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THE LEGISLATIVE COUNCIL GOVERNMENT ADMINISTRATION A COMMITTEE MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART ON MONDAY 23 MAY 2016.

TASRAIL INQUIRY

Mr ROBERT ANNELLS, CHAIRMAN, AND **Mr STEVEN DIETRICH**, CFO, WERE RECALLED, AND **Mr DAMIEN WHITE**, CHIEF EXECUTIVE OFFICER, TASRAIL, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED

CHAIR (Mr Mulder) - I welcome you to the inquiry into the financial sustainability of rail. All evidence taken at this hearing is protected by parliamentary privilege. Any comments you make outside the hearing may not be afforded such privilege, even if you are repeating things you actually said in here. The evidence you present is being recorded. The *Hansard* will be published on the committee website when it becomes available.

If you are concerned with the nature of the information you want to provide to the committee then you can ask it be heard in camera. In that case the committee will consider your request and make a determination whether to receive that information in private or public.

Thank you for coming back to the inquiry. There has been a lot of water under the bridge since you were last here and there are probably some other matters you might wish to comment on.

I start by talking about a consistent theme that both you and the Government have been putting together: by 2018 you expect the above-rail business to be in profit. You consistently argue that profitability is coming mainly from an increasing freight task. Where is that coming from? Is it materialising?

Mr ANNELLS - It is not materialising as quickly as we would have hoped. I have said before in front of your committee that TasRail in many ways is simply a barometer of the state's economy, particularly when it comes to bulk commodities. I do not think it is any secret that at the present time the bulk commodity market in Tasmania is really struggling. As a consequence, some of our existing customers and some of our prospective customers have not materialised. That had led us, for example, this year to fall behind our projected EBITDA position. We are currently anticipating we will have an EBITDA loss of about \$1.5 million. We have managed to keep it to that, because it could be and should be very much larger than that, by fairly significant cost cutting. We have also had increased business flowing to us through our intermodal side. That side of the business actually is in front of where we expected it to be, but our bulk business is well behind.

CHAIR - This is the Brighton hub?

Mr ANNELLS - Intermodal is from a number of sources, but the Brighton hub is the main southern source. Obviously Burnie is an originating port, very much so in the north-west of the state. The intermodal business is actually holding up reasonably well. There is some quite good signs of non-TOLL volumes, which we will talk about later. The business is struggling to meet its EBITDA forecasts, but of the \$1.5 million loss, roughly \$1 million of that is in cash and the other

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is an accounting issue. In all of the circumstances, the board is not dissatisfied with where we are at this point.

CHAIR - The 2018 projection, is that being pushed out?

Mr ANNELLS - We have not formally pushed that out. Within another six to nine months, unless some of our older customers come back or one of the prospective customers actually starts - and they are Venture and ABX principally; Shree would be another one - then we will have to look at the 2018 aspiration, because that is all it has ever been - where we thought we would be.

CHAIR - I think you mentioned in the other place during their government scrutiny estimates last year, that discussions were underway with SeaRoad to transfer some of their containerised cargo off road and onto rail. Is that proceeding, or is that some of your extra volume you are getting through Brighton?

Mr ANNELLS - It is some of the extra volume we are actually generating out of Devonport into Brighton, and then some return cartage, but principally out of Devonport. It is early days, but there have been quite good signs there. SeaRoad is a changing business. They are building a new ship. There is a significant change in management. We continue to talk to them. To this point in time we are very pleased with the growth coming from SeaRoad. It is still, in overall terms, a very small amount of freight, but it is more what it represents - a very pleasing change from a situation up to a year ago where basically SeaRoad was not prepared to use rail at all. For us it is much more symbolic than bottom-line significant.

Mr GAFFNEY - You said it failed to materialise and then you have mentioned a few companies. Can you be more specific? When you say something is 'far from materialised' I would be interested to know what you have in your projections that did not eventuate or actuate.

Mr ANNELLS - The two main ones are Venture pulling iron ore out of the west coast. It is well known that the crash in the iron ore price led them to shelve their mine proposals there. We are hoping they will recommence. They are certainly making public noises about wanting to recommence but I guess it is the iron ore price that will determine that. We are absolutely ready to go.

The second is ABX, which is the bauxite mining coming out of Campbell Town. Again, it is well and truly on the public record that the bauxite price has been such that they felt it necessary to shelve their plans. Again, we were ready to go. They made up a significant addition to our budget and certainly would have led to the 2018 commentary. Either one of those would have put us well over where we needed to be to make an operating profit in 2018.

In many ways we are very close to breaking even, even with all these things not happening. The biggest issue at the present time that is weighing on us is some extraordinary costs in relation to a derailment, and the washaways on the Fingal line. We have an accounting issue to deal with - the way in which some leave provisions have been dealt with. I am not saying we are in profit. I am just saying we are not doing too badly given that Venture and ABX did not materialise.

Mr GAFFNEY - If that had not materialised in the way you think, what value had you given both Venture and ABX if you said there was a \$1.5 million shortfall? What sort of value or weight are on either of those - 50:50?

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Mr ANNELLS - I would not want to give you a precise number because I think that would be commercial-in-confidence, but let us say that if, for example, Venture had got up we would have been way in front of break-even at the end of this year, let alone in 2018, by many, many millions of dollars. ABX is not as big an issue for the bottom line but is still a significant benefit for us.

Ms FORREST - You recently sold one shipment that was already sitting there waiting to go.

Mr ANNELLS - We had already carted that and we had been paid for that.

Ms FORREST - So they are not likely to?

Mr ANNELLS - I do not know. They continue to be very cautiously optimistic - the best, I think, we could say.

CHAIR - On to Devonport, were you saying that their cargo is coming south on the line?

Mr ANNELLS - Yes.

CHAIR - That would be a pleasing thing, to not be running to trains back to Hobart.

Mr ANNELLS - Very pleasing.

CHAIR - How does that work? They come off the ships on the east side of Devonport, and then you truck them around to the west side of Devonport. Then you put them on the train?

Mr ANNELLS - We invigorated the Devonport terminal. It is not spanking brand new, but it is certainly operational from our point of view. We have done it very cautiously. We have done a train plan which puts rakes of wagons in there as required. We pick them up and stick them on the back of the Burnie train and bring them to Hobart.

CHAIR - This is the south side of the existing bulk cement facility?

Mr ANNELLS - Yes.

CHAIR - You have that large wharfage area there which has probably been unused for the last -

Mr ANNELLS - We do not use the wharfage area. We have our own yard in behind the wharf, so it is south of it, but slightly inland.

CHAIR - You have previously told us that, when profitable, you thought that private enterprise should run it.

Mr ANNELLS - I do not think I said that, Mr Chairman.

CHAIR - It won't be too far off that.

Mr ANNELLS - The possibility was there that private enterprise could run it. Other people have said that it should be run by private enterprise. I am neutral on that.

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CHAIR - We will have the discussion a little later. It is not such an important point, but you did say that it would be available. The prospect of it being in a position where it was ready for private sale was something you might have -

Mr ANNELLS - What I was trying to indicate - and if I indicated anything else then perhaps I misspoke, but I would need to look at *Hansard* - was that I would not be surprised if the government of the day would prefer to see the above-rail run by a private enterprise. My position has never wavered - that with a very small freight task and still a very fragile infrastructure, there are great advantages in the railway being vertically integrated. That is my position.

Is it possible that private enterprise could take over the above-rail task? If everything was up and running and we had Venture, ABX and Shree and we had all the growth that we have, then the answer to that would be, yes, you could. Unfortunately Tasmania has a pretty sorry history in passing this infrastructure, even just the above-rail infrastructure, to private enterprise, because as things get tight you do get in Tasmania, as everywhere I guess, economic downturns that lead to significant pressure on your bottom line. The danger in that is that the then owner or operator cuts corners in relation to maintenance of rolling stock or whatever it might be.

There are plenty of places in the world where the above rail is run very successfully by private enterprise. There is no doubt about that, but from where we sit in our experience the benefits that flow from vertical integration, and the ability therefore to manage both sides of what is an integrated business - that is the below-rail infrastructure, its standard - and the restrictions that need to apply from time to time in order for you to manage that efficiently and effectively, and to dovetail that with your above-rail operation, leads to a much smoother and much more cost-effective means of running a railroad in a small place like Tasmania.

CHAIR - The Australian Rail Track Corporation model is not applicable to this state?

Mr ANNELLS - No. The Australian Rail Track model is not applicable because they manage a vastly larger network. They receive a huge amount of money from the Commonwealth government to upgrade it. There was already a mixture of freight and passenger rail services on that service. Therefore it was an academic issue. There was no chance of them taking over the above rail. They actually put in place, to bring under one umbrella, the maintenance and upgrade of just simply the below rail.

I am not saying it cannot be done. I am saying, however, that in a small place like Tasmania, with a tiny freight task compared to the freight carried over the ARTC network, the benefits of vertical integration are very considerable. We had on our board initially the gentleman who still, to the best of my knowledge, became appointed after he got on our board, so he had to resign - the chief executive of the ARTC. He knows our system very well. Of course he knows the ARTC system very well. If you had a view and you wanted to pursue that, I would suggest you have a talk to him because he would understand both systems extremely well.

CHAIR - You do it in terms of the tiny freight task. Of course there is plenty of moves afoot to make Tasmanian rail more than the freight task. I guess it is expanding. I think we have the typography issues of below rail. You would have to say, in fairness, that kilometre by kilometre we have more curves, grades and bridges and passengers than you would have on big flat country, which of course goes to the question of how suitable is Tasmanian typography to rail, except on the coastal regions in the north-west?

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Mr ANNELLS - The answer to that is that in parts of the network it is not very suitable. The way to deal with that is to ensure you have a train plan that reflects the realities of the track that you have and the infrastructure you have. Then you need the right equipment that can best cope with this difficult topography. We should not forget that, whilst our topography may be more difficult than many other places in Australia, it is certainly no more difficult than many other places in the world - Canada, Norway, Sweden. You can go to any amount of places where -

CHAIR - Chile, which has actually decommissioned its long-haul rails but -

Mr ANNELLS - They may well have. I do not know anything about Chile, so you have me there. There are plenty of places where there are very difficult areas to conduct rail operations, and there are plenty of places where they have not decommissioned it because, at the end of the day, the alternatives are considered by the powers that be as not worth the risks.

Mr WHITE - Not just the equipment but the marketing plan. We deliberately do not chase highly time-sensitive perishable freight. We know our place in the marketplace and there is still a lot of less time-sensitive freight, both in the bulk market and the container market, that we believe could go on rail.

Mr ANNELLS - Reading some of the evidence that has been given to you, there is some danger of painting a picture, particularly of the southern part of our rail network, as in some way presenting an insoluble problem. That is not true. It is difficult. Would I like to have a nice, relatively straight line that goes up out through Brighton and up alongside the main highway? Yes, I would. But was anybody going to give us a couple of billion dollars, or whatever the number is, to do that? No, they were not. Could we make do with what we have? We believe we can.

CHAIR - You previously mentioned that \$1 billion was thrown around, but you thought it might be more than that. I think you also previously indicated that this is about a 25-year plan, and that beyond that this issue will have to be rethought. Am I misrepresenting you?

Mr ANNELLS - No. I think government at some point, depending on the growth in volumes, would clearly have to look at whether an alternative alignment in the south was worth doing. There would be a business case run on that. In another 25 years there will be quantum leaps, however, in wagon technology, in locomotive technology, which will take it way beyond even where we have got to. There may well be much cheaper solutions. I am aware of some where we looked at taking some of the tight curves out of the current alignment. It is expensive, but a lot less expensive than driving a brand new route up alongside the highway. Yes, I would think that in the future, before you started to spend significant amounts of money on the existing alignment again, because at some point you will have to, you would look at the alternatives.

CHAIR - You have talked about the grading, curving, sleeper work and things like that on the track. Going particularly through Colebrook, there are also some suggestions there is subsidence in the ground and it is not the best place to put it, and that some of your track issues are arising from natural topography and the lack of a really solid base to put your heavy trains on.

Mr ANNELLS - That is an issue we have across the state. There are many places in the state where there are significant drainage issues. One of the biggest expenditures we have had since we started is improving drainage all over the state. The Fingal line, for example, has a large issue

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with drainage, but there are plenty of other places. There is one particular area I am aware of on the southern end of the main line where clearly there is a significant potential issue. That has been under active management ever since the railroad operated there. It still is and we inspect almost daily. It has not moved; there has not been a problem since we started six or seven years ago, but that does not mean to say we are not very mindful of it. Yes, there is a particular area. I am not aware that the southern line is geotechnically kilometre for kilometre any worse than a couple of lines we have.

Mr WHITE - Melba is problematic. Most of the railway was built - the formation is the key part of the structure - 145 years ago.

CHAIR - We are aware of that but if you have these problems they have to be factored in. If you have insoluble problems over the longer period, that might be another issue.

Mr ANNELLS - I am not aware of any insoluble problems.

Mr WHITE - For instance, we are currently trialling injecting resin into the formation as a solution to stabilise formation. There are a lot of good technologies we are trying at the moment.

CHAIR - If you are in an area with alluvial soil over reactive clay, then you have a washing problem. It gets wet, expands, contracts, the water moves, the sand washes - all those sorts of issues. You are working on those things and you do have those problems; that is what I was trying to get at.

Mr ANNELLS - I do not know that it is any worse on the southern line than anywhere else. As Damien said, there is new technology coming along all the time that we are trialling to address those issues. Who is to say there are not those same issues on the alternative route running parallel to the highway? We do not know; no-one has done the work.

Mrs HISCUTT - I am interested in your resin injections. Is that very expensive because resin generally is reasonably cheap, but your machinery to do it and to keep it there - is it expensive?

Mr WHITE - I have to admit when I first saw it I had visions of No More Gaps or something like that. It is obviously far more substantial than that. I guess that is some advantage of operating a small railway; we are doing stuff like that. We have some innovative ways in that we are relining culverts instead of replacing them, things larger railways have problems getting their heads around. We are looking at some onboard technology for doing real-time track geometry measuring literally every day. Originally it was once every 12 months. It is now three months; we will get to the point where we can do it every day.

We are doing some things with UTAS to predict rail breaks. There is new technology all the time. For a smaller railway like ours it is much easier to adapt that than some of the larger organisations; that is my view. In terms of the cost, I can get you some details on the resin.

Mrs HISCUTT - I imagined a fat injection, pushing resin underground and then it sets. I know that resin is reasonably cheap but not your machinery to do it.

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Mr ANNELLS - I do not think we have a specific machine to do it at this point. It is very much in a trialling mode, but it is indicative that these problems are not insoluble. They are difficult but there are new technologies coming all the time that help us out in this regard.

CHAIR - I take it that it is drilling into where you think the problem areas are and then forcing the resin in under pressure.

Mr WHITE - That is right and we know where all those problem areas are because there are two or three parts. There is fixing the drainage - the most fundamental thing to give yourself half a chance of having good formation. Then replacing track and sleepers because they are all very old. Once you are at that point of doing a lot of tamping, we find that is the most cost-effective way to keep our geometry right. But of course if that underlying formation is fouled with moisture, that only has limited effect.

Ms FORREST - Is it a possibility for some of the now unused lines to be tourist lines rather than having to replace them? As you are probably aware, there has been a lot of evidence provided to the committee about the desire for tourist and heritage rail in the state. Many of the concerns are around the quality of the infrastructure that is there at the moment. Is this a potential solution? The cost is interesting, but is that a potential way for the government to have a more open-minded look at that?

Mr WHITE - I suspect the sleeper and rail replacement issues still remain. If there is the ability to leverage off our expertise on the main line, if you like, then you would expect that is an advantage.

CHAIR - I notice from your annual report, the financial statements to 30 June 2015, on page 46 it talks about revenue from freight services. I have had a look at previous reports. In 2013 you had \$31.7 million; in 2014, \$34.4 million; but in 2015 you are back to \$31.7 million. What is the reason for that decline in profits when we are talking about a growth in a freight task, yet the revenue is falling?

