

# VERIFIED VERSION

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into Budget Estimates 2017–18

Melbourne — 18 May 2017

#### Members

Mr Danny Pearson — Chair

Mr David Morris — Deputy Chair

Mr Steve Dimopoulos

Mr Danny O'Brien

Ms Fiona Patten

Ms Sue Pennicuik

Ms Harriet Shing

Mr Tim Smith

Ms Vicki Ward

#### Witnesses

Mr Luke Donnellan, Minister for Ports,

Mr Richard Bolt, Secretary,

Dr Gillian Miles, Head, Transport for Victoria, and

Mr Robert Abboud, Acting Deputy Secretary, Asset and Network Development,

Department of Economic Development, Jobs, Transport and Resources.

**The CHAIR** — I declare open the public hearings for the Public Accounts and Estimates Committee inquiry into the 2017–18 budget estimates. All mobile telephones should now be turned to silent.

I would like to welcome the Minister for Ports, the Honourable Luke Donnellan, MP; Mr Richard Bolt, Secretary of the Department of Economic Development, Jobs, Transport and Resources; Dr Gillian Miles, Head, Transport for Victoria; and Mr Robert Abboud, Acting Deputy Secretary, Asset and Network Development.

All evidence is taken by the committee under the provisions of the Parliamentary Committees Act, attracts parliamentary privilege and is protected from judicial review. Comments made outside the hearing, including on social media, are not afforded such privilege.

Witnesses will not be sworn, but are requested to answer all questions succinctly, accurately and truthfully. Witnesses found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty.

All evidence given today is being recorded by Hansard, and you will be provided with proof versions of the transcript for verification as soon as available. Verified transcripts, presentations and handouts will be placed on the committee's website as soon as possible.

All written communication to witnesses must be provided via officers of the PAEC secretariat. Members of the public gallery cannot participate in the committee's proceedings in any way and cannot photograph, audiorecord or videorecord any part of these proceedings.

Members of the media must remain focused only on the persons speaking. Any filming and recording must cease immediately at the completion of the hearing.

I invite the witness to make a very brief opening statement of no more than 5 minutes. This will be followed by questions from the committee. Minister?

### **Visual presentation**

**Mr DONNELLAN** — Thank you, Chair. Thanks for the opportunity to share with the committee the key investments in this year's Victorian state budget as it relates to the ports portfolio. Since I presented to the committee 12 months ago, the government has completed the successful sale of the lease for the port of Melbourne, and it was a spectacular result for the people of Victoria. The \$9.7 billion price tag dwarfed the \$1.75 billion that the port of Newcastle achieved in 2014 and the \$2.1 billion Brisbane secured in 2013. Both were much longer leases than that of Melbourne.

Importantly the sale has freed up funds that we can dedicate to more productive uses. Ten per cent of these lease proceeds, just over \$970 million, will be invested in regional and rural infrastructure projects; \$200 million will be dedicated to the Agricultural Infrastructure and Jobs Fund established to drive economic growth in regional Victoria and boost exports; and the remainder will be invested in transport infrastructure.

We have also invested \$10 million around the port to improve community amenity. The port is very much vital for Melbourne's status as Victoria's and Australia's freight and logistics capital. Improving port access will be essential to maintaining that crown. One of our signature projects is very much the key to achieving that — that is, the West Gate tunnel, which will deliver heavy vehicles, a direct route to the port and in the process free up the inner west of heavy truck traffic. The addition of ramps to Hyde Street means a direct connection for the West Gate Freeway to the fuel terminals in Yarraville. The business case for the West Gate tunnel found it will deliver a return of \$1.30 for every dollar invested as well as an \$11 billion boost to the Victorian economy.

John Holland and CPB Contractors will build the 4-kilometre-long twin three-lane tunnels and a new freeway above Footscray Road. Construction will begin next year, in 2018, for completion in 2022. Of course this project will also deliver a massive win for communities in the inner west, with 24/7 truck bans to be imposed day and night on Francis Street and Somerville Road in Yarraville and Buckley and Moore streets in Footscray. In the interim we will be working closely with the freight industry in the lead-up to the bans being implemented. We want to ensure the sustainability of an industry that has thrived in the area for well over a century.

We are also improving access to the port of Melbourne by boosting rail. We want to see rail play a role in the future of the port, and that is why, as part of the lease of the port of Melbourne, we have enshrined the role that rail will play in the legislation. The legislation outlines that a new operator of the port must prepare a rail access strategy within three years of taking on the lease. The strategy must set out options for improving rail access for the movement of freight in and out of the port of Melbourne, and critically, one of the options set out in the first strategy must be the development of a port rail shuttle. It must be capable of being implemented within five years after it has been submitted.

