rolling stock to deal with this forthcoming contract and had the facility of the \$1.8 million as comfort to do that. By shareholder directive we took the comfort away.

Ms FORREST - Then, TasRail have bought the rolling stock and have borne that cost and will hopefully recoup it once or if Venture get going?

Mr HIDDING - Yes. That sums it up.

Mr ANNELLS - We have ended up paying for the rolling stock but it is rolling stock that fits into our total fleet. They are ore wagons from the same Chinese suppliers we got the rest of our ore wagons from. The minister correctly says that the Government took a view that this was an appropriate thing to do and they are perfectly entitled to do that.

Ms FORREST - As far as recouping some of the costs if Venture get going, do you seek to do that or is it just part of the deal?

Mr ANNELLS - In effect, we would have given up the security the moment Venture started its business -

Mr HIDDING - You would release them of that.

UNCORRECTED PROOF ISSUE

Mr ANNELLS - Yes, we would release them. This was a bank guarantee to protect us from the circumstances that actually happened. We went out and ordered the new wagons, we got the new wagons and they did not start. The minister is absolutely correct, a tough call had to be made here because it was obvious that their finances were struggling. A \$1.8 million bank guarantee is like having \$1.8 million in cash tied up, and they needed access to it. The board did not go screaming and yelling and dragged into the night, we understood what the Government was doing and we did it.

Mr FARRELL - In the report there were 42 overseas trips. I am assuming these were to do with the new locomotives and rolling stock, but one must never assume. Where was that budget allocated from?

Mr ANNELLS - Out of the project budget.

Mr FARRELL - Was it a beneficial process?

Mr ANNELLS - This equipment, particularly most of the locomotives, is complex. They were all being built, to one extent or another, specifically for us. We took the decision to build our wagons in China and that brings with it some inherent risks and benefits. One of the things we built into our budget for that project was that we wanted one of our experienced people on site virtually full-time. When we entered into the locomotive contract in America, we did not think we would need somebody there all the time, but we acknowledged we would need to send very experienced people there on a regular basis. That turned out to be the best investment we have ever made. We happen to have some terrific people who lived in China for a couple of years, which is not easy. They made and secured a much better product, as the manufacturer of both the wagons and the locomotives would attest.

Mr HIDDING - Having an owner's representative in the factory is crucial for those sorts of constructions.

Mr ANNELLS - It's a 40-year asset, so you had better be there.

CHAIR - Whilst we have the new locomotives, I presume the old ones went for scrap? If so, for how much, or what happened to them?

Mr HIDDING - Do you want one?

Mr WHITE - We have parked almost all of them. We are still using some of the old girls, as they are referred to. There will be a tender process to go through. We expect there will be maybe some interest from tourist and heritage railways, so we will ask for expressions of interest.

CHAIR - So nothing has been divested of at all?

Mr WHITE - Wagons - we have a lot of wagons.

Mrs HISCUTT - They go to scrap metal?

Mr WHITE - Yes, by and large.

The committee suspended at 3.59 p.m.