Mr ANNELLS - Let us talk about revenue, not profit, because profit will of course take into account reduced expenditure. The reduced revenue is really the direct result of this downturn that we have seen now for the last year. It is carrying through this year as well in relation to, particularly, our bulk freight task. We have had some customers actually cease operations, so I am not now talking about projections; I am talking about actual. We have had a significant reduction in our freight task on the western line. I think that is the main reason for that reduction.

Ms FORREST - On that point with CMT, were you factoring in that they would recommence sooner than they have? They were a significant customer.

Mr WHITE - We are not at this stage factoring them into our projections, but year on year reduction -

CHAIR - We are talking about actual receipts here, not budget projections.

Mr ANNELLS - Actual receipts. As I said, CMT, Shree and the -

Mr WHITE - I think the other major one in that year was Norske, when they were retooling for the coated paper. It was at least three months of half production.

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CHAIR - Basically it was less tonnage?

Mr ANNELLS - Yes.

CHAIR - You are expecting that to recover?

Mr ANNELLS - Yes. It will come back. Have you got off the top of your head, Steve, what you think our end of year revenue will be? We might come back to that, Mr Chairman.

CHAIR - When you get to page 49 there is a cash flow from operating activities. You have got receipts from customers - \$37.4 million in 2013, up to \$40.9 million in 2014, and it has dropped back to below the 2013 level in \$35 million. What are those receipts? That includes some of the freight tasks?

Mr DIETRICH - Yes.

CHAIR - What other receipts would there be from customers which would explain the difference in those numbers?

Mr DIETRICH - That also includes GST. The movement in those receipts is a function of the changes in the revenue. However, they also incorporate timing issues - where a customer may or may not pay at the end of the year. It also incorporates GST.

Ms FORREST - I notice on page 71, with the ageing of trade receivables, the Chair made comments earlier about it being a tough time for a lot of the customers, as well as losing some customers. Is that pushing out even further? I imagine that these customers are facing challenging times.

Mr DIETRICH - It is a little bit tighter, yes. Some of our customers tend to have a policy where they may defer payment at 30 June particularly, because of balance sheet and year-end considerations. For example, most of them are trading around the 40-day arrangement.

Ms FORREST - Because from 2014-15 there was a significant jump in the length of time.

Mr DIETRICH - Yes. We had a couple of customers that did not pay on 30 June at that point in time in terms of balance date. The rest of the year is pretty much in line per expectations.

Mrs HISCUTT - Are you charging interest for an overdue, or do you get it, more to the point, if you charge it?

Mr DIETRICH - If we do not pay our accounts on time, under government policy we have to pay it.

Mr WHITE - Chair, there was one other significant change over those periods. We had a carbon surcharge. There was a carbon tax in place that we passed on to our customers, and a fuel surcharge and changes in that as well.

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CHAIR - We are talking about \$3 million, or just under 10 per cent, up, down, and then \$5 million back down again. They are quite significant fluctuations in receipts. Is there a particular customer who has been tardy and owes you \$5 million?

Mr WHITE - It is less about tardiness. It is certainly those changes. A predominant one would be CMT, and Norske Skog changes in their production, and I suspect those changes in the fuel surcharge and carbon surcharge over that period.

Ms FORREST - Back to page 71 where there is no allowance for impairment with respect to the trade receipt. Was that still the case even though they are pushing out further? You are not writing any off?

Mr DIETRICH - No. We have not had one customer default.

Mrs HISCUTT - A question on insurance. You were saying that the bauxite mine and Venture was a lost revenue. Do you ensure against loss of income, because you are geared up for those sales? Do you do anything like that?

Mr DIETRICH - No.

Mrs HISCUTT - So there is no claim back?

Mr DIETRICH - If we lose revenue or business due to an incident, we have insurance from that aspect but not for economic activity or a downturn.

Mr ANNELLS - I doubt whether it is actually available, though I may be wrong on that.

Mrs HISCUTT - It may not be.

CHAIR - May I switch you now to the fuel expense; you may have already alerted it as an issue. In 2013 there was \$6.2 million. In 2014 it was \$6.5 million, so there is an increase. In 2015, \$3.8 million. That is a massive drop in fuel. That is a 40 per cent reduction in fuel.

Mr ANNELLS - It is our new locomotives. We have 17 of them. We now run two locomotives, a set of four, on the southern line, and in other places one instead of two. They are much more fuel-efficient. That is a cost, but it has an impact on some of these other numbers because we have the ability to pass on fuel costs to our customers. If we are paying less ourselves, then we are passing on less, and that comes up as less in our income.

Mr WHITE - The price is less.

Mr ANNELLS - Yes, being very optimistic, the fuel number will probably remain reasonably static even though the freight task goes up because we are putting a lot of effort into improving driving performance, et cetera, aimed at reducing fuel usage. These are new trains, completely different to drive, and our drivers have a different fuel consumption profile and we are trying to align with the best of our drivers.

CHAIR - Forty per cent is an incredibly great reduction, even with more efficient trains. Whilst you were talking about how efficient the trains were I am wondering if you have had any

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contact from the Volkswagen engineers to see how they can actually produce the reality of those numbers rather than just the reports of those numbers.

Ms FORREST - What about emissions?

CHAIR - No, what I am talking about it is not about emissions but the results of the performance of those engines.

Ms FORREST - You talked earlier, Bob, about the cost cutting you have done. Is that one of the key aspects of the cost cutting or were there other areas of cost cutting?

Mr ANNELLS - No there are other areas. Clearly that has helped us considerably in maintaining our loss to 1.5. Improvement in our fuel performance has helped us to do that considerably. There have been a whole range of other cost cutting exercises including rationalising staff in our infrastructure and rolling stock maintenance operations. We are now better aligned in the scale of our workforce to the task at hand with these new pieces of kit. Generally the business has been on a belt tightening exercise since 2014 in particular.

Ms FORREST - How have your FTE's changed over that time?

Mr WHITE - Current 230-ish and at its peak it was up close to 300 at one point.

Mr DIETRICH - Including some contractors probably at that point and we are budgeting next year 226.

Ms FORREST - If freight tasking increases, say Venture started up and bauxite mine got going again and there other customers came on line, would you still be able to provide the service you have with roughly 230 FTEs, or would you require more?

Mr WHITE - If there is a change, this is the beauty about high fixed cost business, once you have a base load like we have the rest is at quite incremental cost. With our containers in particular, it is almost only fuel cost to drive the extra volume. We have to pick up something like Venture and remobilise bauxite, it would be incremental labour costs and the fuel.

Ms FORREST - Not significant increases? Not to back to where you were before, for example?

Mr WHITE - As part of the work moving forward, it is all about optimising our existing resources, being more productive with labour and our assets.

Ms FORREST - What are you doing to get the drivers of the trains to the level of proficiency that some seem to achieve.

Mr ANNELLS - It is a training and education thing. We are identifying those drivers that we think are most efficient in fuel terms and we can monitor that now much better than we used to be able to. It is an education exercise and we will try a reward system; we will try a whole range of things but ultimately it is about being able to monitor it and then work on the training aspect. We think we can make quite a difference through those mechanisms.

We are much more inclined in this area to do a carrot and stick approach. There is no point in us trying to beat people into better driving techniques. Each driver has to make his or her own

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judgment about what is safe and how they feel confident in driving the train, so we are not trying to influence that. That is an individual decision. If we can help them to understand how different braking or acceleration techniques have an impact on fuel usage then that will help everybody. All our drivers have shown a great interest in actually making the business more economical.

Mrs HISCUTT - You talk about his and her drivers. How many hers do you have?

Mr WHITE - Only one at the moment.

CHAIR - They do not know. They do not differentiate. They have proved how gender equity they are, they do not know.

Mr FARRELL - Is she currently driving?

Mr WHITE - Yes.

Mr FARRELL - With the reduced fuel, how much of that would be due to the fact now that it is actually a shorter distance? You are probably saving a round trip of probably 50 kilometres in and out of Hobart each day. Do you have figures for the new locos worked out on a cost per kilometre per tonne, just to work out a fair comparison on what the locomotives actually save as compared to the older ones?

Mr WHITE - We measure our consumption rate. It is measured in litres per 1000 gross tonne kilometres, if I could use a technical term. It takes into account that there is less distance as well. Historically we used to run at about 7.5 litres per 1000 gross tonne kilometres, and we are now close to five. It is better than a 30 per cent improvement. That is primarily in the first instance just the new loco technology. As the chairman said, the next stage is about driver behaviour. The next step change after that is a wider deployment of the new locos right across the network.

Mr FARRELL - Currently what is the deployment across the network?

Mr WHITE - Currently the major part of the work on the Melba line is welding up all the mechanical rail joints. Once that is done, then we can deploy them down that part of the network.

CHAIR - With some of your losses in the other continuing operations, you seem to have reduced the losses in admin expense from 3.6 down to 3.2. How has that occurred?

Mr DIETRICH - Pretty much a function of changes in staffing numbers, moving to new insurance premiums as we see improved insurance terms as we are mitigating risk and improving the railway system, and negotiating better outcomes for rental and generally different admin type expenses.

CHAIR - Depreciation amortisation has gone from \$6 million to \$12 million. These are the accounting measures?

Mr DIETRICH - In line with the Tasmanian Audit Office and a review of the life of the existing fleet that is now parked up and being replaced by the new fleet, we escalated some areas of depreciation for some of the assets. That also corresponds with the asset revaluation where we re-valued the assets at the same point in time.

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CHAIR - Your impairment expense from 41 to 15.

Mr DIETRICH - In 2014 that was pretty much seeing the completion of the original capital infrastructure program noted as MB1 and some flow-on of MB1 into 2015, and the finalisation of MB1 2015. We have seen a little bit of that go into 2016, but we have now got the IIP program, which will start from sort of this year and ramp up significantly in the next two to three years.

CHAIR - Some of these expenses of course have not got the above or below rail split, have they?

Mr DIETRICH - No, they are combined.

CHAIR - That is operating expenses there. Your statement that, 'To understand the business, we have got to understand that it is two components, above rail and below rail.' I am just wondering why we are not getting this - maybe it exists, but it is not being reported in your annual report in such a distinct dichotomy that your own suggestions about the nature of the business would suggest it should be.

Mr DIETRICH - If I could just maybe point you, Chair, to page 69, just a very high-level segment summary of the operating segments of the business which break up in its appreciation. The new accounting standards and some changes in the reporting format that we did not adopt this year in line with other business units, but we will be adopting next year, which will make some of these areas a lot clearer. We are working with the Tasmanian Audit Office.

CHAIR - You have said consistently that you are basically running two businesses here, an above and below-rail line. Right?

Mr ANNELLS - There are three businesses. That is the problem. There is a below rail, an above rail, and then the middle, which is running the business. How much of Damien's very considerable salary do we actually apply against the two? How much of my meagre chairman's fee do we put against the two? That is what makes it difficult. There are some things that are bleedingly obvious - money you spend on maintenance of rolling stock is clearly above rail. But then how much of our head office costs get allocated across the two? There are various formulas by which you can do it, but they are so imprecise that they do not meet accounting rules. That is why they are not in the annual report.

Ms FORREST - Not only that, wouldn't priorities change in time. I know you have all worked more under the above rail component at times than there is below, and vice versa.

Mr ANNELLS - We are getting closer to a steady state than we have ever been in the sense of being able to make judgment, but we would not put them in our annual report other than we might put them in the non-financial sections, perhaps. If that is something the people would like to see, we could have a crack at it. We have done some of it in the back - but that is at a quite high level.

CHAIR - I do not think anyone is particularly keen on seeing it. As you say, it's their businesses, each with its own chair, board and CEO. We might have learned our lessons from the energy entities from that regard.

PUBLIC

If you have such a clear demarcation of business, wouldn't it be possible to say that that third business, the running of the actual freight business compared to the above and below rail infrastructures, are really things that in the future it could go the Austrack model and that you do have to separate things out.

Mr ANNELLS - Could well be, but there are more options than those. You could, for example, have both the below rail and above rail infrastructure businesses being run by a party and have the actual business - that is, the winning of freight and the transport of that freight in a theoretical sense as different from a practical sense, of putting it on our system. You could have somebody come along and lease - either wet or dry lease - our rolling stock, for example. There are many options that government could pursue if it wanted to.

My position and my board's position, and to the best of my knowledge the Government's position, but I can only speak from my board's, has been that whilst we want to and we are required to be able to demonstrate, or if you like the performance of these two businesses, and we do that for our shareholders. The reality is that at this point of time they want us to run them as one to get the advantages that flow from that as best we can, and that is what we are doing.

CHAIR - Any other questions relating to the continuing operations?

Your 2014 mid-year statement says your profitability is through particularly good freight volumes. That was more than 12 months ago across the bulk commodity services. I take it there has been some change in that, but if you don't assess profitability on a line by line basis, how do you come to the conclusions that what is driving your profitability?

Mr ANNELLS - It is actually done by client, it is not done line by line, because we carry many of our clients' material across more than one line. If you are taking coal from Fingal to Devonport, then you are across a minimum of two lines and you may even touch very briefly on a third. Doing it line by line does not make any sense; we do not do it that way. We do, however, assess the profitability per client and we understand very well what each client's financial position is, vis-a-vis, our cost base. We do not publish that but we understand it on a client basis very well, but we do not do it by line.

CHAIR - Is it true that bulk commodities would be more profitable to you than other containerised intermodal-type things?

Mr ANNELLS - Yes.

CHAIR - Is that due to the single loading and unloading at point of source and origin and destinations which do not have the intermodal issue?

Mr ANNELLS - It is a combination of historical price, our starting position. In some cases, it is better than when we took over the business. The vast majority of these people were existing clients. We took over the existing business and we took over all of the existing contracts and arrangements, et cetera. That put us in a very difficult position. We have been working very hard to get our own negotiations and contracts with every one of these people. I think we now have almost all of them under contract. Many of them, when we took over, did not have a contract, they had an agreed set of rates which they were being charged but they did not have a contract.

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We have managed to solve that problem. Railways, historically, have done much better when they are carrying large weights over long distances. That is what you do if you had your druthers. We are a bit of an unusual case, although New Zealand is not so different, whereby we are in the intermodal business as well. That probably started because there is some very heavy intermodal freight coming out of Hobart - zinc, paper. Logically it proved for our predecessors to be a sensible thing to do and a business opportunity.

CHAIR - Is the paper intermodal? I will interrupt your train of thought there.

Mr ANNELLS - In a form, yes. They are put in containers and put on a separate train. They are put in at Boyer. We do not take them through Brighton. They do not come through the Brighton terminal. They go straight through to Burnie.

CHAIR - So how is it intermodal?

Mr ANNELLS - We class it as intermodal freight.

CHAIR - It is loaded by the customer at the point of origin, and it is unloaded at the point of destination.

Mr WHITE - It is intermodal in the true sense over its whole transit. It is termed as intermodal. It could be on road as well.

CHAIR - Technically it is intermodal in the sense a forklift picks it up and puts it in the container, I suppose. The intermodal stuff, and I will probably get to this a bit later on when we start talking about specific customers, it is that Nyrstar model, is it not, where they are putting it on a truck to take it out to Brighton to transfer it to a train to take it to port?

Mr ANNELLS - Whether you call it intermodal or call it something else, I agree with you, technically it is not intermodal. The freight task that was represented by paper led our predecessors to run services for containers. If you are doing containers for paper and zinc, it is not a big stretch to say, 'We are in the container transport business and that is what we are going to do.' Then when Toll started to pick up its demand for container transport, our predecessors got into that business and we have followed that with Toll and others.

CHAIR - Do you know what the cost is of running a train from Brighton to Burnie?

Mr ANNELLS - Yes, we do. The evidence that has been led to you that somehow we did not or do not, is not correct.

CHAIR - That is the cost of running a train, but the price that you charge your customers - some of your customers tell us that their rail charges approximate the road charges, like when the line is down and they can't use it and they have - I just question you about time sensitive things because I do not think any of your customers - Boyer, for example, is very time sensitive in terms of getting its product to the market at the time the customers demand it.

