



TasWater Ownership

SUBMISSION TO THE LEGISLATIVE COUNCIL SELECT COMMITTEE

LOCAL GOVERNMENT ASSOCIATION OF TASMANIA

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1. Introduction

The Local Government Association of Tasmania (LGAT) welcomes the opportunity to provide a submission to the Legislative Council Select Committee's TasWater Ownership Inquiry.

LGAT is the representative body of Local Government in Tasmania. Established in 1911, LGAT is incorporated under the *Local Government Act 1993* with membership comprising all 29 Tasmanian councils.

The functions of LGAT under the *Local Government Act 1993* are:

- (a) to protect and represent the interests and rights of councils in Tasmania;
- (b) to promote an efficient and effective system of Local Government in Tasmania;
- (c) to provide services to member councils, councillors and employees of councils.

Further, under the Local Government Act, Councils' functions include "providing for the health, safety and welfare of the community" and representing and "promoting the interests of the community".

We have consulted with our member councils and this submission reflects the feedback of the majority of councils. LGAT has also encouraged individual councils to make submissions on this important issue but a number of councils have resolved to support the LGAT submission as opposed to making their own.

At the LGAT Special General Meeting of 11 May, 2017 a clear majority of Members (24 of 29 councils, with one more since resolving to support the LGAT motion) determined that **"there is no water and sewerage crisis"** and to **"reject the proposed State Government ownership of TasWater and, through LGAT, urge the State Government to work cooperatively with LGAT, councils and TasWater on the optimal water and sewerage infrastructure upgrade program to achieve the best outcomes for councils and consumers"**.

If you have any questions or would like further information, please do not hesitate to contact Dion Lester, Acting CEO at dion.lester@lgat.tas.gov.au or via phone on (03) 6233 5960.

Yours sincerely



Dr Katrena Stephenson
Chief Executive Officer

2. Executive Summary

There is no crisis in water and sewerage services in Tasmania. Of TasWater's customers, 99.4% currently have clean drinking water and by August 2018 it will be 100%. The percentage of sewerage plants fully compliant with EPA standards has steadily risen over the past 3 years. The primary reasons the State Government gave in February for wanting to takeover TasWater is a flawed premise to start.

TasWater has a 10 year fully funded and transparent plan that it is undertaking systematically and based on need and priority. TasWater is in Year 2 of that plan and achieving all of the milestones set by its independent skills-based board and by any metric is making significant progress. There is no need for a change in ownership for improvements to water and sewerage to continue.

LGAT therefore questions the justification of the State Government to borrow \$548 million to bring forward this capital program and fund councils \$20 million a year out of consolidated revenue until 2024 – a hit on the State Budget for money that could go into hospitals, schools and other vital services.

The State Government has no plan and no financial modelling to support the takeover, it is technically flawed due to the lack of necessary planning, analysis and due diligence required to truly understand the feasibility and risks of the State Government's approach.

The Government has failed to provide evidence that it has undertaken the full and necessary steps to develop and test its business case. It is not addressed by the Infrastructure Tasmania report.

Does the State Government's proposal offer a genuine improvement on TasWater's current plan and, given its record in operating Government Business Enterprises (GBEs), would it do a better job than the current independent skills based board? As a GBE, it would be subject to the political whim of the Minister of the day and decisions made not on the basis of need or sound engineering but to garner political support and votes. The loss of independent accountability should be of major concern.

Water and sewerage reform is the single largest micro-economic reform in Tasmania over the past 25 years. It should be asked why the Government is seeking to turn it upside down based on a flawed premise, misrepresentation of data, broad or erroneous assumptions, minimal modelling and flawed legislation.

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Fact Sheet 2	Regulation and Pricing
Fact Sheet 3	Infrastructure
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Fact Sheet 6	Long Term Strategic Plan
Fact Sheet 7	Capex
Fact Sheet 8	Productivity
Fact Sheet 9	Trade Waste
Fact Sheet 10	Service Standards

3. General Comments

Since February this year, the State Government has bombarded the Tasmanian community with messages such as:

"Tasmania's enviable reputation for having a clean and safe environment is being put at risk by Local Government's inability to ensure all Tasmanians have access to clean and safe drinking water and, that our wastewater systems comply with environmental standards" (The Treasurer, Feb 2107) <http://www.petergutwein.com/news/water-and-sewerage-mess-laid-bare>.

"Tasmania is a world-class destination with Third World water and sewerage services," (The Premier 7 March) <https://www.tas.liberal.org.au/news/fixing-tasmanias-water-and-sewerage-infrastructure>.

"The State Government does consider that we have reached a 'crisis point', and as the Premier outlined yesterday we are no longer prepared to stand by and let this situation continue". (Ministerial Statement by the Treasurer 8 March).

"Water and sewage infrastructure in Tasmania is at crisis point, Tasmanian Treasurer, the Hon. Peter Gutwein has told CEDA's annual Economic and Political Overview in Hobart".

There has been repeated use of emotive language such as 'crisis' and 'third world' and suggestion of an impact on branding, tourism and related industry.

It is on this premise that the Government have launched into a hostile takeover of TasWater, backed by disingenuous use of data, unsubstantiated statements and false assertions.

LGAT argues that not only is the premise of a crisis fundamentally flawed but that the desired takeover is technically flawed because of the lack of necessary planning, analysis and due diligence required to truly understand the feasibility and risks of the State Government's proposed approach. This includes risks to consumers and communities through future escalation of costs, loss of local funding and failure to address local water and sewerage priorities in favour of projects such as Macquarie Point.

Ultimately the flaws in the Government's proposal actually put at risk, rather than improve, the health and wealth of all Tasmanians.

4. A Flawed Premise

4.1 What Crisis?

If we start with two key pieces of rhetoric ‘crisis’ and ‘third world’ and consider what they really mean, the falsity of the Government’s claims become immediately obvious.

While no one disputes there is a need to continue to improve the provision and quality of water and sewerage services in Tasmania, there simply is not a crisis by any definition.

A crisis, is commonly understood to be an emergency event, a dangerous or unstable situation, is unexpected and creates uncertainty. The June 2016 floods were a crisis, the delivery of water and sewerage services in Tasmania, which are highly regulated, significantly funded and clearly planned for – are not in crisis.

“At no time has the DHHS or the EPA verbally or in writing advised us that a crisis exists, nor have the EPA issued any fines for environmental damage over the last 12 months.

We have been working with the Regulators to ensure that our Plan meets their expectations and at no time have they advised that our approach is at odds with the outcomes they are seeking”.

“Tasmania has water and sewerage challenges. This is why TasWater has developed a fully funded 10-year plan to address infrastructure upgrades which commenced in 2016”.

MILES HAMPTON, CHAIR TASWATER, 2017

As Miles Hampton has publicly indicated, in their 9 meetings over the last 3 years, the Treasurer never expressed dissatisfaction with the rate of progress and in fact declined to assist with rectifying the small-town Public Health Alerts (boil water alerts and do not consume notices) or the 10-year capital plan. This seems to illustrate a previous lack of interest in ‘fast tracking’ progress.

Similarly, the Regulators have not raised any suggestion that there is a crisis in Tasmania.

Tasmanians do not, thankfully, experience third world access to drinking water and sanitation. In fact, to equate the level of service in Tasmania to that in so many developing countries does a major disservice to the plight of billions. Those people have no access at all to safe water supplies, are dying every day from water related diseases, have no toilets or even pit latrines, have no water

to wash their hands and often must spend several hours each day collecting water from distant, often polluted sources. In many developing countries, there is an absolute scarcity of water supply and even many hospitals have no running water.

Tasmanian drinking water is managed in line with the requirements of both the Tasmanian Drinking Water Quality Guidelines and the Australian Drinking Water Guidelines. TasWater conducts around 129,000 drinking water compliance tests every year, across a range of different test methodologies. These results are shared with the Department of Health and Human Services (DHHS), which has the responsibility for declaring and removing Public Health Alerts.

The fact is 99.4% of TasWater's customers currently have clean drinking water and by August 2018 it will be 100%.

The Government have run a scare campaign based on flawed assumptions and false assertions such as:

- The Government will fix the boil water alerts.
- That chemical contamination existed in 13 water supplies.
- That 25 towns have third world water supply.
- That sewer overflows are 7 times the national average.
- That because only 1 of 79 waste water treatment plans are fully compliant and that sewer overflows increased in 2015-16, this is indicative of the 'crisis'.
- That trade waste charges are having a devastating impact on businesses.
- That they will deliver the capital plan in half the time.
- That there will be 1000 new jobs.
- That through acceleration of the capital plan they will be able to commence work earlier on Macquarie Point and the Launceston Combined Sewerage System Strategy.

These will be addressed throughout this submission as well as that of TasWater, including the TasWater Fact Sheets Attached.

Analysis of the veracity of these statements, as well as the changing detail, clearly illustrate that the Government's hostile takeover is ill founded and of high risk to the industry, the consumer and all Tasmanians.

However, significantly, the Government have failed to provide evidence that it has undertaken the full and necessary steps to develop and test its business case.

4.2 No Business Case

Since March LGAT has sought from the Government a detailed business case to justify the takeover. This has not been forthcoming and is not addressed by the Infrastructure Tasmania Report. Further we sought this detailed information so that owners could understand how the:

1. Government plans to address the key risks associated with attempting to complete TasWater's 10-year capital program 3 years earlier;
2. Capping of price increases between 2.75% and 3.5% can service the projected debt levels of the Corporation, while sustaining the ongoing operations and capital program (that is,

we would like to see the Government's 10-year financial modelling setting out annual profit and loss, balance sheet and cashflow projections); and

3. Financial returns to owners can be sustained and improved beyond 2025.

It appears to the Local Government sector that the State Government has:

- NOT developed a business case;
- NOT tested the feasibility of the proposal in a sound way;
- NOT built a base case and then undertaken sensitivity analysis on the financials;
- NOT modelled an expected spike in construction over the coming years and then a subsequent crash and the impact of this on local businesses;
- NOT undertaken a risk analysis,
- NOT developed a rationale, evidence based schedule;
- NOT demonstrated how they can keep prices lower and avoid future price shocks, other than through unsustainable legislation;
- NOT demonstrated consideration of impacts on quality of a fast tracked process;
- NOT allowed sufficient transition time;
- NOT considered alternative models including direct injections of funding into TasWater; and
- Simply NOT undertaken the appropriate due diligence for the scale of the proposal.

Local Government considers that as with any business or capital program, including a takeover, a robust business case must be developed, even more so when public services and public funds are at risk. It must also be remembered there is no surety in relation to ongoing injections of capital funds, there can be no perfect projections.

It seems clear that the State Government:

- HAS based its argument on scant data and spurious assumptions;
- HAS failed to consider other impediments to its plans such as the regulatory delays in the Environment Protection Authority (see Infrastructure Tasmania Report),
- HAS given Infrastructure Tasmania such broad parameters and assumptions that their report is almost nonsensical;
- HAS compared apples and antelopes in their comparative analysis; and
- HAS discounted the significant expertise in TasWater.