The port's rail strategy is separate to the \$58 million budgeted to get more short-haul core freight onto rail. The government is working on a package that will complement the port's strategy and ensure a greater role is played by rail in handling the metropolitan container task.

Across the state we are improving access to the port for regional and rural businesses, with a \$37.6 million upgrade of key freight routes. These improvements range from intersection upgrades to shoulder widening to ensure that we can get the most efficient road transport combinations, moving regional freight from farm gate to the port. The program will also fund planning studies for freight improvements on the Calder Highway between Bendigo and Maiden Gully and the north-south link for Bacchus Marsh.

Bridge fencing is another program directly aimed at export competitiveness. It is a program particularly beneficial to Victoria's primary producers, who rely on road transport for at least the first and often the entire leg of the journey to market. Bridges with access restrictions force road transport operators to take less direct, more roundabout routes to service their customers, adding cost and damaging Victoria's export competitiveness. A \$40.8 million program will fund improvements to bridges across the state to allow farmers more efficient access to their markets.

The key driver behind our investment in better road links to the port of Melbourne is export growth. We export more food and fibre than any other state in Australia, some \$11.9 billion worth in 2015–16. That is over 25 per cent of the national food exports, and much of it gets to market by road. As you can see from the graph, these exports are growing. Better connections between the farm gate and the port mean more competitive prices for our exports and better returns for our farmers. Every dollar we invest in our road connections to the port is reflected in the price we charge for our exports. Our commercial ports are an enormous asset, and I am pleased to report to the committee that they are enjoying robust trade growth and bright futures. Thank you very much, Chair.

**The CHAIR** — Thank you, Minister. I might just bring you in the first instance to your presentation and the 'Stronger Bridges, Stronger Economy' slide, which I know the Deputy Chair spoke about and explored at length in the previous hearing. I am just wondering whether you could advise the committee as to what economic modelling was conducted by the department in terms of the selection of these bridges.

**Mr DONNELLAN** — Quite simply most of the bridges on Victoria's arterial roads are between 30 and 60 years of age. These bridges were not specifically designed for the heavier truck freight loads we have on our roads today. As a result our bridges are deteriorating faster than originally expected at the time they were built. The rate of deterioration generally depends on the age of the bridge, the number of vehicles passing over the bridge and the weight of these vehicles. However, as these bridges deteriorate they lose their capacity to carry heavy freight vehicles and must be protected for the use of reduced load and/or speed limits. This results in heavier trucks being forced to undertake lengthy detours and extra costs. Alternatively these bridges can be strengthened so they continue to serve the needs of heavy vehicles and so VicRoads can increase the productivity of the Victorian freight industry.

B-double trucks, operating at higher mass limits of 68 tonnes, are currently Victoria's safest and most efficient mainstream freight vehicle. So it is very much about just establishing which bridges are being restricted by their capacity to carry the heavier loads and looking at the length of use, the number of vehicles using them each day and effectively identifying those that need to be upgraded.

**The CHAIR** — I am assuming food and fibre would be the major industry that would benefit most from this level of investment, but can you break that down into subsets within the food and fibre sector?

**Mr DONNELLAN** — Hundreds of businesses across Victoria obviously rely on roads to get their goods to market. I would very much like to draw attention to one bridge upgrade and its benefits to the industry. For

argument's sake, the Werribee Bridge is a key piece of infrastructure on the Princes Freeway, providing access to key Victorian west-of-Melbourne logistics facilities for produce in the south-west of Victoria, which includes dairy, grain and meat-producing areas. The bridge, as I have previously outlined, is included in the Stronger Bridges, Stronger Economy package of works. The south-west Victoria region is very much the largest dairy-producing area in Victoria, with major producers including Bulla, Fonterra, Murray-Goulburn and the Camperdown dairy. The processing plants of these companies are major regional employers. The entire logistics supply chain benefits from these regional hubs of employment.

The current operating models of these plants is that production is undertaken in local regions from local milk suppliers. The plant processes the product and then the refrigerated and dried ambient product is forwarded to Melbourne's western logistics distribution areas via the Princes Freeway. So it is very much about the Princes Freeway being a vital link into the port of Melbourne. Frequently you will have grains repackaged into containers for exports along the way. So just past Werribee there are the various operations which repackage grain and put it in containers for export. So it is your dairy, your grain and your meat producers who very much rely on these bridges to actually get their goods to market.