Mr ANNELLS - Not on a 24-hour cycle.

Mr WHITE - It relies on high reliability, absolutely.

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CHAIR - Yes. We are also talking about time sensitivity like when the line goes down at Colebrook or something like that and they have to truck freight their material.

Mr WHITE - We normally offer that to them. I guess the distinction is Houston's lettuces that are on the last truck on the TT-Line and on the very first truck out the other side. That is truly time-sensitive.

CHAIR - We are told, when they do have to do it by road the price is comparable to what it is by rail. We also hear consistently that rail is so much more efficient, it has fewer people, two or three people driving a train rather than 50 truck drivers. So you have wages, fuel, the lack of friction on the line - all those issues - yet you are not in a position to really undercut road, which I think you should be.

Mr ANNELLS - I think you have to look at it slightly differently. You have to look at it from the point of view of the competition in the road freight industry. It is much more likely that the price of the road freight is approximating our price over time. We don't gouge. We don't try to artificially move freight from road to rail based on price. Price is obviously a component of it, but we are trying to get there through reliability and through the social and community benefits that many people see flow from transporting on rail.

When we can't run for some reason, which I am pleased to say is much less frequently than it used to be, they go into the market and the competition for that work from the road industry is extreme.

CHAIR - But in this scenario, that has to mean that there is a massive surplus in the road industry that is available for emergency one-off situations like this.

Mr ANNELLS - I can't say there is a massive surplus but there is certainly a surplus.

CHAIR - There has to be a reasonable surplus for them to come in and bid at such low costs.

Mr ANNELLS - Yes, it happens all the time.

CHAIR - It gets back to the question - and I don't think you've actually said it but a few people who are in the know talk about it - about rail as being three times more efficient to move a tonne.

Mr ANNELLS - At least. The issue here, and perhaps the elephant in the room, is road pricing - under-recovery of road pricing by the freight industry.

CHAIR - So we have all these major companies running at massive losses, moving road freight.

Mr ANNELLS - I can't say they are operating at massive losses, but I can say that there is very significant competition in the road freight industry, and as the forest industry has regrettably declined, there is any amount of spare kit lying around with people desperate for freight at just about any price. That will wash through over time but certainly in the years you are talking about, there has been a great deal of spare capacity.

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In our pricing mechanism, we have to take account of the actual cost to us of moving that freight. We also, however, take into account the broader network costs and the contribution to our fixed overheads. Finally, we have to take into account what is our competitive position. There is no point in us bidding for work if we are clearly so much more expensive than road freight. All of these things are considered by the board. We are not interested in a long-term loss-making operation. We have never gone down that path but we are interested in volume in the sense that volume helps us spread our fixed overheads across a bigger base, and that is really important to us. It gives us flexibility to withstand the sorts of downturns that we are going through - last year and this year - and still come out reasonably okay.

Ms FORREST - I hear what you say about the competition in the road freight sector. If one of your customers has to seek that because of a derailment or some other problem, is there a penalty paid by TasRail to those customers?

Mr ANNELLS - In the case of a derailment, and I am speaking now about our current policy - it is certainly the policy we inherited - we would reimburse our customer for any additional costs that they incurred.

Ms FORREST - How much did you pay them in the last 12 months, say, in those costs to customers?

Mr ANNELLS - Fortunately we have only had one derailment, and that was in the case of the paper train. I can't give you that number because it is commercial-in-confidence but it is a quite manageable number.

Ms FORREST - Obviously it is not happening often and it is not such an issue.

Mr ANNELLS - It is not such an issue.

Ms FORREST - In terms of the costs you meet for your customer, it would be their cost of road freight - damage to goods?

Mr ANNELLS - Yes.

Ms FORREST - Is there anything else covered in that?

Mr ANNELLS - Delays. Any reasonable cost that they can demonstrate, we will pay.

Ms FORREST - Okay. So if they were delayed with a shipment -

Mr ANNELLS - And they suffered some actual loss. We have insurance for some of these categories but for the rest of it we don't argue. If we are presented with the evidence, we pay. We believe that it is part of providing a reliable and decent service. The views of the previous owners that you would get nothing, it is just tough luck, we don't believe that is sustainable.

Mr WHITE - We now have the confidence to be able to say that.

Ms FORREST - Since TasRail started and you took over the operations, do you have an annual figure? I assume there has been more than one derailment in most years.

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Mr ANNELLS - It is probably something less than \$1.5 million in the last three years.

Ms FORREST - In total over three years?

Mr ANNELLS - In total. That is what we have reimbursed to customers for loss -

Mr DIETRICH - For product or equipment damage.

Mr ANNELLS - Yes.

Ms FORREST - And the cost of freighting it by road? It includes all of that.

Mr ANNELLS - Any additional cost that they have incurred.

Ms FORREST - What percentage of that would you recover through insurance, roughly?

Mr DIETRICH - We would probably prefer not to disclose that.

Ms FORREST - I am only asking for a percentage, I'm not asking for a number.

Mr DIETRICH - They vary by claim because they are deductible, but it would be 20 per cent of the total claim. If it were a reasonably sized deductible and then whatever is over that, and we just renegotiate that.

Mr WHITE - The actual transfer of freight to road during those circumstances happens but it is not like all our freight has gone to road. Part of it is a general level of confidence that we generally get our track up and running quite quickly. If there are some red hot consignments that need to be shifted, we have offered to move that on behalf of the customer at times, or they do it themselves.

Ms FORREST - Potentially one derailment could cause a number of claims though.

Mr ANNELLS - Yes.

Ms FORREST - There is more than one customer using the line.

Mr ANNELLS - The previous year we had a derailment at Colebrook. That was of a general freight train and that was when the chief executive famously said at a meeting that when he arrived on site he didn't know whether to laugh or cry. The reason was that we had stuff spread all over the paddock, which is why he would want to cry, but he wanted to laugh because a couple of years ago that train would have been carrying empty boxes. It was actually a sign of the success of what we are trying to do here that we had all this stuff -

Mr WHITE - And the diversity of freight. There was Avgas, plastic pellets, fish food, timber decking for a customer - all sorts of stuff.

Ms FORREST - What is the usual down time? I know it varies but would be your expectation of return to service?

Mr WHITE - Colebrook was our worst by far, and that was 48 hours.

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CHAIR - The first thing is we agree that rail in terms of operating costs, rolling stock, your engines, your staff costs is just more efficient than road. I think we have got -

Mr ANNELLS - Yes.

CHAIR - Yes. Thank you. *Hansard* has difficulty recording nodding heads. The next contention is that your pricing is based on the fact that road is competitive with rail, despite those efficiencies, due to the oversupply in the marketplace.

Mr ANNELLS - Competition.

CHAIR - That is competition within the road industry is so great that -

Mr WHITE - Sorry, I may not have made the point properly earlier, but it is the fundamental under-recovery of road pricing. This is the cost for road users to use the road. With the rail industry we pay for our own access, so we have a very insular transparent ability to analyse the whole costs. In the road industry that is simply not the case.

Ms FORREST - The CEO is proposing a user pays taxation regime at least a full cost recovery -

Mr WHITE - Infrastructure Australia is, and I think COAG is.

CHAIR - The fuel excise, which you do not pay, raised \$14 billion last year for the federal government, of which they only spent \$4 billion on roads. There is a major component that the road system is contributing towards their cost.

Mr WHITE - We have the same discount on fuel excise as the road industry.

CHAIR - The road industry enjoys a fuel excise discount, do they?

Mr ANNELLS - The road transport industry. Not ordinary drivers, but the freight industry.

CHAIR - Right. Leonie touched earlier on the question of insurances. This was in relation to passenger and tourism operations. I am wondering why it is possible for other organisations, like Australian Track Rail Authority, to be running passenger and tourism operations on their lines while you say the insurance is prohibitive. I am still not quite clear in my mind how insurance is such an obstacle to you, given the standard that you have got your track up to, and not to other people in both the national and international context.

Mr ANNELLS - You are right, Chair, we have discussed this on numerous occasions and I am not sure that my reply today is going to give you any more cause for celebration. Each of these examples has to be looked at on its individual merits. The reality is that with many of these tourist and heritage rail operations their insurance costs are underwritten by the government of the state or whatever. I cannot answer for the ARTC other than they are a massive organisation. They are already operating an insurance regime where they have a number of operators on their track. They may even self-insure for all I know. I am not aware.

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Our situation is that up until this point in time, we have been consistently told that if we allow passenger services on our operating line we would find it much more difficult and expensive to source insurance, which is already a very significant cost for us although it has come down a lot. The situation on the non-operating lines has been a little different, but there was sort of a general contamination argument on the insurance front. If you allowed it, even on your non-operating lines, yes, it would be easier because you do not have the conflict issues with train movements and stuff. You would still have a significant obligation and risk. A lot of the work that has been done in trying to facilitate tourist and heritage rail - and in this context I must say some of the *Hansard* reporting of this evidence to your committee is a little disappointing in the suggestion from some sources that we are playing dead on this issue. A lot of the work that we have been doing in more recent times is trying to untangle both the legal morass and the insurance issues surrounding the use of our non-operational lines for heritage and tourist rail. We have not got there yet but the pathway forward is starting to be more obvious. We have legal advice - which is not our legal advice so we are having it reviewed - that makes it very plain as to what will be required to move forward. That has simplified in one sense but also raised some issues which we need to work our way through. We are doing that with the very active encouragement of our minister.

The insurance questions will then be much clearer and the scale of the risk that our insurer would be required to insure us against, we will be able to quantify. At the moment the scale of that risk has been very nebulous. No-one has ever been able, from the insurance side, to tell us exactly what it is they are concerned about. We are now getting very close to being able to say, 'These are the actual risks if we undertook to make non-operational lines available, for example, on a sub-lease basis', and, 'What are the mitigation strategies?' That is going to be a piece of work that is needed for two reasons. We are going to need it in our negotiations with our insurers but the operators are going to need it because they are not going to get safety accreditation unless they can demonstrate that they have done that assessment and that they agree and have mitigation strategies in place.

Let us say, magically, all of this can fall into place from our side of the table. What does it do? It moves this issue squarely into the hands of the people who want to undertake these activities in terms of their relationship with the Safety Regulator. Can we help in that? Undoubtedly we can. We can give advice, look at helping out with mitigation strategies, do all that stuff. There may be a cost but I cannot image that cost as extensive.

Passing this then to a relationship between the prospective operator and the Safety Regulator is going to open up a whole new, very complex debate about what is the standard they have to meet and how do they meet it, et cetera? There may be some help at hand. I am deliberately couching this in maybes and hopefully, and all the rest of it, because I am not in a position to sit here and say, 'We're nearly there'. There are still some big issues but we are further along the path than we were when we sat here six months ago. There are a couple of options that may make it easier for prospective users of the non-operating lines to meet their safety accreditation by the possible involvement of third parties, and that third party is not us. There is one third party I am aware of that has expressed some interest in coming to Tasmania and possibly working with existing would-be operators. It does have a level of accreditation that would at least give them a head start for getting accreditation in Tasmania. Is that possible to do commercially? No idea. Is it possible that the would-be users from Tasmania are interested? No idea. But we will put those two parties in touch and go from there.

Ms FORREST - There seems to be quite a degree of interest in trying to progress it.

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Mr ANNELLS - There is.

Ms FORREST - Yes. So as far as your last comment about whether there is an interest between having a mainland rival operator that has some level of accreditation coming in and working with these parties, there would be a great appetite for that. Many of us would like to see it in terms of some of the coastal rail in the north-west and down the Derwent Valley. There potentially is a lot of benefit. I was driving down very early this morning and on talk back radio they were talking about coming from the centre of Hobart up to Mount Field and things like that. There is definitely ongoing interest. It is not something that is going to go away. In your view, is it really just putting these two parties together and getting them to work with the Safety Regulator? Is that what you are saying?

Mr ANNELLS - Yes. We have to clear the path in terms of their having the ability to have access to the track. We need to make very clear our requirements. Much of that is about mitigating any specific risks that remain even after we have passed the usage of the track across via some mechanism, let us say a sublease. Our advice is, notwithstanding that and notwithstanding that we can pass across the obligation that they have x amount of dollars insurance for this and that and the other thing, and they take responsibility for upgrading the track and all of that, we are still responsible for some elements, particularly around level crossings. That is what I am trying to get a handle on so I can go to my board and say, 'This is the risk we will still undertake and this is how we would mitigate it.' I am very hopeful we can find a solution to that and a couple of other issues. Then we are in a position to deal.

Ms FORREST - What sort of time frame are you looking at for that process?

Mr ANNELLS - Sooner rather than later because, to be perfectly frank, this is taking far too much of our time. We are a freight railway. That is our only job. That is our stakeholder expectation. Having said that, we have a great deal of stakeholder encouragement to solve this problem because you are right, there is a great deal of interest.

Ms FORREST - 'Sooner rather than later' sounds like a Government response.

Mr ANNELLS - They will not make a response until my board forms a view.

Ms FORREST - We are talking months, weeks?

Mr ANNELLS - Yes, months.

CHAIR - You just touched on what I think is the blocker, is it, that you are a freight business?

Mr ANNELLS - No. We have, under various bits of legislation, responsibility for all rail within the designated corridor.

CHAIR - Your business is freight?

Mr ANNELLS - Our business is freight and that is what my management team should be concentrating on.

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CHAIR - If we were to do a split in who manages the rail, the below rail stuff, if you were to do a split in that and say, 'Well, TasRail is a freight business and our concern is with freight lines, not all lines,' that would then leave another entity, a government department or something else, to be managing the non-freight rail lines. Is that a way forward?

Mr ANNELLS - I do not believe it is the way forward, but it is a way forward if people chose to do that. If the government of the day said, 'That is what we want to do,' you would have to change at least two acts, which is not impossible. You would have to create another body that has the ability to be designated as the rail infrastructure manager and the rail operation manager. You would have to create someone else with those.

CHAIR - That would then allow you to concentrate on what you considered to be your task.

Mr ANNELLS - You technically could do that, absolutely.

Mr FARRELL - My question is related to that. I understand that you really need to concentrate on being a freight operator and that these track issues can be a distraction to your core business. I want to refer to what the Chairman was talking about just now in greater depth. I understand that if there is an issue with a heritage train derailing, that directly comes back to TasRail as the responsible body. It would not only affect TasRail as the track manager but also insurance premiums for TasRail as a freight operator - is that correct?

Mr ANNELLS - Broadly, yes.

Mr FARRELL - Given TasRail's charter to carry freight, I can understand why TasRail would be very cautious about allowing other operators on the network. People currently outside Tasmania that are proposing to work with the local groups are looking at utilising main line sections as distinct from disused lines. I don't know whether that is factual or not.

Mr ANNELLS - I don't think that is what the initial approach to us suggested. I am not sure that they suggested they weren't interested in the main line but they certainly acknowledged that it was most likely they would get access to the non-operational line.

Mr FARRELL - With the non-operation lines at the moment, particularly the Hobart line and the Derwent Valley line, what are the costs to TasRail in looking after that physically, and also any insurance issues that may have come up from people trespassing and falling and cracking their head - that type of thing?

Mr ANNELLS - I don't have a precise number but it would be in the tens of thousands of dollars, not hundreds, because it is mainly about some limited vegetation management. We do some inspections but very few because they are non-operational lines. Having non-operational lines contained within our insurance premium is a minimal increase.

Having these lines for the government is more about the insurance policy that one day there could be a need to reopen one or more of these lines for a purpose. They don't want to lose if at all possible the actual rail corridor. Having it sit with us at the moment is not a big impost. Losing it doesn't suddenly free-up a huge amount of money for us. Our interest is in the issue of how do we facilitate this, because clearly there is a big community expectation and encouragement from our minister, within the existing framework without it adding cost and risk to us? That is basically what we are trying to do.

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Mr FARRELL - With the line beyond Burnie at the moment - there is a proposal there for a rail trail - and with the north-east line beyond Scottsdale that has recently been lifted, what happened to the infrastructure that was on the line between Scottsdale and Tonganah? Was that sold off by TasRail? What was the process for that?