The Government has put the 'cart before the horse' and decided a pathway and pricing without having all the information they need to determine the most appropriate path and appropriate cost structures. They do not appear to have considered the 'big cliff' for industry with a sudden

**THE LOCAL GOVERNMENT SECTOR
GIVES THE STATE GOVERNMENT A
D - GRADE IN PROJECT PLANNING**

downturn in year 7 of their plan. There is no time to ramp up and no smoothing to ensure a sustainable sector ongoing.

The Government's proposal is not a simple matter of changing the corporate letterhead or placing a new owner name at the top of the Governance chart. It is likely to require lengthy legislative, legal and corporate processes, considerable expert planning in relation to acceleration of the capital program; management of staff changes; employment of new staff, engagement of new contractors and more. The 1st of July timeframe appears to our sector, based on the experience of two major water and sewerage reforms in the last decade, to be undercooked significantly. This is of concern given the Government's claim it can deliver things faster, which clearly underpins its argument for the takeover. Combined with the fact that the second key underpinning, the Public Health Alerts, will be effectively delivered before the Government can implement its hostile takeover, further undermines the credibility of its whole argument. The question also needs to be asked: what the impact of this hostile takeover will have on the organisation of TasWater itself and what impact this is having on the business now as it is trying to implement its plan while being under attack from the Government?

4.3 Is It Legal?

In early June TasWater Chairman, Miles Hampton released legal advice that suggested the proposed takeover may lack constitutional validity.

Councils and TasWater will consider their next steps in terms of challenging the legality of the takeover once they have seen the final legislation and the Legislative Council has determined whether it is prepared to pass the bills.

The Government criticised TasWater for seeking legal advice but this is an entirely appropriate action by the TasWater Board working under the *Corporations Act*.

Consequently, the provisions in the Draft Bill, currently before the Lower House, which seek to penalise the Council Owners for such action is, without doubt, provocative and indicative of the intensely hostile and non-consultative approach taken by the State Government on the issue of TasWater. Needless to say, while councils do not support the takeover in its entirety, they specifically oppose those particular draft provisions.

5. Technical Flaws and False Assertions

99.4% OF CUSTOMERS CURRENTLY HAVE CLEAN DRINKING WATER AND BY AUGUST 2018 IT WILL BE 100%.

As outlined earlier, the Government have advocated this hostile takeover based not only on a flawed premise, but on misrepresentation of data, broad or erroneous assumptions, minimal modeling and flawed legislation. While this submission will briefly address these, we refer the Select Committee to the TasWater submission and attached Fact Sheets for more detail.

The State Government has the legal power to takeover TasWater.	<p>Initial legal advice obtained by TasWater, put in the public domain, suggests that this takeover is likely illegal by virtue of TasWater being constituted under Commonwealth Corporations Law.</p> <p>Further the Bill currently before Parliament seeks to penalise TasWater Owners for any legal action taken despite the duty of the Corporation, under law, to resist a hostile takeover.</p>
State Government will fix the boil water alerts (e.g. Public Health Alerts) faster.	<p>Under council ownership, TasWater has significantly reduced the number of customers who don't receive drinkable water. As at August 2017, 99.4% of customers have cleaning drinking water and the remaining Public Health Alerts will be removed by August 2018.</p> <p>As of August 2017, TasWater has removed 17 Public Health Alerts from small towns across Tasmania.</p> <p>It is projected that the remaining customers will receive drinking water by August 2018, before the Treasurer's plan could even take effect.</p> <p>While the first analyses of Tasmania's regional towns were made by Southern Water and Ben Lomond Water in 2010, it has only been since the creation of a single state-wide water utility in 2013 that economies of scale have made it possible to achieve this outcome.</p>

	<p>TasWater launched its regional towns program in August 2016, following rejection by the State Government of TasWater's funding request.</p> <p>Please refer to TasWater Fact Sheet 4 on Drinking Water for more information.</p>
<p>Sewer overflows to the environment are seven times the national average.</p> <p>Only 1 of 79 sewerage treatment plants achieved full compliance with regulatory discharge limits.</p>	<p>The State Government's supporting data does not compare like for like. For example, compared to other states the regulatory triggers for reporting sewage discharge are different and often much higher than in Tasmania than other States and so reports of non-compliance are far more likely.</p> <p>In 2016, TasWater reached an agreement with the Environment Protection Agency (EPA) to concentrate efforts on a handful of the worst-performing sewage treatment plants, where the greatest improvements could be made. These include the sewage treatment plants being decommissioned as a part of the \$51 million Kingborough Sewerage Upgrade Project, now underway and due for completion by the end of 2018.</p> <p>The causes of sewage spills are largely out of TasWater's control. These include flooding, rainfall, trade waste, tree roots and soil movement, as well as ageing under-sized infrastructure. Furthermore, in the reporting period, major floods, bushfire and drought contributed to the extraordinary discharges.</p>
<p>Trade waste costs are having a devastating impact on businesses and pushing the cost of living up for Tasmanians.</p>	<p>Trade waste refers to fats, oils, grease and hydrocarbons which can accumulate and block sewerage systems, damaging pipes and treatment plants. Many businesses generate liquid or trade waste which is different in nature to that generated by homes and generally higher in volume. It is a form of pollution that TasWater is obligated by legislation to mitigate.</p> <p>Trade waste is the biggest single contributor to sewage noncompliance in Tasmania and LGAT strongly feels it is the responsibility of each business to dispose of its own</p>

	<p>trade waste appropriately rather than force those costs to households.</p> <p>Most businesses are compliant already and those who are not, have been given 18 months to install appropriate pretreatment systems. This timeframe is more generous than similar trade waste programs interstate, although the Tasmanian legislation is consistent with the national approach of businesses having to take responsibility for their own waste. For most businesses, the cost of compliance is minor and TasWater has committed to working with business owners to explore all possible options to find a solution that is effective and affordable.</p>
Unplanned interruptions to water supply have increased.	<p>There are many factors aside from maintenance of the water supply network which can influence the number of unplanned interruptions, most of which are outside of TasWater's control. These include soil movement, tree root intrusion, rainfall, drought and floods.</p> <p>The spike in 2014-15 reflected a very dry period which typically increases the number of breaks.</p>
The capital plan can be delivered in half the time (5 years).	<p>The Government have recently clarified that the plan would be delivered in seven years, i.e. three years earlier rather than the 5 years originally announced, if they commence on 1 July and this is questionable as outlined earlier. TasWater analysis suggested that even a three-year acceleration would significantly increase the debt levels and render TasWater unsustainable. In all likelihood it puts the quality of planning and delivery at risk too.</p> <p>When modelled using the information provided by the Treasurer to the LGAT General Meeting in April, it showed that debt levels would be increased to \$1.48B.</p> <p>Plus a further \$140M would need to be funded from other sources to provide councils with the returns proposed by TasWater. If funded from consolidated revenue this means a likely impact on other Government services such as health and education.</p>

	<p>Many of the 600-plus projects in the TasWater 10-year plan will each take several years to research the most appropriate solution, design the works, call for and consider tenders, and gain planning and environmental approvals, all before construction can even start. Speeding up this delivery can only mean rushed outcomes and corners being cut, with the risk of significant waste.</p> <p>The State Government's report claims that a new water and sewerage GBE would need to identify and design a new program delivery model, new governance arrangements and a new procurement strategy, all within the first 12 months, while at the same time recruiting replacement expertise and trying to maintain the current program of accelerated expenditure. In contrast, TasWater already has all of these key elements for success in place. None of this additional risk, expenditure and likely loss of traction on the capital program is necessary.</p>
The Government can borrow at a lower rate.	<p>TasWater already borrow through TasCorp at the same rate as the Government.</p> <p>There is nothing to stop the State Government sourcing more money for water and sewerage under a Local Government ownership model if it chooses to do so.</p>
1000 new jobs will be created.	<p>There is no data to back this assertion and it is unlikely there is enough specialist skill in Tasmania to support an accelerated program.</p> <p>As indicated in the Infrastructure Tasmania/Department of Treasury Reports, the State Government will need to lure more mainland contractors to meet demand, with the very real likelihood that prices will increase in response to a sudden influx of cash.</p> <p>By increasing the number of projects needing completion in a given timeframe, this deprives our local workforce with an opportunity to not only bid for this work, but to benefit from the upskilling it would provide.</p>

The Government will prevent privatisation through the legislation.	The current ownership model effectively prevents privatisation. Under the Government's proposed legislation, while privatisation is hampered, it is still just a matter of changed legislation passing both Houses.
The Government will cap price increases.	<p>Pricing is currently set by the independent regulator and cannot be capped by owners. Furthermore, TasWater is required by legislation to move towards full cost recovery.</p> <p>A move away from independent pricing regulation is at odds with the national water initiative and further escalates the risk to TasWater's viability. The latest national report states that when compared to like utilities, TasWater charges per customer are the lowest, despite having the highest level of capital investment.</p>
TasWater will become a GBE which can be directed by the Minister.	<p>This gives the relevant Ministers considerable power without direct controls or scrutiny and is unlike other GBE's in this regard. The likelihood of 'pork barreling' and/or bad policy from the 'Government of the day' is increased.</p> <p>The constraints on scrutiny and public provision of information are well illustrated by the recent committee hearings around Hydro.</p> <p>Furthermore, there are numerous well known examples of using funds from GBEs to shore up the Government's budget bottom line or prop up another failing GBE.</p>
The TasWater Board is risk averse.	Infrastructure Tasmania criticises the TasWater Board for being "highly risk adverse" calling for a relaxation of risk assessment and rushing of internal approvals. However, this clearly puts at risk the appropriateness and quality of provision and could lead to undersized, inappropriate and poorly thought through infrastructure that does not meet Tasmania's future needs.
The Federal Government will not be providing funding to TasWater because councils take a dividend.	As recently as 21 August, Federal Minister Fiona Nash announced funding for the Mount Isa Treatment Plant Upgrade. Mt Isa City Council receives a dividend from the Mt Isa Water Board.

5.1 Infrastructure Tasmania Report

Having waited a considerable amount of time for the Government to provide more robust data and modelling, the Infrastructure Tasmania report released in July was a disappointment that failed to deliver any conclusive evidence that-

- a) the Government had developed an adequate business case; and
- b) that the Government can deliver on the key promises of faster and cheaper.

At a high level of response, the Infrastructure Tasmania Report: *Accelerated Infrastructure Delivery in Tasmania's Water and Sewerage Sector* (the Report):

- Is very limited in detail;
- Has very broad assumptions including NO financial constraints;
- Erroneously compares TasWater to other utilities; and
- Does not provide any financial modelling of the effects on the State Budget, the debt burden to the new Corporation, the long-term impacts on prices and distributions to Councils.

As outlined in the Report, delivery of the plan relies on mainland contractors and outsourcing (at odds with the 1000 new jobs claim) with a likely escalation in costs and pricing that have not been factored in.