**The CHAIR** — Under the 'Stronger Bridges, Stronger Economy' slide there are 15 projects identified. Have you at this stage prioritised them? The 1–15 — is that prioritised as the most important as opposed to the least?

**Mr DONNELLAN** — Well, obviously any priority will be based on the usage levels, the importance of the particular industry to that area and the limitations of the current bridge in providing more efficient use by B-doubles or the like. So we are obviously trying to get high-productivity freight vehicles on the roads to reduce the number of trucks on the roads delivering goods to market. In terms of priorities, we would be looking at those which have the highest usage and the most restricted access for B-doubles, and obviously we would have those as a priority. But as to the money we have allocated, the \$40.8 million I previously referred to, we have asked the federal government to look at co-funding some of it, but we will be proceeding ahead irrespective of whether the federal government actually provides us with money or not.

**The CHAIR** — Again, coming back to your slides, where you talk about what the new port operator must do in relation to rail, in terms of that rail access strategy, what does that look like? Is it actually a formal document? Are you going out for consultation? Is it a series of different studies? Are you able to inform the committee as to what that might look like?

**Mr DONNELLAN** — We are currently developing a freight strategy, which we hope to complete by the end of this year. As part of that freight strategy, obviously getting more goods onto rail is one of the vital parts of that exercise. As we know, heavy vehicles do damage roads more heavily than smaller vehicles, and that is not surprising to anybody in the room, but in terms of maintenance and the like, it is an incredible burden to the state budget continuously — if you look at the port of Portland and the impact that heavy vehicles are having on the roads around there for argument's sake.

So as part of this freight strategy we need to look at firstly getting short-haul rail in and out of the ports, so in other words shuttling goods into the outer suburban industrial areas, whether it be places like Lyndhurst, Beveridge and the like, which are all on the national line — well not so much Lyndhurst, but Beveridge, Truganina and other places. So that will be the short rail, and then there are obviously long-rail opportunities. The federal government is obviously talking about rail from Melbourne to Brisbane, and that is obviously another opportunity.

There is no one plan at the moment. There is obviously the shuttle that we have indicated — yes, we have got \$58 million set aside to enhance that — but in terms of longer rail we will quietly work on that with the federal government and obviously with industry players to ensure that we can take advantage of the infrastructure spending that they are putting into that.

**Mr T. SMITH** — My question is to the secretary, and I refer to budget paper 4, pages 28 and 30, the DEDJTR port rail shuttle — metropolitan intermodal system — and BP3, page 151, market engagement for metropolitan intermodal, and particularly the 58 million the state has contributed, suggesting that a port rail access strategy will be developed. Given that this funding has been there since the previous coalition government provided it and that the port lease brought in \$9.73 billion on 31 August 2016, what are you doing with the Lonsdale Consortium, Pacific National, Qube and the three stevedores to reduce the number of B-doubles using the port of Melbourne and allow rail wharfside access to shipping vessels?

**Mr BOLT** — So what are we doing to reduce all those things? I think that is a question that the minister has already addressed to an extent with his presentation. I think given that that is a relatively technical question as to what is already underway, I might refer to Robert Abboud to give us some additional answers there.

**Mr ABBOUD** — What I can advise is that we are working very closely with the private operator, Port of Melbourne Operations. The operator is already engaging with industry — manufacturers, distributors, importers, exporters, train operations and the stevedoring companies — to be able to produce that rail access strategy for the consideration of the minister.

**Mr T. SMITH** — What date has the government given for the Lonsdale Consortium to submit its plans for the port rail expansion?

**Mr DONNELLAN** — I think it is three years from the original leasehold agreement. So it is three years to put together a plan which has to be actionable five years thereafter.

**Mr T. SMITH** — Sorry, can you repeat — —

**Mr DONNELLAN** — So it is three years to put together the plan, and it has to be actionable within eight years — so five years after the three-year period. We would expect to actually be able to try and do that a little bit earlier, and obviously we are having discussions. We are certainly looking at issues like the port rail shuttle quite closely at the moment, and then we will continue to work with the Lonsdale group to get outcomes for the longer rail operations, whether it be coming out of the western districts or whether it be looking at the Melbourne to Brisbane rail and the like.

**Mr T. SMITH** — Thank you. Will intermodal trains be able to operate on your sky rail to and from Dandenong South and Lyndhurst with existing locomotives holding the same load as they do today, or will sky rail result in trains like an Australian Paper container train facing rising costs due to fewer tonnes per locomotive being able to be hauled up and down the sky rail track gradients?