Mr ANNELLS - Virtually without exception the actual rail in these non-operation lines, and these sleepers in particular, are either at or very close to the end of their economic life; even for infrequent use by heritage. A lot of this rail infrastructure simply has to be replaced one way or the other. That was certainly the case in the Tonganah situation. We sold it for scrap, though that market is very poor at the present time. I am not sure what else I can add.

Mr FARRELL - I was unclear about that because it was thought at the time that the proponents of the trail had access and sold the rail.

Mr ANNELLS - There was some suggestion that was going to happen. For whatever reason it didn't, I don't know why.

A witness - ... that we would use some of the funds to facilitate the development of that section.

Mr ANNELLS - That's right. The cost of identifying and solving all the land ownership issues in that particular area on that corridor, turned out to be much more than anybody expected. A lot of surveying work, a lot of legal work, because for some strange reason there were a lot of legacy issues where if it wasn't used for rail purposes, the land reverted to the original owners. So there has been a lot of need for survey work. We sold the track; we've put it back into survey and other costs.

Mr FARRELL - Is that section of line currently owned by TasRail?

Mr ANNELLS - It currently is.

Mr FARRELL - And the plan is to?

Mr ANNELLS - Pass it to the council, if my memory serves me correctly.

Mr FARRELL - And that would require legislation to change it back?

Mr ANNELLS - Like everything in this business, it is complex. There is consideration at the moment by government about how they make this available. I don't think a decision has been taken.

Mr FARRELL - There are different groups with different ideas for unutilised rail corridors at the moment. Does TasRail have any particular position on that? Are you, as an organisation, happy to have the rail left in situ or would you be happier to see disused lines turned into something else and responsibility handed back to the government?

Mr ANNELLS - If we had our druthers we would prefer any solution that was clean, that was unambiguous and didn't leave TasRail with an ongoing responsibility. But we are an arm of government and government has to make a decision. Does it wait, for example, to set up another

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body that can undertake these roles of infrastructure manager and operator? I think in a place like Tasmania you wouldn't do that. There are too many bodies saying things.

We have to be realistic and say if it is in the best interests of Tasmania to have usage of this resource by heritage and tourist rail - I think the answer is that it is - then we need to explore with the government every possible option for doing that whilst minimising the plethora of other organisations that get involved in rail. There are already a couple of other rail organisations and probably you don't want another one.

CHAIR - I have one question that I have had referred to me to ask. Apparently in March the southern points at Ross were removed. They were paid for and installed by the Don River and Derwent Valley railroads for rail tourism purposes, apparently with federal government money. There are track issues apparently in the area causing unnecessary wear to your equipment but the observations made is that it appears the whole switch has to go. Do you have any commentary on that? Is that a fair assessment of what has happened, and why?

Mr ANNELLS - Mr Chairman, it happens we may have been aware of that. We are not arguing about who paid for it originally but these points were acquired by the state government when it assumed responsibility for below rail assets in 2006-07 and included in the defined Tasmanian rail network as assigned to TasRail on its establishment in 2009. The points are therefore owned by TasRail. Under our legal obligations and responsibilities and our own rail safety accreditation, we must ensure infrastructure within the rail network is maintained to a safe, fit-for-purpose standard at all times.

These points have not been used for many years and they no longer comply with the standard. We therefore had two options. We could have maintained them to current standard or removed them. The estimate to upgrade them was somewhere between \$50 000 and \$75 000 per set. So we removed them. There were two sets of crossing points - one at Ross and one at Penguin. The Penguin points have been stored at Burnie and will be offered for donation to Tourist and Heritage Rail operators if there is interest. The Ross points remain beside the track at Ross and will similarly be offered for donation on an as-is, where-is basis. Should these points be required for use to support Tourist and Heritage Rail operations on the network, they will need to be upgraded to meet the applicable standard or new points purchased at an estimated cost of \$100 000 per set.

Ms FORREST - And the upgrade was \$75 000? That is your guess?

Mr ANNELLS - \$50 000 to \$75 000.

CHAIR - If they were to be reinstalled, of course, that would be your line?

Mr ANNELLS - They can't be reinstalled there. I have no idea who is wanting to use it at Ross. At Penguin I'm less certain. They may be able to be reinstalled at Penguin but they would have to come up to current standard otherwise TasRail's accreditation is in breach.

I don't want to sound a scaremonger on all this but the moment a new operator comes on the scene wanting to use our infrastructure and wanting accreditation, it will be a requirement that the standard moves to a much more modern standard than it may be at the present time. I am not saying brand new but there has been a shift in standards progressively and every time people seek

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accreditation, the first thing that happens is that you have to bring it up to close to the current standard.

CHAIR - I am accepting that and I'm not arguing with you. It's a proposition I put to you, and most of us understand that. I think it is also a fact that every time one of these things happens, people who want to use it for tourism, heritage or passenger service, see this as TasRail trying to build a wall to prevent that from happening. That is why I asked you to go through the issues. I am not saying that is correct. I am just saying it is a perception you get when you do these things. Maybe a better communication strategy with the people who originally got the funding to do these things, even though you have acquired them under legislation might be a better way of getting rid of the perception that you are trying to block them when your consistent message is, 'No, we're not, but we're trying to operate an efficient freight rail system'.

Mr ANNELLS - Better communication with the numerous organisations and people with an interest, I would agree with. It is a constant challenge for us. The staff member undertaking this, Jennifer, who is sitting behind me, has worked incredibly hard at communication with as many of these groups as we could identify. Could we do better? I am sure even she would say, 'Yes, indeed'.

CHAIR - The rolling stock you have to back your financials - on page 63 of your 2015 report - there are some interesting movements there, I think you will agree, in terms of the rolling stock and the way you are dealing with it. The write-down of refurbished rolling stock from 2014 was \$28.3 billion, which you describe at cost. It was \$1.8 million in 2015, which was at fair value. Does this mean your old refurbished stock is next to worthless and is basically being thrown out, even though you have refurbished it?

Mr ANNELLS - Some of it has been refurbished and some of that refurbished stock is being used on the west coast line at present. The rest of it is held in reserve in case we need it. All refurbishment of our old stock over the six years we have been in business was to ensure that it was fit for purpose until such time as our new kit came into being, and to ensure we had an overlap because you can never tell with new equipment. We played on the conservative side there.

The reality is that we are seeking buyers for our old stock on a going-concern, as-is, where-is basis. We have sold some locomotives. We thought we had sold a stack more but it didn't happen at the last minute, but we are in active negotiation with a number of parties in relation to our rolling stock. We want to quit as many of our old locomotives as possible, and we want to quit as many of our old wagons which are simply never going to be up to standards.

CHAIR - Just a point for my clarification: rolling stock includes both locomotives and carriages?

Mr ANNELLS - It does. We have had and we still have an active program for disposal of rolling stock.

CHAIR - Your 2014 financials have the at-cost value of the refurbished rolling stock at \$28.3 million but the accumulated depreciation at \$15 million. Yet, when you do your at-fair-value assessment, that should have produced a valuation of around, I would suggest, \$13 million, but instead it is \$1.8 million. Am I completely misreading valuations here? What has happened?

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Mr DIETRICH - No, that's correct.

CHAIR - The accumulated depreciation, which is completely way out of whack.

Mr DIETRICH - That is right. There were a lot of changes in the market with the sale of QR locos at the time, so the market was flooded with old equipment.

CHAIR - QR?

Mr DIETRICH - Queensland Rail and Aurizon.

CHAIR - Sorry, some of us aren't as familiar with the industry.

Mr DIETRICH - I beg your pardon on the acronyms. However, that has changed, hence why we are getting quite a few inquiries coming through at this point of time on the surplus fleet that is sitting parked up at this point.

CHAIR - Will there be a revaluation? Will the fair value change according to the market, is that what you are trying to say?

Mr DIETRICH - Potentially, but we are hoping to realise the sale and bring some cash through before we need to go through that process. It was quite a detailed process last year with valuers and all sorts of people reviewing our rolling stock - both the new and the old - but we have a fair indication of what the old equipment is worth and are looking to trying to materialise that into cash.

CHAIR - So your new rolling stock at fair value is \$88 million. That is pretty new, isn't it? Does that at-fair-value relate to the cost? Are those two concepts pretty close to each other in terms of your new rolling stock?

Mr DIETRICH - Yes, I would agree with that assumption.

CHAIR - And then we can expect a depreciation figure as years roll forward and they start to age?

Mr DIETRICH - That's it. The locomotives are depreciated over a 30-year period. The new wagons, across a range of a variety of wagons, are all depreciated on average over about 25 years.

CHAIR - Do you make provision for that depreciation on the way through?

Mr DIETRICH - Yes.

CHAIR - So there is cash on hand -

Mr DIETRICH - For accumulating depreciation - in the books.

CHAIR - The problem of acquiring these sorts of assets in one short time period is that they all fall off the twig at the same time.

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Mr DIETRICH - Which is the scenario of how -

CHAIR - How you holding it? As cash reserves?

Mr DIETRICH - No, we are not, not at this point.

CHAIR - Just making allowance for it in your -

Mr DIETRICH - That is correct. The cost base of the business is \$50 million, for example. The revenue that comes in is \$35 million and \$15 million is funding from the Government. Above rail, for example, will cost more than the funding coming in for our recurrent funding, and we use the above-rail cash to offset that recurrent funding to continue with below rail.

CHAIR - Of course, if the above-rail assets were to be put into the hands of another operator then they would buy that and then they would pick up the accumulated depreciation as required.

Mr DIETRICH - Effectively the dividend is going back towards below rail from above rail.

CHAIR - One other little thing, the concrete sleepers. There is a massive program of replacing all your sleepers with concrete sleepers, no doubt at a huge cost, but where were they from? Where did you get them from?

Mr ANNELLS - From New Zealand, believe it or not. First, it was not possible to source them in Tasmania. I have been through this but I will go through it again with the shorthand version.

Concrete sleepers are a much more complex engineering piece of kit than people think. In my ignorance I assumed you could whack up some bits of four-by-two into a sort of a shape and you pour some concrete in and out it comes at the other end -

Ms FORREST - With a bit of reo, I reckon.

Mr ANNELLS - Probably a bit of reo. Thanks for your help once again.

CHAIR - She is here for technical support.

Mr ANNELLS - I appreciate it. In fact, to produce high-quality concrete sleepers is a very difficult engineering task because they need to be pre-stressed and this is something that you cannot do as a backyard operation or as a small operation. We were lucky enough to get hold of a New Zealand manufacturer who was very experienced in manufacturing the sort of concrete sleepers we were after and who was able to secure an extremely advantageous freight rate to get them from New Zealand to the north of the state.

CHAIR - They railed them over, did they?

Mr ANNELLS - No, we tried that but they came by ship and the ship happened to be doing a run from Noumea to, I think, Wellington and back, and so we just put a leg in Noumea - Wellington - Bell Bay and back to Noumea. We managed to secure these concrete sleepers at a price considerably cheaper than the best alternative Australian offer so we went with it. That

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program has finished. I think we got 100 000 sleepers by that mechanism. They were tested extensively. There was a very detailed testing regime required.

Ms FORREST - By us?

Mr ANNELLS - By us. I am pleased to say that we had very few issues at manufacture. Time will tell whether they are as good as we think they are but we are very happy with the concrete sleepers that were delivered and installed. We have ceased our concrete sleeper program. We think that we have covered the main areas where the cost-benefit of doing concrete sleepers versus the steel ones is positive. Would we like to do more? Yes, we would, but there is a considerable financial penalty in doing concrete over steel. The key with steel, however, for us is that there has been quite considerable improvement in the design of steel sleepers and we know a lot more now about how to install them. It is largely to do with the way they are tamped on installation. We are happy that our steel program from here on will be adequate for what we need to do with the loads we are trying to carry. That program is now complete.

Mr ARMSTRONG - What is the difference in cost between steel and concrete?

Mr WHITE - The unit cost, not much at all. The insertion cost is a bit higher but the formation -

Mr ARMSTRONG - A bit higher for steel or for concrete?

Mr WHITE - A bit higher for concrete. But there needs to be a lot of money spent on the formation.

Mr ARMSTRONG - For what?

Mr WHITE - For concrete. Steel is much more forgiving. As the Chairman said, if we had a bucket load of money we would concrete sleeper the whole network but we concentrated initially on our tightest curves. With concrete sleepers being much heavier, they allow us to control those tight curves when there are high temperatures, to avoid buckles.

Mr ARMSTRONG - A steel sleeper is not a solid sleeper, it is more of a RSJ-type sleeper.

Mr WHITE - Yes, formed.

Mr GAFFNEY - Are they the same distance apart when you lay them down - the steel and cement?

Mr WHITE - Yes.

Mr GAFFNEY - They are, so there is no difference -

Mr WHITE - ... numbers per kilometres.

Mr FARRELL - Is that something you will be pursuing as far as funding goes to have another concrete sleeper program.

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Mr ANNELLS - No, we haven't. The program we put to the Commonwealth and state governments involved the assumption of steel sleepers from here on.

Mr ARMSTRONG - So timber sleepers are no more?

Mr ANNELLS - No.

Mr WHITE - We have a very small handful of them approaching their life expiry.

Mr ANNELLS - I think Mr Armstrong was inquiring are we going to put new ones in, and the answer is no.

CHAIR - On the north/south line, getting back to your 2014 report, Hobart to Western Junction - track upgrade is one of your signature projects completed on line. Project cost \$20.3 million and the time frame was three years - May 2000 to June 2013. Refurbishment of prioritised sections - the network from Hobart to Western Junction, including resloping, re-railing, drainage, earthworks and level crossing upgrades. So this is your basic north/south line \$20 million project.

Mr ANNELLS - I don't have that in front of me but I am assuming yes.

CHAIR - I am reading from the report so I think you can take my word.

Project objectives - reduce transit times for intermodal services on the Brighton to Burnie intermodal services. What was the gain there in reduced travel time?

Mr ANNELLS - I can't answer for 2014. It is a program we have had going since we started in 2008-09. We have been working on the upgrade of that line, along with every other. There were specific allocations in the Commonwealth moneys that artificially suggested that somehow there was a package of \$20 million to be spent on the north/south line. Their definition of the north/south line isn't your definition or my definition.

CHAIR - Hobart to Western Junction track upgrade.

Mr ANNELLS - Okay, just part of it. We were trying to reduce the turn-around time for a return journey to less than 24 hours. That was what we were trying to get to. But more importantly, we were trying to provide certainty and reliability. The reduction in time is both trying to get under 24 hours in a returned service and also ensure that the reliability of the service was much higher.

CHAIR - The project objectives are reducing the transit time, which is the one I gave you. The other ones are improved drainage, increase operational safety, improve track safety and reduce the risk of derailment. We have said that this isn't time critical stuff, we have said that a few times, and I am wondering why that would be an objective - or the first objective.

Mr ANNELLS - The first objective - I will concentrate on that. We were trying to provide a service from the south to Burnie that enabled us to get a 24-hour turnaround of train to train from Hobart to Burnie, unload it and get it back to Brighton.

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In more recent times, we have determined our best and most efficient train plan does not require us to get under 24 hours but it does require us to be absolutely reliable. At present we are running somewhere between 98 and 100 per cent in availability for this service. It has gone from 82 per cent to 96.85 per cent in freight availability and this is for 2014-15. It means that percentage of freight was run within the timetable. It arrived when it was supposed to have arrived. The train left on time and it arrived on time. That is the key.

It is not necessarily about freight being time sensitive in the sense that we are not trying to get into the Avgas carrying business. If all our freight ends up going on a ship and there are interests in meeting a particular ship service. Some of our clients do not want to have their boxes sitting either in the Brighton Terminal or on the Burnie Wharf, they want it to go on a particular ship because there are flow-on arrangement that are made. Some of it is time sensitive in that sense, although the freight itself is not time sensitive. This is all getting a bit circular. The freight itself is not time sensitive because it is not a product that is going to degrade but it is time sensitive to our clients in the sense there are ships they want us to meet. Therefore, it may be that we have a three-hour window to get the box to Burnie and that is what they want. If we get it within that window it will get on the ship.