The peer review by pitt&sherry picks up on the many assumptions and provisos used in developing the report and clearly states that the limited amount of information provided by the State Government "makes it difficult to undertake a rigorous assessment of the Plan." While they say that the plan is "reasonable given the information provided" they also warn that the plan "is not without risk". One of the significant risks identified is the Government's own agency, the Environmental Projection Authority.

Despite the significant injection of funds (even before any consideration of debt and pricing) the plan, as outlined in the Report, shifts the timeframes from TasWater's fully funded 10-year plan to at best, 7 years.

As indicated earlier, and supported by the Report, the Public Health Alerts will be all but removed before Government ownership commences.

The Report claims that a new water and sewerage Government Business Enterprise (GBE) would need to identify and design a new program delivery model, new governance arrangements and a new procurement strategy, all within the first 12 months while at the same time putting in place a new GBE, recruiting replacement expertise and trying to maintain the current program of accelerated expenditure.

Again, LGAT notes that the Infrastructure Tasmania Report still does not provide the detail requested by LGAT on behalf of our Members in March this year.

The Infrastructure Tasmania Report requires a high level of scrutiny by the Select Committee. This submission highlights a few examples of the flaws in the Report.

1) Flawed comparative analysis:

It is well known, that there is an additional challenge for Tasmanian with respect to water and sewerage services due to the disproportionately large amount of infrastructure when compared to our small population.

A study of water utilities across Australia and New Zealand undertaken in 2015 by the Water Services Association Australia found that TasWater, servicing less than 3% of the study population had 37% of the sewage treatment plants, 38% of the water treatment plants and 18% per cent of the dams. This significant disparity has not been considered by Infrastructure Tasmania who on the whole have compounded the issue by comparing with specific large Australia water utilities.

Analysis fails to take into account the higher capital costs that are associated with maintaining, renewing and replacing this amount of infrastructure. Nor does it contemplate the disproportionate effect of the introduction of new, more stringent compliance standards. This context, as well as the significant reforms that have had to be delivered by the industry in recent years, provide the rational explanation for the pace of improvement. It is simply not possible or feasible to fix everything at once.

Further, pitt&sherry's review notes that some of the difficulties currently experienced by TasWater are not unusual for a utility at this stage of maturity, being among the youngest in Australia. This begs the question as to why would you start again by creating yet another water and sewerage utility?

An apolitical approach to prioritisation, as is developed by TasWater with the Regulator, is most likely to ensure statewide and long-term benefit, not the dictatorial GBE model being proposed by the Tasmanian Government, which clearly could be subject to political whim.

2) Unrealistic assumptions:

What should be of concern to all is the State Government's key assumption behind the Infrastructure Tasmania Report – that of 'no financial constraints'. While there may be a case for specific additional funding to deliver on priority projects or matters which fall outside the scope of TasWater (such as Macquarie Point), there is a clear risk from the 'bucket of funds' approach being suggested. There is no analysis of debt burden, long term sustainability of the GBE or even impact on the State Budget and other services. There is no analysis of possible price shocks once any cap is removed. There is no analysis of the risk to council's financial sustainability or service delivery over the longer term.

3) No other scenarios tested:

Despite constant calls from the Local Government sector for a more collaborative approach to this issue, the State Government has not demonstrated that any other scenarios have been considered. For example, there has been no examination of:

- 1) Direct injection of funding, equivalent to the funds that will be paid to councils from the consolidated fund;
- 2) Shared equity models both general and related to specific projects; or
- 3) Public private partnerships.

4) Government can deliver infrastructure programs more efficiently:

A critical flaw in the Government's program is the claim that, by virtue of delivering water and sewerage services through a State Government Business Enterprise, increased responsiveness, quality and speed of delivery can be achieved.

The Legislative Council is fully aware how spurious this claim is through exposure via GBE Scrutiny Hearings, Select Committee Processes and Budget Hearings.

Briefly consider the following:

- 1) Royal Hobart Hospital: The redevelopment has been beset by problems and delays (eg <http://www.themercury.com.au/news/politics/health-minister-michael-ferguson-reveals-royal-hobart-hospital-revamp-running-six-months-late/news-story/db7f116f89fbbdf21166398c085de790>).
- 2) Midlands Highway: poor quality works (eg <http://www.abc.net.au/news/2015-12-21/melting-roadway-leaves-midland-highway-reduced-to-one-lane/7046434> and <http://www.examiner.com.au/story/4797168/faulty-roadwork-creates-highway-holes/>)
- 3) The 2016 Energy Crisis and the proposed sale of the Tamar Valley Power Station (<http://www.abc.net.au/news/2016-04-22/tasmanias-energy-crisis-no-end-in-sight/7347602>; <http://www.abc.net.au/news/2017-04-11/upper-house-set-to-decide-on-treasurer-peter-gutwein-contempt/8432370>)

There is a clear history of poor management, raiding of or redirection of funds and political interference, compare this with the independent accountability of TasWater. TasWater priorities are developed with regard to need and professional engineering considerations.

THE GOVERNMENT'S KEY ASSUMPTION BEHIND THEIR SCANT MODELLING IS THAT THERE ARE 'NO FINANCIAL CONSTRAINTS TO ACHIEVING THEIR PLAN'. THIS IS SIMPLY NOT REALISTIC OR APPROPRIATE.

5.2 Legislation

Despite the Communication and Consultation Partnership Agreement with State Government, Local Government had no preliminary exposure to the Bill prior to it entering the public domain (shortly before being tabled in Parliament), LGAT notes the following key concerns:

- The legality of the takeover had not been transparently addressed by the State Government;
- The legislation gives extraordinary powers to the responsible Ministers, with the ability to direct the new GBE operationally, at odds with the Corporate Plan. Other GBEs really only need to respond to the Ministerial Charter;
- Unlike other GBEs there is no requirement to deliver a commercial return or it would appear to even run a viable organization. Under current legislation, TasWater is legislatively required to move towards full cost recovery;
- The Government will no longer require the organization to meet competitive neutrality principles, there is no requirement for tax equivalents and loan guarantee fee payments;
- There is no requirement for a skills based Board;
- There is a significant draw on consolidated funds until 2024; and
- There is a clearly indicated likelihood of \$0 to councils after 2024 - 25.

The Treasurer, when presenting to LGAT in April, described his intent to establish 'bespoke GBE legislation allowing government to set clear directions for business' and that the "Treasurer of the day will set prices through an Order upon advice of Tasmanian Economic Regulator".

The Treasurer considers that the model which works for the Motor Accident Insurance Board will work for water and sewerage but the two entities are not at all comparable.

There are a number of technical/drafting errors in the legislation which we will address with the Legislative Council when the Bill is tabled. However, matters which have not been considered include the impact of any council amalgamations on the payments to councils and consideration of the impacts on council operating statements and the expectations of the Auditor-General.

6. Community Impacts

The Government originally intended to give no consideration to the need to provide councils and communities a return on their investment in water and sewerage assets, and the use of those returns on vital community services and infrastructure. However, after meeting with councils in February 2017, the Government's position shifted so that the distribution forecast under the capital plan remain in place until 2024-25. While this conciliation was welcomed, the about face is indicative of the lack of due diligence or consultation by the Government in coming to their position. This is despite LGAT previously providing information to the Treasurer on the importance of distributions and their relativity to rates (2015).

The Government's subsequent commitment to ensure equivalent revenue through consolidated funds does raise the question as to "why can't the Government simply invest in TasWater" without a takeover. This could be done immediately, under a well formed Agreement, with clear milestones to be met, without any takeover.

By way of background, distribution payments to TasWater's Local Government owners comprise the following three types of payments.

- **Dividends** - Returns on investment made to councils that built the existing water and sewerage infrastructure.
- **Loan guarantee fees** - TasWater is obliged to pay guarantee fees in accordance with the Water and Sewage Corporation Act 2012 and its Constitution.
- **Tax equivalent fee** - This fee compensates for TasWater's not being required to pay income tax.

Generally, GBEs also pay loan guarantee fees and tax equivalent fees under Commonwealth competition law, but this can be waived as is proposed with the draft legislation.

As outlined earlier, the Legislation as drafted seems likely to deliver no funding to Local Government after 2024-25. This aligns with the statements by the Treasurer on the 11 April 2017 that any profit would be directed back into TasWater and so there would likely be no dividends. Further he indicated that the Government would continue to forgo their share of tax equivalent payments and would expect Local Government to do the same. This will amount to a loss to communities of 50% of any future growth of distributions through profit.

It has been easy for the Government to paint councils call for a fair return on assets through distributions as 'greed'. The Treasurer clearly stated in February that "Local councils have sacrificed investment in our water and sewerage infrastructure for a long time in order to pay themselves dividends".

Rightly, councils took umbrage at this commentary. Councils have a range of infrastructure which must be provided and maintained for communities and have been trying to balance the competing needs as well as increasing demands for services for many years. Nationally it is well recognised that there is simply not enough funding for Local Government to fully maintain all their assets and this is why we have lobbied collectively for a fair share of taxation revenue starting with the resumption of indexation on the Financial Assistance Grants.

That said, councils have actually sacrificed dividends to ensure TasWater removes all Public Health Alerts by August 2018 and addresses all key outstanding sewerage matters within 10 years. It was announced in June 2016 that returns to council owners would be capped at \$20 million, a reduction of \$10 million per annum, based on the need for TasWater to maintain funds within the entity to provide treated water supplies to some regional towns that are currently subject to Public Health Alerts and to upgrade infrastructure for non-conforming sewerage treatment plants.

The State Government has continued to knowingly, falsely assert that councils can leverage cash from the cumulative statewide reserves. However, Councils must (under legislation) fully fund the depreciation of their assets, something not required of State Government. They cannot be used as a consolidated fund. Council reserves are aligned to their 10-year asset management and financial plans. Generally, there are clear rationales for the holding of funds linked to the long-term considerations of depreciation, maintenance, renewal and replacement of assets. The Government is well aware of the impact of the statutory requirements on cash reserves. When Bryan Green suggested use of council reserves in 2012 Rene Hidding commented “isn’t this your greedy money-grubbing letter an attack on councils very existence”. The cash reserves figure remains fairly constant year on year as you would expect from a sector which is strongly regulated, with clear oversight by the Auditor General and which has statutory requirements around long-term financial management.

The 2015-16 report by the Auditor General noted that the rates revenue for councils was \$456.91M, with the TasWater distribution equivalent to 4.4% of this income across the sector. For some councils, the impact is even more significant. Brighton, for example, would experience a loss of revenue equivalent to 10% of rate revenue.

The loss of distributions has variable but often highly significant impacts for councils, many of whom will be making their own submissions so this Committee better understands those impacts from a local level. The future will see revenue to councils from our TasWater investment cut significantly, if not removed altogether and rates will need to rise to provide the current level of services such as parks, sporting grounds, roads, footpaths, waste collection etc. Equally certain is the fact that councils, not the State Government, will suffer the wrath of ratepayers for any rate increases. Compounding the financial loss, in the longer term, councils will miss out on revenue from TasWater’s increased profit levels as the corporation matures and grows.