**Mr DONNELLAN** — The intention of the port rail shuttle would be to use — —

**Mr DIMOPOULOS** — On a point of order, Chair: A, budget reference; B, what has that got to do with ports?

**Mr T. SMITH** — The question is regarding the intermodal shuttle and, I would have thought, a fairly important access route in and out of the port.

**Mr DIMOPOULOS** — Budget reference?

**Mr T. SMITH** — I think I said BP4, pages 28 and 30, to be honest.

**The CHAIR** — I am happy for the question to stand.

**Mr DONNELLAN** — The port rail shuttle was always intended to be able to use off-peak capacity on the system more than anything else, because obviously many of the lines are running at capacity currently. They are intensively used for domestic purposes to get people in and out of the city. So the port rail shuttle has always been intended to look at using that off-peak capacity on our rail lines to get goods to the inland ports and to distribute them from there or to take them from there into the port.

**Mr T. SMITH** — Yes, but will these locomotives be using the sky rail?

**Mr DONNELLAN** — Well, there is only one line, so that would be a very good guess that that would be the line it would use. That would be a sensible conclusion to draw from that.

**Mr T. SMITH** — When do you expect the port rail shuttles to commence operating between the port of Melbourne and Somerton and the port of Melbourne and Dandenong South-Lyndhurst?

**Mr DONNELLAN** — That is the work we are doing currently in relation to our freight strategy, and we expect to release that later on this year, as we were indicating. That is what we are working through currently, obviously with both operators and the port itself, while we develop our freight strategy to renew it.

**Mr T. SMITH** — What target date, if any, have you set for shipside rail access at each line of the stevedores wharfs, including but not limited to Webb Dock, that lacks a rail line?

**Mr DONNELLAN** — No, there is no set date for that yet.

**Mr T. SMITH** — Do you envisage one?

**Mr DONNELLAN** — I have given you the answer, which is that we do not have a set date. You have asked me for set date and I do not have a set date to provide you with.

**Mr T. SMITH** — Ballpark?

**Mr DONNELLAN** — No, I am saying we are actually developing our strategy at the moment. In terms of getting rail directly into the stevedores, that is a substantial exercise. We have got issues like Coode Road we need to deal with, which we are currently working with DP World at the moment to look at how we can potentially close a part of Coode Road to allow such things to happen, but until we work through that it is a bit difficult to give you a specific date and time.

**Mr T. SMITH** — Given that Sydney has its Moorebank intermodal facility already having obtained planning approval, how long is it before Melbourne loses its crown as the leading container port in Australia under your inaction?

**Mr DONNELLAN** — We will not — —

**Ms WARD** — Well, considering everyone from New South Wales is migrating here, Mr Smith, I do not think it is a problem any time soon.

**The CHAIR** — Order! Ms Ward!

**Mr DONNELLAN** — We will not be losing our crown.

**Mr T. SMITH** — Why is closing Coode Road taking so long, Minister?

**Mr DONNELLAN** — Because these are complicated issues; these are not simply matters of closing roads. You have obviously got access issues for other stevedores down there. You have got movement between stevedores. You have got issues in relation to Footscray Road, because obviously high productivity freight vehicles will not be moving through the port area; they would be moving potentially along Footscray Road. They are all issues you have to consider before you actually act and ensure that you can bring industry with you and ensure that you are not damaging the operations which are occurring at the port.

**Mr T. SMITH** — Do you have a potential date by which this will occur?

**Mr DONNELLAN** — No, as I am saying, we are currently working with both DP World, the port operator, and VicRoads on that, and we would hope to get it done soon. But there is no specific date, because these things are all subject to negotiations. You are dealing with people who have got businesses which are currently operating down there, and it is just not that straightforward.

**Mr T. SMITH** — Minister, I refer you to budget paper 3, page 151, ‘Containers transported by rail under the mode shift incentive scheme program’. Given there have been recent strikes by Pacific National train drivers forcing farmers, grain growers and logistics companies to use B-double trucks at greater cost than rail, why has the expected number of 42 500 containers transported by rail in 2016–17 not been revised downwards?

**Mr DONNELLAN** — We are expecting we will provide movements accumulatively 42 000 in 16–17, and in 17–18, 42 000 20-foot-equivalent containers to be moved. Those are our expectations of what will occur. The 14–15 mode shift incentive scheme supported the movement of 64 000 20-foot-equivalent containers, which at the time exceeded the government’s targets. This result was due to the impact of two one-year — what we had in 14–15 was that when we came in there was an extra bit of money, carryover funds, which we allocated to that, which delivered a higher figure in the 14–15 year.

**Mr T. SMITH** — But it does strike me as odd that you have not revised your estimates downwards for the next financial year given all that is happening.