CHAIR - What I have detected, and it may be semantics although I do not think it is, is that when we are talking about the north/south line with its steep grades and its curves and you previously told us the one of the management strategy for that is to reduce the speed of the trains, going down hill and up hill so we do not have derailments.

I have noticed a shift in the language from reducing transit times, which was the objective stated here, to one which says the timely provision of cargo. We are not measuring how seconds of the clock have disappeared because, due to the nature of the north/south line, particularly on the rise to Rhyndaston, we have already said we have thrown away that transit time objective because we cannot improve our transit times because slowing down trains is contrary to transit times.

However, if you are saying the objective was to increase meeting the time objectives, when I saw that reduced transit times as the objective, that seems to be an objective for an upgrade which is probably contrary to all the other measures you are taking on that line.

Mr WHITE - It also reflects that on day one, when we started, transit times from Hobart to Burnie would be 14 hours, if and when it did get there. Some of those statements are probably more a reflection of, right, we have fixed that problem, reliability. Maybe not the transit time issue but we fixed reliability in those first couple of years. We now have a transit time that suits the market and the other very important thing about transit time is suiting our own asset utilisation. There is no need for us to go any faster than the customer wants or for us to spin our assets because that is how we get productivity out of our assets. Beyond that we are wasting money.

CHAIR - There is my observation - stating that as an objective to reduce the transit times flies in the face of your reliability objectives because of the nature of the line.

Mr ANNELLS - I suspect, Chair, and I cannot guarantee this, that project objective had been in place from when the money was first sought from the Commonwealth, way back when. I do not know that to be the case but I suspect it probably was and it has not changed. Your observation that the language has changed is spot on. We did spend a lot of time around the board

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table pressing management on this 24-hour turnaround because we thought it was absolutely crucial to gaining additional business from Toll in particular. Increasingly, however, as we did plan trains around that, we discovered that in itself was not right and that reliability and ensuring we met the customers' needs for meeting the ship, we did not need to press on for 24-hour turnaround. We are still close to it but we are not pushing towards it anymore because our customers do not need it.

CHAIR - On the note that you think I did get something right this morning, we will break for lunch.

Committee suspended.

CHAIR - The time being 2.05 p.m. I will declare the meeting open.

Before the luncheon break we were discussing issues relating to the north/south line I believe. What I call the north/south line is probably better known as the Brighton to Burnie line or the Brighton to Western Junction section. I think we all know what we mean going up through the Midlands. Are there any more issues that other members of the committee wanted to pursue on that?

I would like to go to the question of the Brighton Transport Hub or the intermodal hub as you refer to it. The committee is aware that there was no business case for the establishment and building of that hub but there was a parliamentary Public Works Committee inquiry into it. I do note from some of your annual reports there was a business case for TasRail taking on the role of facilities manager. I am just wondering what were the costs and benefits of that particular business case and did they pan out in reality? The question is simple. I am aware the answer might not be quite that simple.

Mr ANNELLS - I am just pondering how to respond in terms of the use of the words 'business case' which I am terrified you are going to point to some annual report where we have said that so I will not say we did not say it.

What we did was an analysis of the costs to us which we could do with a reasonable degree of certainty. The benefits were much more difficult to calculate. It was not a business case in the classic sense of the words but it certainly was an attempt by us to analyse the likely cost to us for assuming responsibility for Brighton. We did a comparison between those costs and the costs of us remaining at Evans Street. Our purpose was to try to say to government there are some additional costs here that we know we are going to incur and they related to maintenance, insurance and various other issues. What we were less certain about at the time was what the benefits would be in the sense of could we quantify what they were. I don't think anybody would pretend that we were not involved in the construction of Brighton [Transport Hub]. We weren't involved in the planning of Brighton. Those were decisions that had been well and truly made before we were established. With hindsight it is clear to me that whatever input came from the then operators of the rail system in Tasmania was grossly incorrect. In the end, what it was was there for all to see and our job, at the request of government, was to take it over and run it.

I can say that at the time we felt that there would be quite a considerable cost impost on us. Because there was no guarantee, at the time we were asked to take over the management of it, that Toll or SeaRoad or anybody else would actually locate there, we were extremely nervous about the likely impacts on our business. That was our main concern at the time. We had known costs

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but very uncertain benefits. Nevertheless, the board was asked to take on the management of this facility and we were the logical people to do it, with the possible exception of TasPorts, who could have done it, because it is only a port that just happens to be inland. But we took it on.

The second part of your question, Chair, as to whether our expectations have been met, on the cost side I would hazard a guess that it hasn't been as costly as we thought it might have been, and on the benefit side we didn't set the bar very high so it has clearly exceeded the benefits that we perceived at the time. Are we happy now? Yes, we are. It is a great facility. It absolutely matches the investments in terms of the overall usefulness of the Burnie upgrade. I have said to the staff more recently that I feel that finally we have a proper, working freight railroad now. because we have a railroad track infrastructure which is getting there. We have rolling stock which is absolutely fine and we have the third element that we have really good facilities in the way of terminals at Brighton, Burnie, George Town and at Devonport. It is fit for purpose. We have a railroad now and until all of those things were in place, we didn't, or we had less of a one. That is the potted history. I could go on and on, but I won't.

CHAIR - That's good, thank you. With the Brighton Hub, I accept the fact that you weren't part of the eventual decision to create the Brighton Hub, but surely an essential part of that decision would have been to also relocate Toll from its waterfront operations in Hobart?

Mr ANNELLS - It would be highly desirable but Toll had a range of options. Whoever was dealing with it at the time - there was some work done by DIER, I know because we inherited some of it in discussions with Toll - but the missing third ingredient in having a sensible conversation with Toll for DIER wasn't there. The train operator wasn't interested in getting involved in the discussion because they knew damn well they were getting out of Dodge. They couldn't progress matters at all and Toll made it plain that (a) they had a lease in Hobart, they had absolutely no reason to walk away from it unless they wanted to; and (b), they had another alternative, which was to go to Glenorchy, and there was a lot of discussion at the time when we came on the scene that they had alternatives lined up in Glenorchy. Sorry, I should say Toll of course had, in advance of the Brighton Hub, acquired a big chunk of land at Brighton to relocate their facility to, and part of the Brighton Hub was, I think, compulsorily acquired from Toll to achieve that end, which did not put Toll's management in a particularly sanguine mood when we came to talk about 'why don't you come and join with us?'. I am trying to paint a picture here and I have probably failed but this was a very difficult position.

CHAIR - We will get into the position with Toll in a minute. What I am particularly want to know is that you have not mentioned, I think I am correct in saying, the intention was to actually decommission the Hobart - Brighton leg of the rail network which would have put Toll in a totally untenable position.

Mr ANNELLS - No. The vast majority of the Toll freight coming out of Hobart was actually zinc and it was coming on a truck anyway. For Toll, if the truck didn't go from the zinc works to inner Hobart, it would have gone from the zinc works to inner Glenorchy or out to Brighton, whatever form Brighton took. From their point of view, they didn't care. They had an investment in the Hobart facility but they were not wedded to it at all.

CHAIR - By now the plans for the replacement Bridgewater Bridge were truly well advanced without a rail link.

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Mr ANNELLS - They are moving this stuff on a truck now. If the rail didn't continue to come into the city, then they could have taken it to Glenorchy, put it on a truck and stuck it out to Bridgewater, or taken it on a truck to Burnie. Toll made it very plain to all of us involved that these were options they were seriously considering.

CHAIR - The movement then of freight on the road was going to be a fait accompli irrespective of whether they continued with their operation at Hobart or not?

Mr ANNELLS - Yes. There has never been any discussion in my hearing of the possibility of reactivating the Risdon line, which is really the only way to stop it. My understanding is, and I stand to be corrected because I haven't seen it physically within the site of the zinc works but I have seen the rail line in the lead-up to the site, and it is completely beyond redemption, you would have to start again. My understanding is the rail line within the actual site of the zinc works has been built over, so the option of reinstating the Risdon line, which has been talked about by various people who have come before you, is a dream that was never going to happen.

CHAIR - Going to EZ for a moment while we are there, one of the issues with the benefits of rail over road - and I was going to come to this issue more clearly in the triple bottom line analysis that you have provided for us - the fact is Boyer works quite because it loads its stuff on site and then delivers it without interruption to the ship. I am wondering why that is not a model that would have worked so well for the EZ Company.

Mr ANNELLS - I am sure it would have if the rail actually went into their site, which it didn't.

CHAIR - It hasn't for some time.

Mr ANNELLS - It hasn't for a long, long time and the government of the day made the decision to move the activity going on in the wharf out to Brighton. We didn't second-guess that.

Mr WHITE - If I may, in the zinc works itself, my understanding is there is no room for warehousing, which is a significant activity that happens out at Brighton, at Toll's facility.

CHAIR - So the model there is it is trucked to Brighton, then it is offloaded, reloaded and then sent through to Burnie?

Mr ANNELLS - Sent through to Burnie where it is put on a ship and then picked up by truck at the other end and taken to one or more warehouses.

CHAIR - The facilities which we are now not calling a business case but I know you have cost-benefit assessments.

Mr ANNELLS - Thank you.

CHAIR - You have changed the words there, of course. Did that factor in any rent from the tenants?

Mr ANNELLS - No, not directly. The rent charged to the tenants and the terms and conditions around it were determined in negotiation between ourselves and Toll with the imprimatur of the Valuer-General.

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CHAIR - Are there any other tenants out there?

Mr ANNELLS - There are not.

CHAIR - So they are the sole tenant?

Mr ANNELLS - They are the sole tenant of roughly half. The plan we inherited was a large gravelled area between the paved hard stand and the new road sweeping around the back. It was always shown on all the maps we inherited as split into two. The assumption was half would be available to Toll and half would be available to SeaRoad. They were the two major players. SeaRoad did not and until recently had not transported intermodal freight with rail.

It did not mean they could not come to the Brighton hub. It is really important to understand. The Brighton hub was established not just as a road-rail interface but a road-road interface as well. Toll use it this way. They bring trucks in and they take trucks out. A lot of the Toll material comes in and is put straight onto our and it never goes near their warehouse. As Damien said, a big part of their contract with Electrolytic Zinc Works involves a degree of warehousing on site before it leaves Tasmania. They can and do do it at Brighton.

CHAIR - So there is some stockpiling.

Mr ANNELLS - Yes, some stockpiling.

CHAIR - You have pointed out to the Government scrutiny committee in the other place Toll has a 40-year lease at the Brighton hub with a long term privileged contract which mirrors the Brighton hub lease. They were in a very strong bargaining position. Very difficult negotiations with a very difficult party. Is this because the Brighton hub had been built before the foundation tenant was locked in? It was not your call.

What was the business resolve? Is this all hard negotiation with a very difficult customer, who, you have said, has all sorts of reasons why they would not want to move out of Hunter Street anyway or would not want to move out to Brighton.

Is there not an issue here? You were not involved in the negotiations about the intermodal hub for Brighton yet here you are having to perform difficult negotiations with a difficult party.

Mr ANNELLS - What can I say? That is what happens.

CHAIR - The result of this is there a peppercorn rental?

Mr ANNELLS - Oh no, absolutely not.

CHAIR - On the Brighton hub?

Mr ANNELLS - No. It is far from a peppercorn rental. There is a market rent on the Brighton hub, right from day one. It is subject to three yearly review to market and in between time it is CPI, I think. The number was endorsed by the Valuer-General. He was involved and very helpful as we went through this process. While I prefer not to give the number it was in the many hundreds of thousands. It was a market assessment at the time.

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The difficulty of these negotiations was principally around a couple of issues. One was that we were not prepared to offer freehold title, so a long-term lease was all they were ever going to get. They were not used to investing large amounts of capex, because the second requirement was, you have to put in a significant development on this, otherwise we are not going to lease it to you.

CHAIR - \$25 million is the figure.

Mr ANNELLS - That ended up roughly being the figure they spent. This was a very difficult negotiation because we were testing them on two fronts. One is, we were requiring them to do something significant. They said, hang on, this is our judgment, what we are going to do here, and we are saying no, it's not. If you want to come here, you have to do something really significant, otherwise we are going to wait and we won't lease this. We haven't leased the other half, we have kept it going and we will probably go for many years more until we get somebody that is really going to add real value to the site.

There were these two things. You have to do something significant, and you can only do it on leasehold. The initial reaction to that was, you have to be joking. We will never get through the board on either of those counts.

We negotiated, and negotiated, and like all negotiations we won some and lost others. We won the two principle issues which were, you have to do something significant, which we have to endorse and approve. Second, you have to do it on leasehold title and you're not getting it for nothing. You have to pay a rent that I can get endorsed by the Valuer General.

We are not used to being put in that position and engaged in a perfectly normal commercial negotiation. Towards the end of it, was the requirement that, if we are going to get this up, we are going to agree to these conditions, then we want to be guaranteed that we will have a train service to service this site. We are going to spend a lot of money making this both a road-road in the project but also road-rail, so we want a guaranteed back-to-back haulage contact.

That, at one level, suited us because it locks them into rail to a much greater extent than if we didn't have such a contract. I have asked on that record that you are reading from, would I have preferred to be shorter than 15+15+10 and yes, I would have. We started at 99 years. That was the negotiating position that got back to '50 and don't even think we are going below that', and it ended up at 40.

CHAIR - People can argue that 30 years was long enough, or 40, but that is what they wanted and they were in a strong arguing position.

Mr ANNELLS - They were.

CHAIR - What sweeteners were thrown in there? You have come up with all the reasons why they shouldn't move. You haven't reduced their rent. How have you done it?

Mr ANNELLS - In the end, the only sweetener we put on the table was a requirement that came up at the very last moment, and that was that the Government was to pay for the hard stand that they needed to develop on their side of the boundary to ensure there was a seamless translation from across their boundary onto our site.

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These hard stands require quite a bit of cash because they are very thick and they have to withstand very heavy axle loads. The number on that came to \$3 million and we were a non-negotiable requirement that we paid for it.

We negotiated that we would pay for half of it and we would lend them the other half. In the end, we have paid \$1.5 million and they did not require the rest. A hard stand, which has a life well beyond 40 years, is ours. When they vacate, we have that investment sitting there even if their buildings are worthless, the hard stand will still be there.

CHAIR - The other thing you mention was the back-to-back freight contract. You have already indicated you know what the cost is of running a train up to Burnie and back. Are the rates which you are charging Toll more than the cost of running the line?

Mr ANNELLS - Yes.

CHAIR - You are getting a commercial return?

Mr ANNELLS - Yes.

CHAIR - Or above rail cost?

Mr ANNELLS - Absolutely. I am not suggesting that this is going to make you rich but we cover our cost and progressively as we bring in the new equipment, as we now have, and we get the benefits of that new equipment - fuel is but one of them - those rates are delivering for us a better margin all the time because they are going up by - it is not just CPI, there is also a 40 per cent component that has to deal with a wage index - but on balance let's call it CPI.

CHAIR - So the freight contract is increasing?

Mr ANNELLS - The freight contract has a CPI built into it and then it has a best endeavours clause, and it was no more than the best endeavours, for them to grow the freight on the train. That was as good as we could get, and anything else would be a waste of time. They can guarantee all they like, if the freight is not there, the freight is not there.

CHAIR - We would all like to get a guaranteed future.

Mr ANNELLS - There was a best endeavours clause. On our side there was a provision that linked us getting - let's call it CPI - with us meeting various performance targets. We thought after the event that was a risk that was greater than we would have preferred. It was a requirement at the time but with some very good work done by Stephen, on my right, he has negotiated that out of the contract. Now it is the CPI basket that is driving the freight rate but the key to it is driving our cost down. On the other hand, they have a best endeavours clause to increase the freight.

CHAIR - If the freight doesn't grow, does that cost benefit analysis of the above rail operating cost - in that I include not just the wages and fuel but also depreciation, because we have seen quite substantial of the rolling stock. By the time you factor in that as those costs, is the CPI sufficient to keep your head above water? Those costs would be more than CPI, I imagine.