Examples

Southern Midlands:

The Southern Midlands Councils spent in excess of \$600,000 to install ground lighting at both the Oatlands and Campania Recreation Grounds. Below is a photo of the lighting being installed at Campania. This project simply could not have been afforded without the TasWater distribution.



Northern Midlands

At the value of the distributions in 2016-17 Northern Midlands Council was able to reconstruct a section of Woolmers Road, install kerb and channel and reconstruct Bridge Street in Campbell Town (between Highway and Church Street), as well as provide a new electronic playground at Longford (photo below).



The Tasmanian Local Government sector has been working continually on improving efficiencies and sustainability for many years including a focus on long-term financial and asset management planning. It would be hard to match the improvements at a State Government level owing to the sheer size of the bureaucracy, the many inherent inefficiencies and the disconnect which exists around management and service delivery. The value and energy invested by councils in improving their sustainability is totally undermined by ad hoc political decision making.

There is little broad scale understanding of the level of scrutiny on and accountability of councils, the diverse range of assets and services provided to communities and the increasingly large statutory role supporting the legislation of State Government. Councils in Tasmania have been shown repeatedly to be performing, on the whole, very well.

Local Government has already had to tighten its belt significantly in the last few years in the face of diminished returns from water and sewerage, the freezing of Financial Assistance Grants indexation and the loss of Forestry rates. This is on top of increasing service expectations from State and Federal Government and communities, and increasing compliance burdens. Further loss of revenue will inevitably lead to rate increases, and in all likelihood also lead to service cuts.

7. The Context

7.1 TasWater

TasWater was established in 2013 as an independent company, incorporated under the Commonwealth *Corporation Act (2001)*. While owned by the 29 Tasmanian councils, it has a skill-based and independent Chairman and Board of Directors. The TasWater Constitution requires the Board Selection Committee to appoint to the Board, individuals who have “the experience and skills necessary to assist the Corporation to achieve its principal objectives”.

The Board and TasWater are responsive to the Shareholder Letter of Expectation (SLE) which amongst other things lays out the following objectives:

- The efficient provision of water and sewerage functions in Tasmania;
- Activities which encourage water conservation, demand management and re-use on an economic and commercial basis;
- A successful business operating in accordance with good commercial practice and delivering sustainable returns to its members; and
- Cost efficient service delivery.

The SLE also confirms that the owner councils expect that TasWater will uphold the original principles of 2008 structural reform by maintaining a capability and governance structure to

manage the water resource, water supply and sewerage services in a sustainable manner, taking account of economic and environmental factors including the improvement of drinking water quality across Tasmania.

Further, TasWater is to have an appropriate and formalised distributions policy that provides for an appropriate balance sheet, profit and loss and cash-flow strength to enable access to debt funding to the level required to support investment and to fund all business activities on a sustainable basis.

Through the SLE the Local Government owners of TasWater have clearly established a commitment to customer and community engagement. Specifically:

The Corporation shall develop and implement open and transparent processes to engage its customers and the community in its planning processes to ensure, amongst other matters, that the standards of services it provides meet regulatory requirements and the needs and expectations of customers and the requirements of the Industry's regulators; and

The Corporation shall make:

- *information about the services it provides available to the public;*
- *information about water conservation and the responsible use of water and waste water available to the public;*
- *educational material about the water industry available to schools and communities.*

Under the SLE, TasWater has significant formal accountability to its owners including through annual planning meetings, annual reporting meetings, quarterly reporting meetings, general meetings, quarterly performance reporting, the Annual Report and a 'no surprises' continuous disclosure regime.

The functions of TasWater are governed by statute including the provisions laid out in the *Water and Sewerage Industry Act 2008* and the *Water and Sewerage Corporation Act 2012*. There is oversight by the Tasmanian Economic Regulator, the Environmental Protection Authority, the Department of Health and Human Services and the Department of Primary Industries, Parks, Water and Environment as well as scrutiny through the Government Business Hearing process.

The solid governance and statutory oversight mean the level of scrutiny of TasWater is extremely high and that there can be a high degree of comfort that TasWater is meeting its objectives and that no crisis exists.

It is well understood that for the last decade or more, there has been considerable reform of the water and sewerage sector in Tasmania. This includes the formation of three regional corporations (and a shared services business) in 2008 and the creation of a single water and

sewerage corporation in 2013. These reforms have been extremely significant and taken time to bed down but despite that since 2009 there has been \$704 million in capital upgrades to Tasmania's water and sewerage infrastructure. That the State Government should choose to step outside the national approach puts it out of alignment with the Council of Australian Government's National Water Initiative, to which Tasmania became a signatory in 2005, which effectively started the process of Tasmania water and sewerage reforms.

In 2016 the council owners of TasWater accepted a significant reduction in distributions in order to provide sufficient funding for a well-developed and strategic 10-year capital plan which will deliver significant improvements to both drinking water quality and sewerage treatment. The initial focus has been on drinking water.

7.2 Key TasWater Achievements and Deliverables

- 99.4 per cent of all TasWater's customers have safe drinking water.
- Over \$213 million has been invested in drinking water system upgrades between 2013-14 and 2016-17.
- TasWater plans to spend more than \$200 million on improved drinking water quality in the three years from 2018 to 2021, through measures such as treatment plant upgrades, system optimisation initiatives, risk assessments and other initiatives. The work is planned and the money is budgeted for in TasWater's latest Price and Service Plan and is fully funded through TasWater's revenue.
- At August 2017, 17 Public Health Alerts have been removed from drinking water supplies and TasWater remains on track to have removed all Public Health Alerts by August 2018.
 - Public Health Alerts have thus far been removed from Lilydale, Ellendale, Jacksons Road and Nicholls Rivulet, Fingal, Tunbridge, Scamander, Whitemark, Avoca, Mole Creek, Lady Barron, Ringarooma, Legerwood, Branhholm, Derby, Winnaleah, Pioneer and Mountain River.
 - Small towns still to come are Gretna, Cornwall, Epping Forest, Gladstone, Herrick, Judbury, Mathinna, Rossarden, Wayatinah, Conara, Bronte Park, Colebrook, Gormanston, Rocky Creek, Fentonbury, Westerway, National Park and Maydena.
- Over \$187 million has been invested in sewerage system upgrades from 2013-14 to 2016-17 and dry weather spills have decreased from 155 in 2103-14 to 66 in 2016-17; sewerage odor complaints have halved over a three-year period and trade waste customers with contemporary consents and contracts have lifted from 16% in 2013 to 99% in 2017.
- TasWater's customer's bills are amongst the lowest in Australia, according to the Bureau of Meteorology's *National Performance Report 2015-16: Urban Water Utilities*, and

future price increases are modelled to be kept as low as possible while providing funding for a sustainable, long-term program of ongoing works.

- The \$51 million Kingborough Sewerage Upgrade Project is now underway, the single biggest capital project in TasWater's history, which will upgrade the Blackmans Bay Sewage Treatment Plant and decommission three other older plants, improving environmental outcomes for Kingborough.
- The Shellfish Risk Mitigation Plan is a multi-million dollar effort to reduce the impact of sewage spills on Tasmania's iconic shellfish industry, through a combination of prioritised upgrades and improved operations in the 15 sewerage systems near shellfish growing areas, faster responses to incidents, better communications with industry, and research aimed at making it faster to reopen shellfish leases following a spill.
- In June 2016, north and north-west Tasmania experienced severe flooding, with multiple communities and associated TasWater infrastructure either damaged or destroyed. This is the largest incident TasWater has ever responded to, with its Launceston Emergency Operations Centre running 24 hours from 6 June to 9 June. They effectively and efficiently responded to the event, de-energising plants, removing chlorine storages to safe areas, and made every effort to ensure a business-as-usual approach for the majority of customers.
- Barrington Water Treatment Plant was awarded Best Tap Water in Australia 2016 by the Water Industry Association of Australia.
- TasWater has the quickest response to customer calls of all comparable water authorities in Australia, with 89.1% of calls to their contact centre answered within 30 seconds.
- At the instigation of the Local Government Owner Representatives, TasWater commenced a Productivity Improvement Program in January 2017 to reduce costs and increase revenue. The PIP is currently targeting a further \$11 million in savings which if successful would result in total annualised savings of \$21.7 million since formation.

These achievements and future projects are only possible because the sector has already undertaken major reforms, have invested in strategic planning, financial modelling and robust project planning and ensuring work is sustainably costed. A State Government takeover of TasWater at this juncture would be a major disruption. All the momentum gained since the last round of reform (2013) would be lost.

The TasWater Corporation and the council owners agree that there is still much work to be done to fix all of the water and sewerage problems it was created to address but also assert that this is being strategically and thoroughly addressed through the current Corporation as it works to deliver the 10-year capital plan.

8. Conclusion

The Government's planned takeover is based on a false premise that Tasmania's water and sewerage services are in crisis.

The Government has not undertaken or provided sufficient, robust modelling and are relying on questionable forecasts. There will be significant new borrowings and yet there has been no examination on the impact to the viability of TasWater or to future price shocks for customers, which are likely to be compounded by the proposed price capping.

The proposed fast tracking of the capital program is unlikely to be achievable and exposes projects to the risk of poor planning and poor quality as well as higher costs.

The Government is proposing a high-risk variation of the GBE model which would give extraordinary powers to influence the operations of TasWater. When considered in conjunction with a poor track record of performance in relation to GBEs; as well as the management of significant infrastructure projects; the loss of independent accountability should be of concern to all.

The Government is failing to recognise the significant investment in these assets by councils and their communities. This will have a direct impact on the roll out of infrastructure and services in communities all across Tasmania.

More than 99 per cent of TasWater's reticulated water customers currently have access to potable water and this will rise to 100% by August 2018, around the time the State Government would take over. Yet a key argument for the takeover is that they (the State Government) will fix drinking water.

TasWater is currently run by an independent skills based board and an expert management team and is free from political interference, while having strong oversight from the Owners and Regulators.

There is undoubtedly an ongoing need for infrastructure improvement however this is best made through working in partnership rather than pursuing this high-risk model.

8.1 Key Questions

Prior to determining their position of 11 May, councils were asked to contemplate a series of questions. LGAT believes these questions could equally apply to the Select Committee Deliberations.

The Legislative Council needs to ask critical questions and expose the deficiencies in the government's argument

1. Does the State Government's proposal:
 - a. Offer a genuine improvement on the current TasWater plan?
 - b. Ensure that Tasmanians will not be loaded with significant future debt?
 - c. Provide manageable price increases for consumers over both the short and the long term?
 - d. Ensure the long-term viability of TasWater?
 - e. Provide an opportunity to build local employment and capability?
 - f. Provide guaranteed returns to those communities who have invested in the infrastructure?
 - g. Guarantee the same rural/regional service provision?
 - h. Ensure an appropriate level of community influence and scrutiny?
2. Can the suggested outcomes under the State Ownership model (namely, faster delivery, cap in price increases, returns to councils, no privatisation) be achieved under Local Government ownership?
3. What are the key advantages of State Ownership compared to Local Government ownership of TasWater?
4. What are the key risks of State Ownership compared to Local Government ownership of TasWater?