**Mr DONNELLAN** — Our expectations are and the advice I am given is that we will approximately move 42 000 20-foot-equivalent containers in 17–18.

**Mr T. SMITH** — Have you done any analysis on the actions of the RTBU with regard to freight costs in Victoria over the forward estimates?

**Mr DONNELLAN** — For the Rail, Tram and Bus Union? Is that what you are asking, sorry?

**Mr T. SMITH** — The RTBU's industrial action and the impact that is going to have on freight costs.

**Mr DONNELLAN** — No. The answer is no, sorry. No.

**Ms PENNICUIK** — Thank you, Minister, secretary and everyone. If I could just continue on slightly from what Mr Smith was talking about with the mode shift incentive scheme. I just jotted down your 64 000 and 42 000 figures of containers moved. Is this scheme to be continued, or is it going to lapse?

**Mr DONNELLAN** — I think at this stage our expectation is to continue the scheme, but we are considering options currently before the 17–18 year finishes. Look, we would like it too, but that is all subject to budget capacity and the like.

**Ms PENNICUIK** — Is the department keeping figures on the percentage of freight on rail as compared to road?

**Mr DONNELLAN** — I will get Robert to answer that.

**Ms PENNICUIK** — And just container freight, not bulk freight.

**Mr ABBOUD** — We do collect that data from a variety of sources. Is there anything specific you are after?

**Ms PENNICUIK** — No, just wondering whether you are keeping it and whether you are using that in terms of this incentive scheme. Does it inform that incentive scheme?

**Mr ABBOUD** — It is an input into the incentive scheme, but it is more used for the future planning of the port precinct and general freight and logistics in and around Melbourne.

**Ms PENNICUIK** — Thanks. Minister, I noticed you said you were going to have another freight strategy — another freight strategy is due at the end of the year. There have been quite a few of those over my time certainly in the Parliament, so I am looking forward to yet another one. The rail access strategy that you say the new operator has to have in place within three years will include the port rail shuttle, which you are saying has to be implemented within five years after that.

It was our understanding it would have to be five years after the lease was signed. That was the understanding we had at the time when the port was being sold. But I would say too that I think I have been asking questions about the port rail shuttle since 2009, when at that stage it was actually ready to go. I would like you to tell me what the \$58 million is actually going to be spent on above and beyond what we do not already know about that, whether that is all going to be concentrated on the port of Melbourne or in the other inland freight terminals.

**Mr DONNELLAN** — That is all part of that. In terms of specifically what the \$58 million will be spent on, that is all part of our work through this freight strategy. But in terms of the inland shuttle, my expectation would be that that would be actionable a lot quicker than some other parts of getting more freight onto rail. There are various inland operators already out there, whether it be in Truganina, Beveridge and Lyndhurst, already set up. I guess in many ways the \$58 million will be used to facilitate movement into those. Why has it taken so long? I guess the simple answer — —

**Ms PENNICUIK** — That is the question.

**Mr DONNELLAN** — That is what I was going to answer; I gave myself a question, and I was going to answer it. It is largely because obviously we had the port sale going on, and anything you do in that space you really need to actually work with the new operators and the like to ensure that you are actually adding value — —

**Ms PENNICUIK** — Minister, we have only got 1 minute to go. I hear that, what you have just said, but in the interests of brevity. I just struggle to understand how it is going to take another eight years. It has already been eight years, and for the people of Melbourne to have to wait another eight years for something like this — —

**Mr DONNELLAN** — The West Gate tunnel obviously is going to move a lot of trucks out of the inner west, so if it is an issue of trucks out of the inner west, we know the West Gate tunnel will deliver great benefits to that community and decongest it. Part of the inland shuttle is also about trying to decongest — —

**Ms PENNICUIK** — That is your claim, but that is still another five years away too.

**Mr DONNELLAN** — No, it is not a claim, it is what the actual traffic engineers have estimated, and I think they generally tend to get it right. You have also got the inland shuttle, which is also another way to decongest. But never have I indicated that the inland shuttle would take eight years. Let me be very clear. I am not suggesting anything like — —

**Ms PENNICUIK** — Well, that is what this says.

**Mr DONNELLAN** — No, that is up to eight years.

**Ms PENNICUIK** — Yes, but ‘up to’ always means that.

**Mr DONNELLAN** — My expectation is that they will be coming — —

**The CHAIR** — Order! I would like to thank the witnesses for their attendance: the Minister for Ports, Mr Bolt, Dr Miles and Mr Abboud.

**Committee adjourned.**