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Mr ANNELLS - It has been to date, well and truly. If there is a collapse in the freight market, Mr Chairman, we will suffer like everybody else.

CHAIR - I don't have a problem with that, I am talking about maintaining the current -

Mr ANNELLS - What gives me a great deal of comfort - and I might table this - this represents the growth in other container volumes. This isn't just from the south, it's across the state but primarily from the south. This is the growth of other container volumes since 2010, and the 2016 is an estimated, of where we will get to, knowing where we are today, which is only a month or so out.

CHAIR - The witness has sought leave to table a document, which I presume is granted. I am a bit concerned that tabling it in its present form is meaningless. It has no source, no data reference. It says 'other container volumes per year'.

Mr ANNELLS - It's tabled from TasRail. What more would you like me to say? It is a TasRail document prepared from our records and certified by me as chairman. I don't have to table it.

CHAIR - We will ask some questions about it because it will be a tabled document and therefore available to the public. We probably need some more clarification as we have already started to do. It would have been handy to have said the data sources and those sorts of things from the document that is tabled.

Mr ANNELLS - My apologies for that oversight. The point I was trying to make is that you ask if Toll does not meet these expectations, what happens? The answer is, well, partly we have growth of other container volumes that are significant, and that is why I have tabled this as a demonstration of that fact. To this point, Toll volumes have been reasonably steady. There have been some fluctuations, but there are some signs we are very pleased about, not least of which is that Toll are now loading freight in Melbourne coming southbound, nominating it to go on the train.

That is an absolute breakthrough for us, because their Melbourne office has never been inclined to do that, and therefore it was entirely a matter for their Burnie dispatcher. That was the breakthrough we needed for this to become much more effective and efficient for us in terms of planning our train volume. We are now starting to get some insight into the Toll volumes that we are going to need to construct a train for.

Ms FORREST - Can I just clarify, does this include the Toll or this is other than Toll? Right.

Mr ANNELLS - No. This is other than Toll.

Ms FORREST - Even if Toll fell over or did not increase, you would still - from these projections that you have provided, it would still be pretty right.

Mr ANNELLS - What I am saying is that one of the strategies for trying to protect ourselves against Toll reducing their volumes is that we are growing other volumes on the network. That is the whole point of it.

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CHAIR - For point of clarification and for *Hansard* and people, the 'other' in the title of this document refers to containers other than those moved by Toll.

Mr ANNELLS - Other than Toll shipments, yes.

CHAIR - The figure is for both northbound and southbound container volume?

Mr ANNELLS - Total movements, yes.

CHAIR - That includes of course the empties that are coming back.

Mr ANNELLS - Absolutely.

CHAIR - They are included as a - it is not directly a freight task, is it?

Mr ANNELLS - No, it is not. It is absolutely a freight task. All of these companies, if they want to, they have to get containers from somewhere.

CHAIR - They have to pay to bring them back.

Mr ANNELLS - Absolutely. They have got to get them back on a truck or bring them back with us.

Mr DIETRICH - It is a very big opportunity, because the northbound trade is maxed out on tonnage with Nyrstar, we can put all the empties on and they just add to the profitability of that train without restricting it.

Mr ANNELLS - Could I also just add something that is we put on the back of the southbound paper train this last 12 months nearly - how much freight?

Mr DIETRICH - Up to \$500 000 over the course of the year in other customers outside of Norske Skog on that particular train service.

Mr ANNELLS - It is pulling empties.

Mr DIETRICH - That is right.

CHAIR - This is by container volume rather than gross weight?

Mr ANNELLS - Yes.

Mr DIETRICH - I would say we do empties, but it is not - the mix would be lucky to be 20 per cent empties.

CHAIR - The point you were making I think at the end before we got onto the freight volumes, was the fact that the line between Brighton and Burnie is a commercial entity on Toll's movements on it, and that additional freight volumes would only increase the profitability of that line.

Mr ANNELLS - That is true.

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CHAIR - You have got to the point where there is a CPI component in the freight charters and I was exploring the point about whether that CPI was sufficient. The simple CPI movements was sufficient to cover the actual above-rail cost, including the depreciation of your rolling stock. You can see where it is going. If it is not, then after 40 years, you are going to be in some strife.

Mr ANNELLS - Yes. I cannot go into too much more detail, Chair, without going in camera, and even if I did go in camera, I do not know that a discussion about escalation clauses - we are happy to go there.

CHAIR - I don't want the numbers.

Mr ANNELLS - The short answer is, the depreciation on our rolling stock applies across our network. It is how we account for it. It is how we think about it. The escalation for Toll we were comfortable with at the end of the day, given our negotiating position. We have a fuel surcharge arrangement. This side of it is the other big side we were concerned about. We have a fuel surcharge in relation to the Toll movements, all other customers.

Escalations in fuel prices are covered by that clause, both ways, up and down. You asked me the question, are we happy with the price we got from Toll? Yes, in all the circumstances. Does it adequately depreciate the equipment? I believe it does. Would I have preferred we had a different arrangement? Yes, but you can only do what you can do.

CHAIR - My question is even more specific. I will take the fuel component aside. Then we can talk about the cost of running the service, including the depreciation of the rolling stock. It includes your locomotives and things like that. Is a CPI clause sufficient to cover, in the future, to protect your profitability with Toll, assuming their best of endeavours do not produce more freight?

Mr ANNELLS - Yes.

Mr DIETRICH - I will clarify: 100 per cent of the rate is escalated as well, and there are two components.

Mr ANNELLS - There are two things, without going in camera. You could explain the 100 per cent of the rate thing because I do not understand it. The second thing is, the escalation is made up of a basket. It is partly CPI, I think 60 per cent is CPI, and 40 per cent is on wage index. It means we are well-protected against wage outcomes beyond what we would expect to see in the CPI. Those two things together with the fuel index protect us very well.

Then the key thing for us always was that it is up to us to reduce our costs on this service to get a better margin. That is what we have done to this point and it can go further. It is going further every week.

CHAIR - Fuel and wages aside, where do you see the cost-benefits coming beyond those you already have?

Mr ANNELLS - Better train scheduling, less application of labour to the particular task are the main issues. The rest of it is growth. It is also that the Toll business, for us, is an underpinning business for this element of our activity. We wouldn't have the flexibility we

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currently have with the number of container wagons we have if we didn't have the Toll business underpinning us. We couldn't have afforded to take the risk to buy the number of container wagons we have. Having this number of container wagons has enabled us, for example, to take on this logtainer concept of putting logtainers on our ordinary container wagons to gain new business in relation to forestry. It all has to be looked at holistically. It is not only about the Toll contract.

We are running this business in an holistic way and taking some risks as we go along. At the end of the day, we are in business. They have to measured risks; they have to be realistic. I think that is what we got to with Toll.

CHAIR - You have mentioned Bell Bay. How much freight is going up from Western Junction to Bell Bay?

Mr WHITE - Currently 80 000-odd tonnes a year of logs. We have some container traffic coming out of Bell Bay since we started up the George Town yard and going in to Bell Bay.

In a couple of testimonies, they talked about the Bell Bay line being closed for 10 years or six years. It was closed for about 12 months. Bell Bay, for us and notwithstanding some people will say there are too many ports in Tasmania, the fact is Bell Bay is there. Bell Bay is a major location for industrial activity and for us, both our line and our new terminal there means those industries up in Bell Bay now have a choice of how to export their products.

We can export via an international port and we can still service the port by rail, or they can access the domestic shipping lines out of Devonport and Burnie via rail.

CHAIR - Does any of that happen?

Mr WHITE - Yes.

CHAIR - So they are moving stuff from Bell Bay to Burnie?

Mr WHITE - Yes.

Ms FORREST - I wanted an update from your perspective of the Burnie port optimisation and whether it is going to create any disruptions and challenges during the work.

Mr ANNELLS - The work is done.

Ms FORREST - It is all done, is it?

Mr ANNELLS - Yes. Going swimmingly. All the work is finished. We are working through some relatively minor challenges on operations. It is a big change to the way in which the port operates. Toll have been an instrumental part of that. They are very much involved and they have had to get their mind around it as well because it is a big change for them.

To quote the words of the chief executive, it is going swimmingly.

CHAIR - This is not a drainage problem, is it?

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Mr ANNELLS - No, this is not a drainage problem. It is a long time in coming, there is no two ways about that, but it is much more complex than it appeared from the outside, including me. I was getting very impatient about it when I started to understand the complexity of all this - and it is very much a three-way deal. It was not just the government. There were other parties putting money into it, and therefore other parties needed to be consulted and all sorts of things.

Ms FORREST - You are happy with the outcome?

Mr ANNELLS - Yes, the outcome is terrific. It will only get better as we get to use it more efficiently.

Mr WHITE - That comment about Toll loading the ship and prioritising freight out of Melbourne, they now configure the loading of the ship for rail so that it means a much smoother transition from ship to rail. In the past it was just put into a big pile in the port and the local fleet controls would decide whether it goes to road or rail. That pre-planning is happening in Melbourne. That couldn't happen under the old arrangement and for us, we are getting much better asset utilisation as opposed to in the past when our wagons and locos would sit there all day. We can now spin them better and there is some improvement in transit time for customers.

The downside is the train spotters don't get to see the trains in the early morning on the beachfront.

Mr ANNELLS - Equally, you can sleep in.

CHAIR - Except for the shunt.

Mr ANNELLS - No, the shunt is gone.

Ms FORREST - There is less reason to look when you cross the tracks now.

Mr ANNELLS - Yes, a much safer outcome as well.

CHAIR - With the Burnie port - we did a visit there as you are probably aware and we had some discussions - it seemed to me that the handling arrangements they told us that 60 per cent of their container volumes were coming in by road into the Burnie port going on to that hard stand area, and 40 per cent was coming off the train. Do those figures sound about right to you or is it out of your knowledge not being the port manager?

Mr WHITE - I do know that they source containers off the road to provide empties for the paper train, for example. This is Toll out of their container fleet that is used for servicing product through Simplot and those companies. Not totally surprising.

The upside for both us and Toll is simply getting our train off the wharf. For them, the train is in the way, for us it was a major restriction. Effectively, we couldn't go on the wharf and get containers unloaded if the ship was there. Once the ship has gone we can get on, or prior to the ship arriving we can get on. It was a major restriction for us and offering a service for our customers and for asset utilisation. For Toll, there was a great big strip of railway land which was unable to be utilised.

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CHAIR - We are also told some of the cargo is being sourced from the south and Toll is still trucking containers up. Would this be right?

Mr ANNELLS - Yes. Absolutely.

CHAIR - I wonder why that is?

Mr ANNELLS - I guess they do not want to put all their eggs in one basket. They have their own contractual arrangement with truckers. I do not think we have ever suggested they have jumped purely onto rail. They have not. They are more on rail than they used to be. As a proportion I am reasonably confident, but I cannot prove it. The sign we are heartened by is they are now prioritising for rail in Melbourne. That tells us how we will grow our business with them.

CHAIR - Then we go back to their best endeavours to grow the business on rail. Here they are trucking it north.

Mr ANNELLS - We never said to them they cannot use trucks. We set some aspirational targets in the contract. They are trying to meet those. Until we have had a good 12 to 18 months with the Burnie port operating properly it is too early for us to begin throwing out weight around with Toll. Albeit, the weight we have to throw around is not great. Up until now the situation with us having our train on the Burnie wharf and all the issues surrounding it has made it difficult at times for Toll and difficult for us. In another 12 months from now we will be in a much better position to begin looking at the volumes going on rail versus on truck for Toll.

Mr DIETRICH - Some of the existing trucks are going down for express freight and they need to go back to Burnie. They will look to source cargo northbound, generally empties.

CHAIR - We have also had some discussions with Forico regarding their loading and unloading operation. Although they have a train line running through their major plants, they stick it on trucks and take it to the Burnie port because they then tip it on an odd looking slide mechanism where you lift an entire truck up to tip the cargo out the back. They can see this is a major choke point in their capacity to grow a business and many in Tasmania are desperate to see it not be constrained by logistical bottlenecks such as this.

In the redevelopment of the Burnie port has any thought been given to how - there is a bulk minerals depot there which is not being used, there is also the wood chipping thing - from a rail perspective is this not a business opportunity worth pursuing, moving some loading and unloading chip facilities onto the Burnie port?

Mr ANNELLS - Yes, but with a small 'why'. It is not far enough. In conventional terms it is a very short haul from Hampshire to the port. Trains are not best for this activity. There has been discussion with TasPorts who control all of it. They have a long term plan. It is not quite correct to say the minerals facility is not being used. We use it all the time. It is used less than we would like it to be at the moment. Shree has had some additional material we have loaded for them.

You would be aware from your discussions, the future location of both the minerals loader and the chip loader are up for grabs in the long term plan. One of the reasons we are not in there trying to talk about putting in new spur lines and goodness knows what else is that until it is resolved there is nothing we can do for chips. Chips over that distance, if you are going to put

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them in a container you are better off shuttling with a truck. I do not think there is any doubt about that.

What we are more interested in with Forico is to talk about the transport of logs over longer distances. We have had some contact with Forico on that and there has been a communication issue. They said we had not responded to them, I think if you asked them today they would say, 'we did' and it was dealt with. We will be talking to them constantly because this logtainer concept from our point of view is a great idea and we need to grab hold of that.

It is not just Forico though they have a massive movement of timber of one sort or another but there is all this stuff, southern residue solutions yet to be finally resolved, the issue with Forestry Tasmania about movement of logs up north has still not been finally resolved as far as we are concerned. I no longer wear that hat, I am delighted to say, and as a consequence I do not know where they are with that but we have a contract until 30 June and we will be talking about Forestry shortly. Logs, absolutely, or timber, but I suspect not from Hampshire to the Burnie port until such time as we resolve where is that pile going to end up and that is for Tasports to resolve.

Any more questions relating to Burnie?

CHAIR - The ABx mine, what were the arrangements there from the mine to Bell Bay which I presume was the destination?

Mr WHITE - We offered up an integrated solution for ABx and that was a road operation from their mine at Campbell Town to our rail head at Conara, using open top bulk containers, transferring the rail and running a daily rail operation to Bell Bay which I think was in the order of a quarter of a million tonnes a year.

CHAIR - Which is on, quote, 'on hold'.

Mr WHITE - They have said they have the mining care and maintenance and have sold their first 40 000 tonnes that we transported up there.

CHAIR - The rolling stock for that has been purchased but is not being utilised?

Mr WHITE - It was some old rolling stock that has cascaded from our build. We still have some other bits of other rolling stock that we are able to use in applications like that. Particularly on that line where it is less problematic than the southern line for instance - curves and grades. The upgrade of the rolling stock was quite minimal to get that up ready for traffic.

CHAIR - Your road freighting component from Campbell Town up to Conara, were you the master contractor on that and then subcontracted it to a road delivery firm?

Mr WHITE - Yes, to a road operator.

CHAIR - You subcontracted the road haulage fleet to deliver it there.

Mr WHITE - There were a number of different scenarios we looked at in the planning. Could we do it in Campbell Town? I think the view is once it was on road, considering if it was going to be in Campbell Town, it would need to be some substantial capital cost to establish a

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transfer site. A bit further down the road you might as well keep going, considering we had already had a site a Conara.

CHAIR - You could keep going with a truck until you get to Pearl Bay as you have suggested a few times.

Mr ANNELLS - That was also suggested.

CHAIR - We will not go back over short haulages. The firm who picked up the contracts for that road haulage, Wagners, did they retool up or did they have the existing equipment to deal with it?

Mr WHITE - They did get some new stuff but I think they had some existing equipment.

CHAIR - Did they pay for that?

Mr WHITE - Yes.

CHAIR - With any support from TasRail as part of the overall?

Mr WHITE - Not in the purchase.

CHAIR - So they are leasing their equipment on the back of a contract which isn't producing any money?

Mr ANNELLS - Well, exactly. The support from us was, here's a contract so they use that contract to go and get unilateral agreement to lease their equipment. It is now not being used. They need to unwind that position and we will end up picking up the cost because it's our contract. There are other costs that we will also bear including leasing some of the open containers.