Maintaining Local Government ownership would:

- Allow the fully funded TasWater capital plan to continue to be implemented without risk and disruption;
- Ensure councils and communities continue to receive a return on their investment beyond 2026;
- Ensure an independent, apolitical approach to the prioritisation of water and sewerage infrastructure and services;
- Allow continued close oversight and scrutiny; and
- Not prohibit the leveraging and servicing of further debt through the provision of direct funding to TasWater (or to councils) from consolidated revenue.

There is no crisis in water and sewerage and the current model, with Local Government control, Office of the Tasmanian Economic Regulator, Department of Health and Human Services and EPA oversight, providing the best outcome for the ratepayers of Tasmania.

Fact Sheet 1	History
Fact Sheet 2	Regulation and Pricing
Fact Sheet 3	Infrastructure
Fact Sheet 4	Drinking Water
Fact Sheet 5	Environmental Compliance
Fact Sheet 6	Long Term Strategic Plan
Fact Sheet 7	Capex
Fact Sheet 8	Productivity
Fact Sheet 9	Trade Waste
Fact Sheet 10	Service Standards



What is TasWater?

TasWater is a corporation established in 2013 in accordance with the *Water and Sewerage Corporation Act 2012* (WSCA). The principal objectives of the corporation as set out in the WSCA are:

- a) to efficiently provide water and sewerage functions in Tasmania
- b) to encourage water conservation, the demand management of water and the re-use of water on an economic and commercial basis
- c) to be a successful business and, to this end –
 - (i) to operate its activities in accordance with good commercial practice
 - (ii) to deliver sustainable returns to its members
 - (iii) to deliver water and sewerage services to customers in the most cost-efficient manner.

The WSCA states that each of the principal objectives of the corporation is of equal importance.

Regulation and independence

TasWater is governed by an independent Board of Directors, which determines the priorities of the corporation in accordance with requirements of the WSCA, its Constitution and the Shareholders' Letter of Expectations. Board members are appointed according to skills-based criteria, outlined in TasWater's Constitution and the Shareholders' Letter of Expectations.

The Board provides regular reports to the Owners Representative Group, comprising one representative from each Tasmanian Council.

In addition to the WSCA, TasWater is also required to comply with the legislation, codes and regulations:

- *Water and Sewerage Industry Act 2008*
- *Environmental Management and Pollution Control Act 1994*
- *Public Health Act 1997*
- *Land Use Planning and Approvals Act 1993*
- *Water and Sewerage Industry (Pricing and Related Matters) Regulations 2011*
- *Tasmanian Water and Sewerage Industry Customer Service Code*
- *Water and Sewerage Industry (Customer Service Standards) Regulations 2009*

TasWater activities are subject to oversight by the following independent bodies:

- Economic Regulator - Tasmanian Economic Regulator
- Environmental Regulator - Environment Protection Authority
- Drinking Water Regulator - Department of Health and Human Services
- Dam safety Regulator - Department of Primary Industries, Parks, Water and Environment
- Complaints oversight – Tasmanian Ombudsman
- Fire services – Tasmania Fire Service

The history

2005	Tasmania becomes a signatory to the National Water Initiative, a Council of Australian Governments (COAG) national blueprint for water reform, intended to better manage water demands.
2008-09	Three regional corporations were formed in late 2008 – Southern Water, Cradle Mountain Water and Ben Lomond Water, with a fourth shared service business, Onstream – and commenced trading on 1 July, 2009.
2009-13	The three regional corporations focused on: <ul style="list-style-type: none"> • Delivering compliance implementation plans • Introducing a new billing system • Gaining approval and implementing their first Price and Services Plan.
2012	Facilitated by Local Government Association Tasmania, owner councils in all regions agreed to create a single water and sewerage corporation to gain a range of benefits, efficiencies and savings.
2013	TasWater was formed and registered as a proprietary limited company under the <i>Corporations Act 2001 (Cth)</i> and commenced trading on 1 July 2013.

Ownership and distributions

Distribution payments to TasWater's local government owners are comprised of the following three payments.

- **Dividends**
Consistent with the principal objectives of the corporation as set out in the WSCA, TasWater is required to '... deliver sustainable returns to its members'. Dividends represent that return.
- **Guarantee fees**
TasWater is obliged to pay guarantee fees in accordance with the WSCA and its Constitution.
- **Tax equivalents**
TasWater is obliged to pay tax equivalent payments in accordance with the WSCA and its Constitution.

Dividends can only be paid from cash profits and are projected to grow with revenue.

When the initial reform happened, Councils were promised dividends and this inducement was important to their willingness to agree to the reform. Further, Treasury identified Councils were making a profit of \$24 million from water and sewerage, and priority distributions were established at this level, noting that providing sustainable returns to owners was of equal importance to all of the other objectives of the corporations. At the time, not paying dividends would not have had a material impact on the capital program.

On 22 April 2015, following a forecast significant reduction in revenue arising from the TER's 2015-18 Water and Sewerage Services Price Determination, Councils endorsed freezing dividends at \$30 million per annum for the 2015-18 regulatory period.

On 9 June 2016, Councils endorsed the distribution freeze being extended for a further seven years, on the proviso that the State and Australian Governments also provide \$100 million¹ and \$300 million respectively toward a \$1.8 billion, 10 year package to bring the state's water and sewerage infrastructure up to current day standards. Council foregoing returns over 10 years represented an \$82 million contribution.

¹ Proposal was \$10 million per annum over 10 years from the state.



Once advised by the state that no external funding would be forthcoming, TasWater set about developing its own plan to address the state's water and sewerage challenges culminating in a \$1.55 billion fully funded plan. This plan required Councils to accept further reductions of \$10 million per annum for a seven year period from 2018-19, culminating in total foregone distributions in the order of \$150 million. This figure represents a substantial direct contribution by Councils to fixing the state's water and sewerage systems, well beyond what was originally anticipated under the original reform process.

The impact of the reductions in Council returns is most evident in future dividend flows, as shown in the chart below extracted from TasWater's 10 Year Financial Plan.

Assertions that Councils are not prepared to shoulder their share of the responsibility for upgrading the state's water and sewerage infrastructure are simply not supported by the facts. The reality is that while the premise on which many Councils were sold the reforms has not materialised, to date they have put this disappointment aside. Councils are the only tier of government that has agreed to contribute their share of funding necessary to deliver a sustainable long term fix.

Summary of distribution to owner	2017-18	2018-19	2019-20
Dividend	17,867	7,254	6,589
Loan guarantee fees	2,668	2,931	3,289
Tax equivalents	9,465	9,815	10,123
Total distribution	30,000	20,000	20,000

(All figures in 000s)

The challenge

Relative to Tasmania's small size and population, TasWater is responsible for a large number of water and sewerage treatment plants. This means TasWater has higher capital and operating costs compared to other water utilities with fewer assets per customer and larger revenue bases.

Unfortunately, there has always been a level of public misunderstanding around the state's water reforms. This has been largely centred on the cost of water and sewerage which became clearer when the first water bills were issued. TasWater's owners have therefore made the efficient delivery of services a key priority for the former corporations and TasWater. That ongoing focus on efficiency will continue to benefit customers by keeping future price increases to a minimum.

Nonetheless, since 2009 there has been \$704 million in capital upgrades to Tasmania's water and infrastructure. This has only been possible through major reforms, strategic planning and by ensuring TasWater's work is sustainably costed. A State Government takeover of TasWater at this juncture would be a major disruption. Further, TasWater's successor would be saddled with enormous amounts of debt to accelerate a capital expenditure program, cutting profits and leaving no dividends for Councils to fund their essential services.

Having been formed on 1 July 2013, TasWater are only part way through the reform journey that many of its Australian counterparts began over 20 years ago. But TasWater has a clear direction and a clear plan. It is not, nor has it ever been, an organisation in crisis.



TasWater's bills are among the lowest in Australia

TasWater knows affordability is a key issue for its customers. As a provider of essential services, its customers are at the heart of its business. That is why TasWater continues to consult with customers and stakeholders to understand their views on key issues such as service standards, investment decisions, tariffs, and price and service trade-offs.

At present, TasWater's bills are the lowest in the country on a litre-for-litre basis¹ for large scale urban water utilities². This is despite TasWater having a disproportionate number of assets relative to Tasmania's small population and it has the highest level of water and sewerage capital expenditure per property in the country³.

To date, TasWater has not sought to fully recover its efficient operating costs, but rather has focused on moving customers onto a statewide pricing regime whereby everyone pays the same price for the same service while keeping price increases to a minimum.

Consistent with the *Water and Sewerage Industry Act 2008*, the Tasmanian Economic Regulator (TER) expects TasWater to fully recover its efficient operating costs by 2020, to ensure that it is sustainable and in a position to sustain the upgrade and renewal of infrastructure.

Even so, TasWater understands that a modest price rise may be difficult for some customers. TasWater has a Financial Hardship Policy in place that is periodically reviewed in consultation with customers, stakeholders and the TER to ensure it is fair and reflects best practice.

Who has oversight of TasWater?

Tasmanian Economic Regulator	TER regulates the prices TasWater can charge its customers and how much it can invest in capital and operating costs.
The Environment Protection Authority (EPA)	The EPA regulates environmental matters such as sewage treatment plant licensing.
The Department of Health and Human Services (DHHS)	DHHS regulates drinking water quality and determines when Public Health Alerts are introduced and removed.
The Department of Primary Industries, Parks, Water and Environment (DPIPWE)	DPIPWE regulates water licensing and dam permits for all Tasmanian rivers.
Tasmanian Ombudsman	Oversight of complaints.
Tasmania Fire Service (TFS)	TasWater is obligated to provide fire-fighting capacity, in consultation with TFS.
State Government	TasWater must operate within the requirements of the <i>Water and Sewerage Act 2008</i> .

How prices are determined

Prior to the formation of the former Regional Corporations in 2009, water and sewerage prices were set by individual Councils with water and sewerage charges forming part of the rates bill. When the former regional corporations came into being, of necessity Council pricing principles were initially continued, with the majority of water and sewerage bills based on the assessed value of each customer's property. This meant that two customers in the same street could be paying vastly different prices for the same service.

¹ Australian Government, Bureau of Meteorology, 2017 National performance report 2015-16: urban water utilities

² Utilities with 100,000+ customers

³ *ibid*



One of the TasWater Board's first strategic decisions was to recommend to the TER a single statewide pricing regime, involving the removal of cross-subsidisation of residential customers by commercial customers, and to undertake the transition over the 2015-18 regulatory period. Since implementation, while some prices have increased under TasWater, others have actually fallen. This is particularly the case in the north-west of the state where tariffs dropped significantly. Since 2014-15 the number of customers on target tariff has grown from 37 to 95 per cent. In addition over 95 per cent of water customers are now on target tariff.

TasWater has always been clear however, that overall prices will need to rise to cover the costs of improving drinking water, environmental, and dam safety outcomes. This approach has been consistently understood and approved by the TER and TasWater's long term plan sets it on a path to full cost recovery by 2020. Even then, and with its planned incremental price rises, TasWater bills will still compare favourably to similar utilities around Australia and are projected to be at or around the mean cost of interstate water and sewerage services.