Mr ANNELLS - What was the alternative? The alternative is it went on road.

CHAIR - Could it?

Mr ANNELLS - It could have. We decided that this was an obvious task that we should undertake. It was right in our sweet spot in terms of hauling relatively low value material that was heavy and we bid for it. With hindsight, would I have done the same thing again? Yes.

CHAIR - So you have taken over the lease costs of the freight of these vehicles?

Mr ANNELLS - Whatever the termination cost is.

CHAIR - So do you get hands on the assets that was used for it?

Mr ANNELLS - It is a straight loss to our bottom line.

CHAIR - Can you quantify that loss?

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Mr ANNELLS - I think the total loss to us will be somewhere around \$1.5 million for all costs.

CHAIR - That is assuming that the mine does not start up. In the future when the mine starts up of course.

Mr ANNELLS - It does.

CHAIR - How long was the lease of that equipment? What was the terms of the haulage contract? How long was that for?

Mr DIETRICH -It would have been for four years.

CHAIR - So that would be a ceiling on your costs, wouldn't it?

Mr ANNELLS -Yes.

CHAIR - Obviously you are not going to be paying after-

Mr ANNELLS -This is quite an unusual arrangement. So when I say, 'Would I do it again?', looking back on what we knew as a board at that time, 'Yes', but looking back now if I was presented with the same based on venture and on ABx, I have said to the Government reluctantly that despite us believing that it is our role to be absolutely proactive and try and facilitate these sorts of mining developments, and we don't apologise for that, we don't back away from it but we cannot afford to do it again. The hit to our bottom line - it might be a \$1.5 million for ABx but we invested considerably more in venture.

CHAIR - There is one thing about investing in or paying costs for your own rolling stock because you stockpile them and then leave them. You can cycle them in, but you are here now paying for an asset that you do not own and control and that could well be being used by the contractor to make money somewhere else.

Mr ANNELLS -No, it is not. Our negotiations with the contractor requires that the leasing arrangements are terminated and if there is a cost then we will pay it.

CHAIR - So the leasing arrangement has been terminated and the assets -

Mr ANNELLS -It has gone elsewhere. It is in the process of going back.

Mr WHITE - In the process of going back.

CHAIR - Which will give you a little bit of a headache should ABx start up again.

Mr ANNELLS -Yes, we have held off and held off until finally it is clear to us that despite all the best endeavours of everybody ABx are not able to resume exporting and rather than to continue to bleed month by month, we have decided to cauterize the wound, draw a line under it and move on.

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Mr DIETRICH - The expectation was to do 300 000 tonnes per annum. They may come back with a different business model and say, 'We only want to do 50 000 tonnes,' and we will have to organise it with that situation.

Mr ANNELLS - Whatever they come back with, we will not be entering into the same agreement again. People will form their own view about whether this was the right thing to do or not, but I can assure you the board has spent a great deal of time on this issue.

CHAIR - You have talked previously about surplus trucking capacity, which is creating a competitive environment, which is driving trucking transport down and -

Mr ANNELLS - Yes, different sorts of trucks.

CHAIR - The social, economic and environmental report of Pitt and Sherry that we got the last time, I just wanted to go through some of that. The overview, and it was a very interesting model, was something like \$56 million per annum, was it?

Mr ANNELLS - \$26 million for 2013-14.

CHAIR - \$26 million. Just a couple of issues. Some of the data, and other people have commented on this - the reduced freight-related accident costs - given the fact that the bulk of your rail, and I am not talking so much about the west coast lines or the Emu Bay line, I am just a bit concerned about the data that underlies that about reduced accident costs by taking trucks off-road. It was not Pitt and Sherry but others have pointed out the average 7 per cent of Tasmania's road fatalities involved an articulated vehicle. In Tasmania's context, that actually means there was half a fatal crash a year on our road fatalities. They are averaging that over a time, so you are looking at five every 10 years.

I am wondering whether using that sort of statistical analysis in isolation from what the road rate is in places where they do not have a good rail alternative, whether you can actually bring those costs back. When you put the pressure on DIER about what impact is this having on the accident statistics, they will always tell you how much it costs to put a person through the ambulance, but they will never ever quantify the benefit to be gained by improving a road or something like that, because of the fact that it is such a statistically small sample. I think there was a substantial benefit in avoided accident costs. I am just wondering with your commentary, in the absence of [inaudible 15:08:57] I suppose, about whether that is a valid number to plug into the Tasmanian situation.

Mr WHITE - Maybe a bit of a history of this. These are not numbers that anyone pulls out of thin air. These are indices produced by the Bureau of Infrastructure, Transport and Regional Economics around road accident costs, road maintenance costs, environmental costs, based on a freight task measured in tonne kilometres, be it on road or rail. It is a reasonably simple arithmetic calculation, that if there is all these additional costs that are calculated to accrue if freight is on road, then by taking it off road, there is the saving to be achieved. These were the calculations that were done when we did our original submissions to Infrastructure Australia and the federal government. Then we said this is a good news story the rest of the community should be aware of. The rail industry generally, not only Tasrail, has been very poor at articulating what its value proposition is. You could pull it to bits and say there is a better way to find some of these numbers. The reality is these are industry recognised indices for calculating these things.

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We argue some of the costs are underestimated. Contestability numbers Pitt & Sherry use are underestimated. It does not take into account road investment costs. If all the freight on rail was on road the additional network costs of rail and the interface points through cities and so on. It is what it is. They are the industry accepted numbers. If we put anything else up to people like Infrastructure Australia they would bounce straight back.

CHAIR - It is the benefits, the avoided costs, the use of rail freight in Tasmania rather than road freight saved around \$7 million in avoided road accident costs. At this stage I struggle to think if we are losing half a person per year in a serious road accident, how it would equate to \$7 million?

Mr WHITE - I can recall three or four road truck accidents on the Bass Highway and the Midland Highway over the last 12 months. There may have been one fatality, but in the others no-one was killed. These indices pick up not only the cost of a fatality but all the other dislocation costs when there is a road accident.

CHAIR - There are a fair few estimations, assumptions and generalisations occurring on your way through. You are not operating on real or hard data.

Some of the other issues were - avoided \$9 million in road maintenance costs. I take it this is due to the fact you do not have as many trucks running up and down your main highways as you would otherwise have had?

Mr ANNELLS - A lot less trucks, Chair.

CHAIR - We will go back to Nyrstar. With this cost-benefit analysis showing such a huge capacity on the triple bottom line - environmental, economic and social - we are now carrying these very heavy loads on our rail up the Brooker avenue from Derwent Park to the Brighton hub. Why would it not be if we looked into this seriously, between Nyrstar and yourselves, we would see some of these benefits which would make it worth rebuilding this line, to avoid these road costs?

Mr ANNELLS - It may be. From Nyrstar's point of view, they have been carting it on road down the other way for years. We should never lose sight that the alternative for Nyrstar is to pull a ship up to their dock outside their factory and put it straight on there.

In the past we have been wary of standing in the way of what is a commercial relationship which is not between us and Nyrstar. It is between us and Toll. Toll has the Nyrstar contract. They choose to fulfil it by doing what they do.

If you are asking, would there be triple bottom line benefits of us pulling a train up inside the Nyrstar facility and loading directly, the answer would be yes. Is it going to happen? The answer is no. Partly it is because, as Damien said, there is no room there for warehousing. Trying to introduce a just-in-time arrangement for rail in and out of the Nyrstar factory, from a manufacturing position, well that horse has bolted long before we came on the scene. Regrettably.

CHAIR - I guess it is for DIER to work out how they are going to get Nyrstar to pay for the damage that is occurring to what are now major roads. Before, it was only a short section on the main road and the lower domain highway, but it is a fairly substantial section. There is a fair

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amount of money being poured now into fixing up and bringing up Brooker avenue to the standard and a lot of it has to do, not with traffic congestion, but the damage that is occurring.

Mr ANNELLS - Yes, I don't know that to be true. I accept that it probably sounds as though it should be the case. **DIER** - they're probably called something else now - ought to be counting their lucky stars that this problem of pavement damage doesn't extend another 400 kilometres to Burnie because everybody knows - as in this is the conventional wisdom - that when our predecessors had a major derailment and could not cart anything for six weeks and the zinc was going by road to Burnie, there was massive issues with the pavement north of Brighton.

CHAIR - That makes sense about the pavement along the Brooker avenue I would suggest.

Mr ANNELLS -I think the Brooker avenue was built to a better standard than much of the rest of the highway but whether it is sufficient to withstand that.

CHAIR - It also points out once again it is a very economically more efficient means of moving the traffic around - the economic benefits that really come about, the efficiencies of rail over road which gets me back to that point which we have laboured - if it is so efficient how come operators are still prepared to use the road?

Mr ANNELLS -Because they are not prepared to put all their eggs into the one basket at this time because many of them still remember the bad old days and have not yet been convinced that rail is as reliable as they need it to be and as a consequence many of them are still sticking to their old habits. As those tables show we are starting to move some of them across.

Mr WHITE - Remember these are benefits of putting freight on rail so in the absence of that there are costs. Currently the road operators don't bear those costs, the community does.

CHAIR - This is what I am suggesting. **DIER** needs to have a good hard talk to them about making their contribution to that road. There are two issues I have left because as you would be well aware we have evidence before this committee about the staff relations between TasRail management staff and although I would avoid using the word toxic - although it has been used both in the press and by witnesses to this committee - because it is emotive, but you have conceded when you look back at your own newsletter that you have a problem and you are going to fix it. What is the cause of this problem? It would be interesting to see what you see the cause is and how you intend fixing it.

Mr ANNELLS -I think there are two. They are no doubt related but I am going to deal with them as though they are separate and that is the relationship with our blue collar workforce and the relationship of our senior management team. There is no doubt that under the pressure of delivering what has been a massive infrastructure development program - some of which is extremely complex - and under the pressure of trying to run a business which we were doing, our relationship with our blue collar workforce became strained and, I think we would all agree, from the board down it had deteriorated to an unacceptable position.

This came to a head about 15 to 18 months ago when I and the chief executive had a series of discussions with the blue collar workforce around the state. They were extremely forthright, as I encouraged them to be, about the situation they believed existed, which wasn't just about communication although a large chunk of it was, but was also about the rate of change that we were enforcing in the organisation. Some of that rate of change was driven by the introduction of

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new equipment, the introduction of new infrastructure, but a lot of it was driven by, I believe, a perfectly reasonable emphasis and re-emphasis on safety and on improving our systems, and in finally making the very difficult change from being a largely engineering-based organisation to a customer-focused organisation.

That put enormous strain on our blue collar workforce. They were subjected to waves of changed procedures, processes, requirements, et cetera. Sometimes, and only sometimes, we failed to adequately consult with them and failed to adequately inform them as to why. We had clearly a situation of reform fatigue in our workforce.

What are we doing about that? There has been an extensive program of staff engagement. We started off calling it staff re-engagement until we realised that there hadn't been enough engagement to 're' it, pardon my expression, and that program which has been led by Damien and the senior staff and involves the board has sought to address each and every one of those issues.

I did another statewide tour the week before last and met with the same people I had met with before. Are there still some issues? Yes, there are but they are more of a bread and butter nature - the sorts of things that you always find in an organisation as diverse as ours. But overwhelmingly I got feedback that we had made considerable strides in relation to staff engagement and staff were a lot more satisfied that they understood what we were trying to achieve and the reasons we were trying to achieve it, and that we were listening to what they had to say. I am disappointed it happened. I am not surprised it happened given everything we were trying to do but, despite all of our efforts to communicate and consult, clearly we didn't get it right but clearly, we are a lot closer to getting it right now.

In relation to the comment about a 'toxic' senior management team, which I might say originated in part with a witness here but there are other people who have made similar statements, there is again no doubt that the pressure to achieve what the board has required management to achieve has led to some stresses and strains within the senior management team over some years. Some people have left. Some people have left with encouragement and some people have just left.

That in itself is not surprising because we have changed our requirement dramatically over the last five years for people with project development skills to people with business development skills. It is a quite different make-up. But equally, and I am sure Damien would be the first to agree, there has been a lot of stress put on our senior management team and so we are in the process, as we speak, of a major piece of work that has been done, firstly with what is called a 360 exercise involving all of our senior management team and, regrettably, the chairman.

CHAIR - Who are they consulting from above for you?

Mr ANNELLS - Well, my mother, wife, a couple of kids. That 360 has demonstrated that there are some issues that we need to address, we are addressing them.

CHAIR - I think for the record you should explain a 360.

Mr ANNELLS - A 360 involves a survey base undertaking where a person being subjected to a 360, and I use the word 'subjected' advisedly because it is quite a process. It requires roughly 15 people who occupy positions both above, below and at the same level to give a detailed response through questionnaire on the management style and personality characteristics of the

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person being 360. In our case we did this on about 15 people including me, that is then analysed, we have consultants who do that and they have come back and said, 'right these are the issues you need to deal with' and we are dealing with them.

Whilst that process has not in any way completed I must say that I am extremely pleased with the feedback I am getting both from senior staff and from our consultants. The board is absolutely determined to see this process through to the end and we are doing so.

CHAIR - In terms of the 360 of your executive staff I presume you are referring senior management at least, is that just located to current peer seniors and junior staff or are we also surveying some of those who have been encouraged or voluntarily exited the organisation.

Mr ANNELLS - No, it is the former. I did exercise my mind as to whether the alternative approach may have been preferable. A key element of this research is that the identification of the people to report is the prerogative of the person being reported on subject to some oversight, that clearly is not your mother, etcetera, that is a fair dinkum review. I had feedback in relation to some people who had left the organisation, which I fed into the process myself and I felt that we were adequately covered, so that is the short answer.

CHAIR - That is unofficial feedback that you have fed into the process rather than part of the formal process. I might say that my informal feedback might be a little different to that but I do not intend to table it.

Mr ANNELLS - You do not know what my feedback was, Mr Chairman.

CHAIR - No, I do not but I think you can probably guess what mine was.

Ms FORREST - On your performance?

CHAIR - You raise a very serious point, member for Murchison, because I have been through these things where you do not get to select who performs you, you actually get someone else to select who your reviewers would be based upon the fact that they are not all likely to give you glowing references.

Mr ANNELLS - It can be done that way. This particular one does not work that way.

CHAIR - The serious point that you raise is that if you are doing a review of your current employees, they only have to look over their shoulder to see what happened to their predecessors if they do not say nice things about you. That is a risk that you run by not going further.

Mr ANNELLS - That is a risk but it did not happen in this case.

CHAIR - It did not happen in this case. What did not happen?

Mr ANNELLS - It did not happen that we did not get a glowing report from this. Everybody was in fact very frank in their responses and that is the skill of the people running the process. If I had have got a series of glowing responses at the end of it, knowing what I know then I would have dealt with it. I did not have to deal with it because what I got was a very warts and all response and we are dealing with that.

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CHAIR - From internally you mean?

Mr ANNELLS - Yes.

CHAIR - Going back to your blue collar, having worked in organisations that have deliberately subjected themselves to change and are aware of the role of consultants and things, it seems to me that given the pitfalls, was a dedicated change manager ever appointed to manage and oversee change? Was it someone whose job it is to manage change, keep you in the loop, give you early advice that things are not working the way you had hoped them to do, to do the consultation? What I mean is a dedicated person, not someone with a million other responsibilities and then you just tack change management on the side. Was a formal change management process gone through?

Mr ANNELLS - There was. Our problem in the end was that the scale of our change was enormous. It was rapid and it was very confronting. Whilst we did have both an external change manager appointed who was working on a range of these projects, and we had individual teams established, all working on these projects from a communication point of view, from a change of management point of view, it was not any individual project that got us into trouble. It was just the weight of it. I have been in organisations like yourself that have had plenty of change management and blah, blah. Nothing like this organisation. Everything went up in the air and all undertaken against an absolute requirement from the board that we not compromise our safety record.

CHAIR - I accept all those things, but, obviously to then have some consultants come in and do a survey, that then tells you that you are off the rails -

Mr ANNELLS - No, a different body. The survey was done purely in relation to a senior management team.