TasWater's customer and pricing at a glance (2016-17)

Average household consumption per annum	178.77 kilolitres
Average household bill per annum	\$1062
Water connections	204,949
Sewerage connections	179,677
Bills and accounts issued	896,077
Percentage of bills and accounts issued on time	99.8%

Price and Service Plan 3

Every three years, TasWater must submit a detailed Price and Service Plan (PSP) to TER for approval. TasWater's third Price and Services Plan (PSP3) for 2018-19 to 2021-22 was submitted for review on 30 June 2017. This process will examine the operating costs of similar water and sewage utilities, including salaries and management structure, and whether TasWater's proposed infrastructure investment meets the requirements of its regulators and is being efficiently delivered.

In developing PSP3, TasWater consulted customers and stakeholders to explain the size of the infrastructure challenge and to gauge their reaction to proposed price rises. The survey found:

- 41% of respondents supported 5% per annum price increases
- 23% preferred a 2% per annum increase
- 16% preferred that prices stay the same.

In an effort to balance customer expectations with TasWater's requirements, PSP3 proposes a 4.6 per cent annual increase, reducing to 3.7 per cent in PSP4 and PSP5, and thereafter to increases in line with the consumer price index. Again, TasWater is confident this will compare well with water and sewerage pricing in other jurisdictions.



Debt sustainability

TasWater is legislatively required to move towards full cost recovery, but this would require increases through PSP3 of 7.9 per cent, which it simply does not consider sustainable for its customers. At this stage, TasWater's total revenue requirement for PSP3 is \$1.2 billion, but it plans to collect \$1.1 billion – 11.3 per cent less than the statutory limit. TasWater is also not expecting any government grants for this period.

Financing will increase from \$500.3 million at the end of 2016-17 to \$891.0 million in 2025-26. This level of debt financing reflects the requirements of the *Water and Sewerage Industry Act 2008*, requiring that the ratio of debt to equity is 'that expected of a prudent business of a similar kind and scale to that of the regulated entity'. This ensures long term financial sustainability while enabling TasWater to fund its \$1.55 billion 10 year capital program.

Cheaper bills under the State Government?

The State Government has promised lower bills and accelerated capital expenditure. There has not been any financial modelling on how this will be achieved, but it is obvious that lowering revenue and spending more will lead to increased debt. In fact, there will be added borrowings in the order of \$548 million, a significant debt for future generations (approximately \$2,674 per customer plus incremental interest between \$485 and \$537). Both the principle and interest will have to come from somewhere, and could well result in reduced government spending in other essential services such as education and health.

TasWater has a plan to maintain bills at an affordable level and deliver major infrastructure upgrades without expecting future generations to pick up the tab. In contrast, the State Government will strip the powers of the independent economic regulator, so that any future government can set a price that meets their political objectives.



Water and sewerage infrastructure – the facts

Tasmania has a unique challenge regarding its water and sewerage. Despite its small size and population, TasWater has a disproportionately large amount of infrastructure.

This is confirmed by a 2015 study by Water Services Association Australia. In a survey of 19 water utilities across Australia and New Zealand, which serve 78 per cent of Australia's serviced population and 30 per cent of New Zealand's, TasWater was found to have:

- Less than 3% of the population
- 37% of the sewage treatment plants
- 38% of the water treatment plants
- 18% of the dams.

The disparity is further highlighted when TasWater is compared with other large Australian water utilities:

Utility	WTPs	Properties per WTP	STPs	Properties per STP	Properties serviced	Capital spend per property	Year started
TasWater	74	2,736	113	1,575	202,478	\$637	2013
Sydney Water	9	211,000	25	74,080	1,899,234	\$359	1995
Barwon Water	8	18,875	11	12,364	151,418	\$528	1994
Hunter Water	6	40,333	19	12,158	242,277	\$414	1991

At June 2017, TasWater is responsible for:

Water	Sewerage
<ul style="list-style-type: none"> • 204,949 water connections • 6,284 km of water mains • 295 water distribution storage facilities (tanks) • 218 water pumping stations • 320 dams 	<ul style="list-style-type: none"> • 113 sewage treatment plants (STPs) <ul style="list-style-type: none"> ◦ 34 Level 1 STPs ◦ 79 Level 2 STPs • 179,677 sewerage connections • 4,745 km of sewer mains • 752 sewage pumping stations

To illustrate the scale of the challenge, if you laid all of TasWater's water and sewerage pipes from end-to-end, they would stretch from Hobart to New Delhi.

Maintaining and upgrading this amount of infrastructure creates higher capital and operating costs for TasWater, compared to similar water utilities elsewhere. Also, much of the infrastructure is in poor condition and with the application of more stringent compliance requirements, many assets do not comply with modern standards of environmental protection, health or safety. Put simply, as pipes, dams and other assets age, their reliability decreases and the standards that applied when Councils owned the assets are no longer acceptable.



In many cases, infrastructure built more than 100 years ago is still operating at a level which is beyond what it was originally designed to do. This is the challenge TasWater was created to address. Under the current ownership model TasWater is putting in place systems and solutions that will avoid repeating instances of economically inefficient planning, under-investment and inadequate solutions, while preventing political cycles from influencing investment priorities.

The current fully funded model also ensures that the cost of bringing the state's water and sewerage infrastructure up to current day standards is borne fairly by both current and future generations of customers, rather than simply passed on to future generations.

What TasWater has achieved

Water	Sewerage
<ul style="list-style-type: none"> Over \$213 million has been invested in drinking water system upgrades from 2013-14 to 2016-17. The percentage of systems that comply with Australian Drinking Water Guidelines has increased from 94% in 2013-14, to 99.4% in August 2017 and is on track to be 100% by August 2018. At August 2017, 17 Public Health Alerts have been removed from drinking water supplies and TasWater remains on track to have removed all Public Health Alerts removed by August 2018. A further 12 towns have had their water supplies upgraded, with major upgrades also underway on King Island and Rosebery. Improved fluoridation performance from 91% in 2013-14 to 97% in 2016-17. <i>E.Coli</i> detections reduced from 31 in 2013-14 to 9 in 2016-17. Invested over \$1 million to combat issues of taste and odour related to changes in the Derwent catchment. 	<ul style="list-style-type: none"> Over \$187 million has been invested in sewerage system upgrades from 2013-14 to 2016-17. The percentage of treated sewage compliant with EPA requirements has grown from 81.4% in 2014-15 to 86% in 2016-17. Dry weather sewage spills have declined from 155 in to 66 per annum. Sewage odour complaints reduced from 274 to 137 per annum. The percentage of biosolids beneficially reused has increased from 56% to 99.8%. A \$10 million sewage treatment plant has been constructed to service Rosebery and a \$51 million upgrade is underway in Kingborough which will result in three non-compliant plants being shut down. Taroona sewage treatment plant has been decommissioned. Over \$10 million has been invested in asset improvements to reduce the risk of sewage spills into areas with shellfish leases. The number of trade waste customers with contemporary consents and contracts has lifted from 16% in 2013-14 to 99% in 2016-17.



A modern approach

TasWater's approach relies on a skilled contemporary workforce of engineers and the introduction of new technologies. For the first time, Tasmania now has a statewide asset management tool that provides accurate information and analyses of TasWater's infrastructure. Called Maximo, this tool brings all asset records into a single database and is aligned with international standard ISO55001, which not only enables the application of industry best practice, but immediate and agile responses to issues affecting customers.

In November 2016, TasWater opened its Operations Control Centre in Devonport, giving it a centralised overview of TasWater's assets in real time. TasWater uses remote telemetry to monitor infrastructure, capturing information from across its sewerage and water systems and using this to direct work crews to where they are needed.

TasWater's focus is on its customers and Tasmania's future

TasWater has achieved a great deal in just four years, but given the over 100 years of water and sewerage infrastructure history in Tasmania, it is simply not feasible to fix everything at once. It requires a long term, sensible, engineering-based approach, which has been developed in conjunction with independent regulators and not subject to interference by vested interests. This development of the long term plan is not the result of any regulatory or legislative obligation, but rather a deliberate decision by Councils and the TasWater Board to build solutions based on understanding the needs of today and protecting the interest of future generations. The development of this long term statewide plan is a first for Tasmania and is only possible with the formation of a single statewide water and sewerage body.

Above all, TasWater must keep its services affordable for all customers. To address this TasWater has developed both a 10 Year Plan and a Long Term Strategic Plan (20 years), which help it strike a balance between keeping its services affordable and the amount of expenditure needed.

TasWater is taking a sustainable approach to managing and upgrading its infrastructure, prioritising the most important and cost-effective items, without burdening Tasmanians with unnecessarily higher bills or additional debt over the longer term.

TasWater faces a unique infrastructure situation compared to other water and sewerage utilities across the country, but it is a challenge, not a crisis.



Drinking water compliance

The health of TasWater's customers will always be its first and highest priority. Providing Tasmanians with clean and safe drinking water is a core business responsibility. Since its creation in 2013, TasWater has focused primarily on water infrastructure upgrades and will continue to do so until drinking water issues across the state have been fully addressed.

Based on its most recent 2017 figures, TasWater has:

- 66 drinking water systems (dropping from 71 following the integration of systems in small towns across Tasmania)
- 204,949 connections
- 485,999 customers
- 2,758 customers with drinking water under Public Health Alerts
- 99.4 per cent of customers currently have clean drinking water and by August 2018 it will be 100 per cent.

What has been achieved since TasWater was formed?

- Over \$213 million has been invested in drinking water system upgrades from 2013-14 to 2016-17.
- The percentage of systems that comply with Australian Drinking Water Guidelines has increased from 94 per cent in 2013-14 to 99.4 per cent in August 2017.
- At August 2017, 17 Public Health Alerts have been removed from drinking water supplies¹ and TasWater remains on track to have removed all Public Health Alerts removed by August 2018².
- A further 12 towns have had major upgrades to their water supplies.
- Improved fluoridation performance up from 91 per cent in 2013-14 to 97 per cent in 2016-17.
- *E.Coli* detections reduced from 31 in 2013-14 to 9 in 2016-17.
- Invested over \$1 million to combat issues of taste and odour related to changes in the Derwent catchment.

Managing and testing Tasmania's water

Tasmanian drinking water is managed in line with the requirements of the Tasmanian Drinking Water Quality Guidelines which invoke the Australian Drinking Water Guidelines. TasWater conducts around 129,000 drinking water compliance tests every year, across a range of different test methodologies. These results are shared with the Department of Health and Human Services (DHHS), which has the responsibility for declaring and removing Public Health Alerts, including:

- Boil Water Alerts, where the water needs to be boiled before consumption
- Do Not Consume Notices, where the water is unfit for consumption even after boiling.

¹ Public Health Alerts have thus far been removed from Lilydale, Ellendale, Jacksons Road and Nicholls Rivulet, Fingal, Tunbridge, Scamander, Whitemark, Avoca, Mole Creek, Lady Barron, Ringarooma, Legerwood, Branxholm, Derby, Winnaleah, Pioneer and Mountain River.

² Small towns still to come are Gretna, Cornwall, Epping Forest, Gladstone, Herrick, Judbury, Mathinna, Rossarden, Wayatinah, Conara, Bronte Park, Colebrook, Gormanston, Rocky Creek, Fentonbury, Westerway, National Park and Maydena.



Microbiological contamination of drinking water is considered the greatest risk to public health, so regular microbiological testing is carried out. The water industry standard is to test for indicator bacteria called *E.coli*. If *E.coli* is present in the water, it is a good indication that other pathogens may also be present. Where testing indicates there is a risk to public health, a Public Health Alert is declared by DHHS. Public Health Alerts can only be removed once the source of contamination has been identified and removed, and extensive further testing has confirmed the water is safe to drink.

TasWater also monitors drinking water supplies for metals, which can occur both naturally or as the result of activities such as mining. Metals can also leach from distribution pipes and even domestic fixtures. Water samples that consistently contain elevated levels of metals in excess of the Australian Drinking Water Guidelines are subject to a Public Health Alert.

Looking ahead, TasWater is investing in research to identify emerging risks in water catchments around the state, such as grazing and farming activities that require additional treatment barriers. TasWater plans to spend more than \$200 million on improved drinking water quality in the three years from 2018 to 2021, through measures such as treatment plant upgrades, system optimisation initiatives, risk assessments and increasing barriers of protection. The work is planned and the money is budgeted for in TasWater's latest Price and Service Plan, and is fully funded through TasWater's revenue.

Can TasWater publish live test results of water quality?

TasWater already maintains a policy of transparency about its water quality data for the public and its regulators. TasWater's quarterly water testing results are available online, as is its Annual Drinking Water Quality Report. However, in response to a public enquiry TasWater is currently considering this option of publishing 'live' test results, but it is more complex than it may appear.

TasWater test drinking water constantly. This takes time and there is a range of different tests. Some tests are very quick and others take up to 10 days to complete. However, TasWater also monitors the operation of the equipment in its water treatment plants and other infrastructure in real time. This is part of its preventive risk management approach, whereby if TasWater knows the equipment is working correctly, it can have confidence in the product.

Publishing 'live' water quality test results online would require the rapid processing of a very large amount of data, which typically requires time and interpretation by scientific experts. For example, it is possible to have occasional false positives occur during testing, which then require a rigorous scientific approach of further investigation and retesting. TasWater appreciates the public has a right to information, but it do not wish to cause unnecessary alarm – nor incur additional costs that will need to be recovered from its customers – if there is no demonstrable public health benefit.

Fluoride

TasWater is directed to fluoridate Tasmania's drinking water by the Minister for Health, in accordance with the *Fluoridation Act 1968*. The target level of fluoridation is one milligram per litre, or one part per million. Fluoride levels are tested daily and continually monitored by inline instruments to ensure levels are maintained within this range.

In 2016, the National Health and Medical Research Council's Evidence Evaluation reiterated that water fluoridation helps to reduce tooth decay in children and adults. There is no reliable evidence that water fluoridation at current Australian levels causes health problems.



Small towns

As of August 2017, TasWater has removed 14 Public Health Alerts from small towns across Tasmania. By August 2018, the remaining 0.6 per cent of TasWater customers will soon be able to drink their water straight from the tap.

In justifying the proposed takeover, the State Government claims TasWater is taking too long to complete this work. It is true that the first analyses of Tasmania's small towns were made by Southern Water and Ben Lomond Water in 2010. But it is only since the creation of a single statewide water utility in 2013 that economies of scale have made it feasible to accelerate a program of solutions on a statewide basis.

TasWater wrote to the State Government in May 2016 to explain the cost and difficulties associated with delivering drinking water to small towns, and to request funding. It was only after no funding was forthcoming that TasWater launched its small towns program in August 2016. TasWater is on track to deliver the removal of all current Public Health Alerts by August 2018, two months after the State Government's proposed takeover.



Sewage and environmental compliance

TasWater protects public health and the environment through the effective treatment and disposal of Tasmania's sewage, as regulated by the Environment Protection Authority (EPA).

TasWater operates 113 sewage treatment plants around the state – an enormous number for Tasmania's population¹ – each with its own network of pipes and pump stations, and each with its own particular strengths and weaknesses, including trade waste from business and undersized infrastructure. Managing this infrastructure, ongoing renewal programs and a range of upgrade projects is both challenging and expensive.

Type of plant	Size	Regulator	Number in Tasmania
Level 1	Less than 100 kilolitres	Council (with EPA)	34
Level 2	More than 100 kilolitres	EPA	79

Sewage pump stations

These treatment plants are in addition to TasWater's sewage pumping stations (SPS) and over 4,745 kilometres of sewer mains throughout Tasmania. TasWater has 752 SPS for a served population of 0.43 million. This is more than Sydney Water, which service a population of 4.994 million with only 677 sewage pump stations.

TasWater has been progressively upgrading SPS around the state to minimise the frequency of overflows with considerable success, but it cannot all be done overnight. Further, upgrading an SPS is not a guarantee that there will be no overflows. This is neither practical nor financially feasible. Rather, SPS are typically upgraded to ensure overflows do not occur unless a 1-in-5 year rain event occurs. If an SPS is in a location where an overflow could directly impact drinking water catchments, recreational waterways or shellfish leases, TasWater has applied even more rigorous standards.

In the four years of TasWater's existence, it has concentrated on installing telemetry to ensure rapid response to overflows and prioritising the upgrading of SPS in locations where sewage overflows can damage Tasmania's reputation.

There are also different reporting requirements with each state-based environmental regulator. While TasWater must report all spills over 1,000 litres – and actually voluntarily reports every spill – other utilities only report spills over certain sizes.

Dry weather spills

A useful measurement of environmental compliance is the annual number of dry weather spills, because these are generally more avoidable than wet weather spills through a combination of maintenance, upgrades and customer education.

Dry weather spills per year	Actual
2013-14	155
2014-15	91
2015-16	109
2016-17	66

¹ 38% of all sewage treatment plants operated by those utilities participating in the 2014/15 Opex Benchmarking Study from Water Services Association of Australia



Measuring environmental compliance

Measuring the compliance of a sewage treatment plant as a simple 'pass-or-fail' is like declaring a student failed because they did not achieve straight-As. It is more useful to measure environmental compliance as a percentage of the total volume of sewage passing through TasWater's systems in a given period. This allows TasWater to track progress as it moves towards better environmental outcomes.

TasWater conducts more than 51,000 effluent compliance tests each year at sewage treatment plants around the state, with samples then analysed and measured against a range of site-specific licence parameters for each plant.

TasWater's internal compliance metrics are more stringent than the Environment Protection Authority's (EPA). For TasWater, it is only if a sample passes every relevant parameter that the related volume is declared compliant. The EPA uses a similar metric, but rather than a pass/fail test for each individual parameter, the EPA used a pro-rata assessment. For example, if there were eight parameters and four of them were compliant, half of the related volume was deemed compliant.

The result is that TasWater's internal compliance figures could be interpreted as measuring lower than its regulator's. This metric is also published in the Tasmanian Economic Regulator's annual State of Industry report, which has been subject to media scrutiny.

Percentage of treated volume fully compliant with EPA standards	TasWater	EPA
2014-15	46%	81.4%
2015-16	44%	84.2%
2016-17	50%	86%

Similarly, comparisons with interstate sewage utilities can be misleading when statistics are quoted in isolation. For example, TasWater manages 113 sewage treatment plants while some utilities may only manage one.

What's next?

TasWater has never hidden the fact that environmental compliance levels are below expectations. Since its creation in 2013, TasWater's primary focus has been on drinking water projects, sewage overflows in sensitive areas and reducing sewage odours that directly impact the amenity of local communities. Yet there have also been a number of significant sewerage upgrade projects undertaken, including the \$51 million Kingborough Sewerage Upgrade Project, the single largest project in TasWater's history, a new \$10 million Sewage Treatment Plant at Rosebery and the decommissioning of the Taroona Sewage Treatment Plant.

In November 2016, TasWater established a three year memorandum of understanding with the EPA to achieve accelerated environmental compliance by 2019. These targets are considered mandatory and failure to meet them will incur EPA enforcement action.

Importantly, the agreed strategy is to concentrate first on improving the 13 largest sewage plants by volume, or those which have the highest impact on their surrounding environment, and the 20 sewage treatments plants which present the highest risk in terms of environmental harm. This approach allows TasWater to make the biggest difference in the fastest possible timeframe.

From 2018-2021, TasWater is planning to spend \$117 million on upgrading sewage treatment plants, but more money and resources is only part of the equation. There are usually no quick fixes for sewerage systems. In fact, TasWater deliberately *underspent* its sewerage budget from 2015-2016 by \$50.8 million, focusing instead on ensuring expenditure is concentrated on where the most gains can be made for its customers.

It should be acknowledged that TasWater's efforts to date have already produced improvements in environmental compliance and that it is well-placed to complete the work to come.



TasWater's Long Term Strategic Plan

Given the scale of expenditure required and the need to strike a balance with customer affordability, it is simply not feasible for TasWater to address all of the state's infrastructure challenges at once.

With some infrastructure in use for 100 years or more, TasWater must take a long term approach to investment in planning, building and operating water and sewerage systems, for both current and future generations of Tasmanians. So TasWater has developed a 20 year Long Term Strategic Plan (LTSP) which sets the outcomes it intends to deliver from 2018 to 2037.

The LTSP allows TasWater to systematically focus on each challenge in the short term, without losing sight of its long term aims. Of course, it's impossible to anticipate everything that could happen over the coming decades. The LTSP is a starting point to reflect the preferences of TasWater's customers and stakeholders at the time of development, and will be regularly reviewed. It is a flexible framework for engaging with customers, stakeholders and regulators to prioritise water and sewerage outcomes over the next 20 years.

Where is TasWater now?

At the start of the next three-year Price and Services Plan period in 2018, TasWater will still have several substantial challenges to address, but also expects to make significant progress.

Challenges at the commencement of PSP3	PSP3 outcomes
<ul style="list-style-type: none"> A number of townships will continue to have drinking water systems on Public Health Alerts. Some drinking water systems do not manage catchment risk within tolerable health-based targets set by the Australian water industry. Nine dams will still be above the level of tolerability prescribed by the Australian National Committee on Large Dams. TasWater expects an environmental compliance of 62% by volume of sewage, based on the updated measurement technique used by both TasWater and the EPA. A number of critical sewer pump stations adjacent to sensitive receiving waters remain undersized and are known to discharge onto beaches, recreational sites, schools and shellfish leases. 	<ul style="list-style-type: none"> Removal of all Public Health Alerts on drinking water systems by August 2018, microbiological compliance of 100% and a progressive reduction of public health risk in water systems. Risk reduction of all but one dam to within tolerable levels. Environmental compliance of 78% by volume of sewage. Mitigation of environmental risks for 90% of the EPA's top 20 sewage treatment plants. Focused investment on those assets that, if they failed, would cause substantial service interruption or environmental impact. Limiting price increases to 4.6% per annum in PSP3.