CHAIR - Not the 360 survey. I am talking about the survey that produced that report about the communication issues and how you are going to fix it, and the lovely picture of the CEO.

Mr ANNELLS - Yes.

Mr WHITE - That is pretty standard for the engagement process.

Mr ANNELLS - That was done by another consultant, by somebody that came inside the organisation. We knew we had a problem before we undertook that survey. The survey was done after we knew we had an issue. We knew we had an issue because he and I went around and confronted everybody and we were told in no uncertain terms that we had not got it right. Then we did the survey to find out more details so we could actually try to program -

CHAIR - This did not come through your change management structure?

Mr ANNELLS - We got a lot of feedback from our change management structure. I guess we were not listening. We were trying desperately to get these projects completed on time, on budget, get the safety thing in place, get it all done. If I have a regret, my regret is that the feedback we did get, we did not listen to.

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CHAIR - Moving on. Feel free guys if you want to step in. We then move onto the senior management position. You say that some have gone and some have left. From our material, and you would be aware of this, the suggestion is that 12 senior managers in five positions in five years. That is a pretty high turnover, is it not?

Mr ANNELLS - Yes. I am not sure of those numbers. I have seen the numbers, but I did not bother to get it checked. The reason I did not bother is because basically we got what we got. We are not hiding from the fact that a lot of these people were put under a great deal of pressure to perform. Some did and some did not. Now, was that pressure unreasonable? Others will have to make that decision. What also has to be factored into account, Chair, is that we are trying to run a freight railway in Tasmania. It is a very small insignificant railway with a great deal of problems, all of which we are trying to address.

We are hardly the employer of choice for key railway personnel. We did not have in many cases the option of recruiting from experienced railway people. Often we were required to make judgements that people might learn on the job and would bring fresh perspectives to those jobs. In some cases the choices work. In some cases they didn't.

CHAIR - So you are picking these people and training them, and then they are not performing, and so out the door they go?

Mr ANNELLS - They are under a lot of pressure. Some of them decided we were not the employer for them while with some, we decided they were not the employee for us. I have acknowledged that working in our senior management team in the last five years is a pretty stressful place to be for a whole set of reasons. Some people left because of it, and some people were shown the door.

In every case, did the organisation get it right? I cannot say we did. But at the end of the day, what we were trying to do was keep this business alive, get all this money spent, do it in a way that didn't find us on the front page of the local paper, and do it in a way which was accepted by the Auditor-General, the Commonwealth, DIER and the 20 other people who oversight our operations. We tried to do it in a way we could look back and say this got us the right outcome. Were some casualties along the way? Yes, there were.

CHAIR - There is a fairly high turnover. Some of these positions must have been pretty short tenures to be going through a number of senior managers in this short time. What does this say about your staff selection or staff development processes? You have made major changes. The organisation is to be credited with some major changes. To look at your report and all your projects, all of them have been ticked, some on time and on budget. Surely these are success changes.

Mr ANNELLS - Indeed, but they came at a cost. What is not there are all the other things we are trying to do - that is, run the business. There are a couple of positions where we had a number of people leave quite quickly. The throughput was much higher than we would have liked. I think we would admit that the selection process didn't get it right for the pressure we were putting on people to deliver.

Ours is a business that, in a sense, is constrained with more rules, regulations and requirements than you can poke the proverbial stick at. But at the same time you try to be

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innovative. You are trying to be a customer service organisation in order for us to achieve this sort of growth in our non-Toll volumes, for example.

We are also a business that inherited rules, regulations and processes out of the ark. No-one had bothered to worry about TasRail as an organisation for 20 years, and so one of the things we are doing, and have been doing, is aggressively look at every single process and procedure. Can we make it more efficient and can we make it, equally, safer. Our safety record was not good enough.

I am not going to go to personalities and I know you would not expect me to, but there is no doubt there were a couple of choices [of people] who couldn't do in the end what we wanted them to do. In saying that, I am not even saying they were not good enough. What I am saying is the task we set was damn difficult and they didn't happen to have the particular skill set that was needed.

CHAIR - It comes back to the management culture and about how you see the job. Would you see your senior executive ought to be a team?

Mr ANNELLS - Absolutely.

CHAIR - Not a group of performance-driven individuals but that there is a collective responsibility running through it?

Mr ANNELLS - There is absolutely the need for any senior management team to be a team. In our business that is the key issue. It has been very difficult to achieve because we have had uneven pressures on different parts of the organisation at different points. The pressure to deliver on some of these projects has driven people into silos. It has driven people to be competitive with the other members for scarce resources and time and all sorts of things - exposure to the board, there are a thousand things. That pressure, I think, has resulted in two things. One is, we have actually done what we set out to do in the sense that we have done all these projects and they have been done pretty well on time and on budget, and that is no small feat, but the cost and the way we have achieved that I think has been shown to have some deficiencies, and we are moving to deal with that as we speak. I cannot do anything about the past. All I can deal with is the now and the future.

CHAIR - You can learn from it.

Mr ANNELLS - That is what I am trying to do.

CHAIR - There is a suggestion that a lot of this stuff though has turned out not to be a team culture but an autocratic system, that the communications between some of the staff, even if they weren't performing, rather than being supportive and educative, was basically 'if you can't stand the heat, get out of the kitchen'.

Mr ANNELLS - If we are going to go much further down this path then I would like to go in camera because you are asking me then to start dealing with the management style of my chief executive, his direct reports, God forbid the board, and it would be unreasonable for me to do that on the public record.

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CHAIR - I am not too sure that I need to go into it at that level but if that is your request and we will pursue this a little further, I will say whilst we are on the public record, this is not intended to be a witch-hunt. This is simply trying to get at the facts of issues surrounding this cycle in an organisation that has been very successful but has had some human casualties along the way. I am not about witch-hunting; I am about trying to get to the facts of some of this disturbing evidence that is on the public record that we have now got so that perhaps we should do so.

With the leave of the committee, I suggest that we move in camera.

Ms FORREST - For what purpose?

CHAIR - To further pursue these issues and questions. The witness has suggested that to answer or go any further down this line we would need to do that in camera.

Ms FORREST - We can deliberate that.

CHAIR - The point is, for now, the process is that we will now do that in camera.

Ms FORREST - What we really need is to have a discussion without the witnesses in the room.

CHAIR - I just want to perform the process that in camera evidence will be taken and the committee will make a decision as to whether is published or not.

Ms FORREST - No, we need to decide whether we are even bother going in camera.

CHAIR - Yes.

Mr ANNELLS - What you are saying to me, Chairman, is, you will make a decision whether to go in camera in our absence, that is fine.

CHAIR - Yes.

Mr ANNELLS - But that you will then decide whether it stays in camera or is actually published.

CHAIR - For the record, it would be extremely unusual if we did publish information. It is more of a formal decision. Given the nature of the evidence, sometimes when you go in camera, it turns out that there aren't those concerns about the evidence and that they are an important part of the public record.

Mr ANNELLS - Can I ask you, is there another line of questioning you want to pursue after this particular line so that I can determine who actually needs to be here to advise me in this process?

CHAIR - Okay. We will just put that on hold. In fact, I am equivocating somewhat because I think the question can be answered in a general way without going in camera but we will make the decision. There is one other area that I will pursue, which was just about some of the evidence that we have received that you haven't taken the opportunity to comment on. That is, after our

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first hearing and then we heard from some witnesses, which is on the public record, and I think one of your staff members who has been sworn at some stage before this committee, so she is welcome to come up here, came and made some factual corrections and also took the opportunity of saying that there were other matters that would come from witnesses, and that she was informed of the opportunity whereby any subsequent evidence on the record would be an opportunity for you to comment on in the interest in fairness.

I noticed at the beginning of this you didn't have any statement or objectives to make and I am wondering whether you wish to avail yourself of an opportunity to now go through all the evidence and make any further submissions or suggestions to the committee or commentary. It doesn't have to be by way of evidence. It can be by way of a letter or whether you are happy to leave the material as it is, uncontested, which basically allows the committee to draw its own conclusions without the benefit of your perspective.

Mr ANNELLS - When I looked at all this material I split it up into several areas, one of which is heritage and tourist rail. We have done that adequate justice, or I hope we have, so I don't need to say - there are individual statements in a number of those witnesses that were optimistic at best, particularly in relation to the likely costs of the Derwent Valley line. There is the report from the safety regulator, the subsequent report by her officers of the likely cost of upgrading the line, the enormous discrepancy between what the people from Derwent Valley say the capital cost is likely to be, and those costs are for the committee.

We have a view that the cost is at the higher end of the spectrum but we are probably arguing about issues that until we get to see how far on the line people want to travel, how many bridges, how many points. However, the safety regulator's letter to you and her evidence I will commend as being something that should be given a great deal of weight and more deliberations.

The second area was the issue of the financial viability where there were very few witnesses. The main witness subscribed to my view that it would be unwise to split above and below rail. We gave a view that that was the case, and then there is the general material provided by a former staff member of ours which talked about a whole range of issues to do with freight in Tasmania and the role of TasRail.

I have no interest in dissecting that evidence or rebutting it past what has been said today. The less I say on that matter the better so, no, is the short answer, I don't have anything further I want to draw to your attention.

CHAIR - Thank you. Anyone else got anything to say or do?

Ms FORREST - I wanted to ask a couple of questions. You have alluded to a lot of this stuff along the way. I am interested in what you see as the key risks. You have talked about loss of customers and things like that, but are there key risks to the business that we haven't talked about along the way that you think should be identified?

Mr ANNELLS - No, the risk for us is the economy of the state. The scale of the freight task is the predominant risk to us. There are risks that would lose market share. Those, we are very well able to deal with. What we can't deal with is a collapse in the freight task and if that happens then we are going to have a lot of - I think there is structure that is under-utilised, a lot of locomotives that aren't being used, a lot of wagons. We have a comprehensive fleet now of five

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different wagon types and if you add the log trailers to the mix, we probably have six wagon types. The biggest issue for us is the scale of the freight classes.

Ms FORREST - One of your driving forces is, I guess, is making sure that you target other opportunities.

Mr ANNELLS - As much as we can.

Ms FORREST - Do you see there are any emerging areas that you are meant to be aware of at the moment?

Mr ANNELLS - The areas we are particularly interested in in pursuing are aquaculture and agriculture. We think there is a freight task for moving quite large volumes of fish meal from there or fish food. There is clearly a task moving superphosphate around and other material like that for the agricultural industry. We have a small group who are doing nothing but looking for opportunity and trying to tailor opportunities for rail in that space including looking at alternative drop off points, pick up points along the main line.

Ms FORREST - You have that super depot at Howth.

Mr ANNELLS - There is a super depot in Devonport right next to us. Each of these organisations have their existing arrangements. Some of them have no interest in changing. It doesn't matter what you put on the table. What we have found, however, is that if you stay committed and persistent it is amazing how the doors start to open. We have opportunities today, they are not on the train yet, that I never thought would happen. We are making slow but steady progress. The fact is, however, that if the freight task stays relatively stable, we have all the lower hanging fruit now. The work has got harder and harder to move stuff so we have to keep working at it and we do, all the time.

Mr WHITE - In terms of key risks for those major industrials, the position now for the state is far better than what it was even a couple of years ago, particularly the expanded freight equalisation scheme and current exchange rates. If you had asked us five years ago what is the state of those major industrials it is a much different answer today than five years ago.

Ms FORREST - You need the mineral prices to go up a bit.

Mr WHITE - Yes.

Mr ANNELLS - If Venture came back onto our horizon we would be sitting here in two years' time, it wouldn't be me but somebody would be sitting here, with a totally different -

Ms FORREST - And be paying dividends to Hydro. It could be an injection to Hydro.

Mr ANNELLS - I am surprised that has not got a run but no equity injections for us. We have one more to go.

Ms FORREST - You are out of money now.

CHAIR - It was even suggested you get some of your spare old locos since they are diesel electrics and hook them up to the grid as pay back.

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Mr ANNELLS - Right. Pay back, yes.

CHAIR - If you could just leave us for a moment. You can choose who you bring back.

Committee suspended.

CHAIR - The Committee reconvenes. The Member for Derwent, you had some questions on the financial implications of the senior executive turnover.

Mr FARRELL - Yes.

Ms FORREST - Excuse me, before we go on, Mr Chair, it might be worth it to note that what was on *Hansard* before, does not indicate what we are doing now. You might just need to say that we are not in camera at this stage.

CHAIR - That is true. The meeting reconvenes in open session. Craig has some questions.

Mr FARRELL - Just back to financial sustainability and the turnover of senior staff. I am not looking for individual figures, but a ballpark figure of what that has cost the TasRail bottom line over the period of the last five years?

Mr ANNELLS - I anticipated you might ask us this but I do not have that at hand. We would happily provide the information as soon as we can get it. We would need to separate out - the problem is that there are a number of executives who have exited the business for entirely normal reasons. In one case they retired and have gone off somewhere else, and probably more than one case. In fact I can see off this list four people straight away who just retired and left to go to do other things. We have had some interim appointments for people who made it clear that they did not want to stay for a long period of time, but we thought had skills that we could use. We will provide the information as soon as we can get it to you, but just to be clear you are talking about the last five financial years?

Mr FARRELL - Yes, and I take on board your comments there has been some natural attrition. It would only be a ballpark figure of any settlements and I fully realise that it would not be the whole number of senior executives.

Mr ANNELLS - We will do the best we can to give you a ballpark figure.

Mr FARRELL - Even if you just note 'person 1 retired; person 2 -

CHAIR - The issue is there are no financial implications for voluntary separations are there?

Mr ANNELLS - The cost of reappointing someone in that role and there is often a payout of entitlements and stuff. Brought forward sooner or later you have to pay it. I need to in order not to mislead you, but also not to provide a number that invokes horror on your side but in fact is bloated by business as usual. If the suggestion is that there were some of our senior manager have exited the business in the last five years in a manner that is not reflective of business as usual then we are probably better able to put a figure on that for you. Maybe that is what we should try to do.

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Mr FARRELL - Yes, thank you.

Mr GAFFNEY - Following on from that, you mentioned earlier you had some people working with staff for assessment of senior management over the last four or five years to obviously address some issues. Can you put a financial figure on those as well for us? On the groups you have had come in.

Mr ANNELLS - The ones working now, are you talking about the 360?

Mr GAFFNEY - Yes. You mentioned that you have had some others as well.

Mr ANNELLS - Those people were people that we had employed either on our staff.

Mr GAFFNEY - They were internal though?

Mr ANNELLS - Most of them became internal because our change management process was so extensive that we needed to engage people and have them on staff. That we have done. That has now ceased. I can give you the 360 costs, that process, and I can give you our staff engagement process. We are dealing with our blue collar workforce. I think that is probably the most relevant costs that we can provide.

Mr GAFFNEY - Thank you.

CHAIR - We can look forward to seeing some, rather than raw numbers, some explanation around them.

We will now get onto the matter that we were discussing before. I will go back to basically rephrase my question.

In the context of what you describe as an unusual low level of separations, what does this say about the management culture as it was and it is and the communications within your team?

Mr ANNELLS - And I would go back to my position, Chair, which was that for me to answer that in any meaningful way for the benefit of the committee I would much prefer the committee go in camera. If with your indulgence that is possible then I would ask my staff to leave and I will deal with this unless there is likely to be more questions on a more general nature I will tell them that they can go full stop.

CHAIR - Yes, I think that is fine. The committee has pre-approved that.

Evidence taken in camera.

CHAIR - Thank you, Mr Chairman, it has been a long day, but it has been a very good one. We are out of camera now.

Mr ANNELLS - Thank you, Chair and members.

CHAIR - I would particularly like to reiterate my appreciation for you and your staff for the work you put in. It has been a long hard road. You have had screening committees in the upper House and lower House on the way through and I do not think there is too much more that we

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might ask you, but I will not disclose the possibility, as we are preparing the report, thinking we might need to know something more.

Mr ANNELLS - If there is anything else I can do to help just ask.

THE WITNESSES WITHDREW