PSP3 will also see TasWater improve the reliability of its data and continue research into innovative practices to increase the life of its assets. Given the challenges of gathering data for underground assets, the aim for the first 10 years of the LTSP is to maintain current service standards, while focusing on upgrades and repairs to critical assets. By taking this approach, TasWater avoids over-investing in potentially unwarranted upgrades too soon, and position itself to develop a more informed and effective strategy for PSP4 and beyond.

What TasWater will achieve during the LTSP

TasWater's planned outcomes for the first 10 years of the LTSP are based firstly, on what customers have said about their priorities, and secondly on what TasWater can deliver while maintaining both prudent levels of debt and price increases that are acceptable to customers. Those outcomes are:

- Ongoing microbiological compliance of 100% for drinking water systems
- Effluent compliance of 93% by volume
- All dams are deemed safe in accordance with Australian standards by 2022-23
- Unplanned water supply interruptions, and sewer main breaks and chokes reduced to average levels for large Australian water utilities
- Annual productivity savings of \$17.5 million
- A managed transition to cost-reflective pricing, with price increases trending to the consumer price index or less from 2027-28 and beyond.

Major capital expenditure projects to be delivered during the Long Term Strategic Plan	Expenditure (\$'000s)	Year of completion
Regional Water Supply Improvement Program (RWSIP) – Stage 2	\$40,798	2018-19
Kingborough Sewerage Strategy – treatment and network	\$41,766	2020-21
Forth WTP upgrade	\$72,306	2020-21
Northern Midlands Sewerage Improvement Plan (NMSIP) – Longford STP	\$26,374	2020-21
Bryn Estyn Water Treatment Plant upgrade	\$164,358	2021-22
Pardoe Sewerage Improvement Plan (PSIP)	\$40,373	2022-23
Ridgeway Dam upgrade	\$23,504	2022-23
Launceston Sewer Improvement Plan (LSIP)	\$321,480	2025-26
Fern Tree Water Quality upgrade	\$87,120	2026-27
Huon Valley Water Treatment upgrade	\$33,918	2027-28
Wynyard Sewage Treatment Plant upgrade	\$22,939	2029-30
Gawler River Water Treatment Plant upgrade	\$47,920	2030-31
Northern Midlands Sewerage Improvement Plan (NMSIP) – Perth, Western Junction and Evandale	\$3,536+	2037-38+

Macquarie Point and Launceston Combined Sewerage System

TasWater's LTSP does not include funding for the Macquarie Point relocation, the Launceston Combined Sewerage System Strategy (not to be confused with the Launceston Sewage Improvement Project, which will rationalise a range of sewage treatment plants into one) or Service Introduction to new areas.

While TasWater does not oppose the implementation of these projects, it can see no justification for making water and sewerage customers pay for them, as they will not make a significant contribution to customer's stated priorities. There is also no mechanism for TasWater to recover the costs of such developments under the *Water and Sewerage Industry Act 2008*. Notwithstanding this, TasWater will continue to work cooperatively with governments and other key stakeholders to assist with these developments.



TasWater's capital expenditure and infrastructure program

TasWater faces an enormous challenge in upgrading or replacing infrastructure that is ageing or in poor condition. It simply is not possible to address all of these challenges in the short term, given the amount of projects and scale of expenditure required.

TasWater's capital expenditure (also referred to as 'capex') is already the highest per property of any comparable water utility in Australia, according to the Bureau of Meteorology's 2015-16 *National Performance Report*. The report analysed capital expenditure among utilities with more than 100,000 connected properties, as per the table below:

	TasWater capex 2015-16	Median national capex 2015-16	Median national capex 2014-15	Lowest national capex 2015-16
Water capex per property	\$347	\$126	\$142	\$44
Sewerage capex per property	\$328	\$232	\$209	\$50

Additionally, TasWater builds, operates and maintains its assets to service both current and future generations, so it takes a long term view when investing in new infrastructure. While the capex program is prioritised based on delivering the most benefit for the most effective spend, some of this new infrastructure will need to last up to 100 years or more, so it is important that TasWater takes the time to get these projects right. Unnecessarily rushing a carefully considered and balanced program of capital works cannot be justified, when the cost of that acceleration could be felt for decades to come.

Capex and customer pricing

Under the *Water and Sewerage Industry Act 2008*, TasWater is legally obliged to charge prices which accurately reflect its expenditure. This legislation helps to ensure that today's customers are not pushing costs onto tomorrow's customers, and is embedded in the triennial Price and Service Plan (PSP), provided to the Tasmanian Economic Regulator (TER) for approval. Two iterations of the PSP have already occurred and TasWater's third Price and Services Plan (PSP3) for 2018-2021 was submitted on 30 June 2017 for review.

Developing a sustainable capital expenditure program of the size and complexity of TasWater's is an integral part of the PSP process, and happens within the limits determined by acceptable annual price increases and its financial sustainability metrics as a business.

Future priorities

In preparing PSP3, customers and stakeholders were extensively surveyed on a range of topics related to investment priorities. Based on this feedback, TasWater used a strategic framework to assign quantitative measures to its capital projects, linking each project to its customers' preferred outcomes and using weighting to emphasise those outcomes customers said were most important, being:

- Safe drinking water
- Meeting environmental standards for treated wastewater discharges
- Ensuring water security
- Maintaining dam safety.



TasWater is then able to prioritise capital projects from different asset classes (comparing the need for water projects against the need for sewerage projects, for example) in a consistent manner, by comparing their relative costs and contribution to measures of success for each customer outcome. This produces a list of Priority Projects, which is monitored and updated as required.

Inevitably, other capital works programs emerge in response to maintenance or poor performance, so other small projects and ongoing programs can run concurrently with TasWater's Priority Projects.

Latest expenditure

For PSP2, the TER authorised expenditure of \$330 million for the three years from 2015-16 to 2017-18. In fact, TasWater is actually forecast to exceed its PSP2 capex budget, with those additional costs informing ongoing discussions with the TER. This additional expenditure is primarily the result of the August 2016 promise to remove all Public Health Alerts from regional town water supplies by August 2018.

TasWater's most recent complete annual capex program was 2016-17, with a budget of \$105 million. As at 30 June 2017, cash expenditure was slightly under that at \$104.4 million, with 394 capital projects delivered, including 21 Priority Projects.

The capital program for 2017-18, the final year of PSP2, comprises 51 Priority Projects and 20 programs, with a budget allowance of \$135.3 million.

Looking ahead, over the three years of PSP3 from 2018-19 to 2021-22, TasWater is planning to spend \$467 million, a budget which will be finalised as part of the PSP3 discussions with the TER.

Long term planning

TasWater's 10 Year Plan has outlined \$1.55 billion of investment to complete more than 600 individual capex projects, with the focus remaining on improving compliance. In the following decade, the focus will shift to the replacement of TasWater's ageing networks.

This thinking is captured in TasWater's Long Term Strategic Plan (20 years), which spreads the required capital expenditure over a longer period to help keep customer price rises at an acceptable level. The initial focus on compliance will also give TasWater more opportunities to collect the data it needs to optimise network replacement expenditure in the latter half of the plan.

Accelerating the capital program

In moving to takeover TasWater, the State Government has proposed to accelerate TasWater's 10 Year Plan into seven years through increased borrowings. It has not provided any financial modelling of the increased debt on TasWater's successor or the State Budget, or the long term impacts on customer prices and distributions to Councils. In requesting a report from Infrastructure Tasmania to justify its intentions, it simply advised there would be "no financial constraints" to accelerating TasWater's capital program.

Many of the 600-plus projects in the TasWater 10 Year Plan will each take several years of research to establish the most appropriate solution, design the works, call for and consider tenders, and gain planning and environmental approvals. All of this must occur before construction can begin. Speeding up this delivery without investing the time required for due diligence risks more of the water and sewerage problems TasWater was created to fix.



Productivity

In an environment where TasWater manages many competing priorities with a limited revenue stream, improving productivity is a means of keeping customers' bills affordable while maintaining or improving levels of service and meeting its legislated obligations.

Productivity measures have been at the heart of TasWater's operations since its formation in 2013. One of the reasons for merging the three regional water corporations and Onstream was to achieve savings through increased efficiency and productivity gains. In its first year, TasWater committed to \$2.5 million of savings per annum and delivered \$2.7 million. In its second year, TasWater increased the annualised merger savings to \$6 million, against a target of \$5 million. In fact, TasWater has generated \$10.7 million in annualised savings since 2013.

The Productivity Improvement Plan

There is an ongoing commitment to productivity improvement across the organisation, with the initiative being driven by the CEO. All aspects, levels and functions of the corporation are expected to deliver productivity gains.

In January 2016, the Productivity Improvement Program (PIP) commenced with a brief to move beyond merger savings and establish a business-wide program to reduce costs and increase revenue. The PIP is currently targeting a further \$11 million which, if successful, would result in total annualised savings of \$21.7 million since formation. This is money that would have otherwise been spent if TasWater had not developed this initiative.

There is a range of programs under the PIP, including four major initiatives.

1. Service Delivery Value Creation Program

This review has recommended changes in structure and processes to TasWater's maintenance and construction, to deliver a more cost-effective service. TasWater is now implementing a new Service Delivery Operating Model and Management Operating System, a common commercial practice, which will standardise work practices across Tasmania.

TasWater is doing everything it can to mitigate the impact of this program, including reducing the number of compulsory redundancies that may be required. Voluntary redundancies and job swaps in Service Delivery are helping to achieve targets, but will not impact negatively on service standards. TasWater is committed to maintaining current service standards and reducing upward pressure on bills, and from its research this is a position supported by customers.

2. Retail Value Creation Program

A similar review of the functions, systems processes and structure of TasWater's Retail and Customer Services Division is being guided by insights from a 2014-15 benchmarking study of Australian water utilities, by the Water Services Association of Australia. TasWater has identified five key initiatives with potential to reduce costs to customers:

- Review of onerous process
- Self-service options for customers
- Metering strategy review
- Validating property installation data
- Review of the debt recovery approach.

3. Centre-Led Procurement

This program controls spending for operating and capital expenses on goods and services. TasWater's spending is done under contract and as efficiently as possible, by establishing panels of suppliers that support its business operations and capital initiatives.

4. Capital Delivery Review

TasWater's Asset Portfolio Planning and Delivery division is leading a review to explore the potential to increase the use of external partners, among other factors. This will ensure the necessary resources are available to deliver future capital program requirements.

Other completed programs within the PIP include:

- The North West Program to centralise facilities, including TasWater's call centre, and create the Operations Control Centre, which was finalised in January 2017
- 'Project Turbine' introduced TasWater's new Asset Management Information System and upgraded the Navision finance system, implemented in January 2017
- The 'Works Engine Group review' involved a restructure of internal delivery structures and improved processes, successfully implemented in January 2017
- A Laboratory Services Review completed in April 2017, consolidating lab activities and confirming an ongoing high level of effectiveness
- Power cost efficiencies implemented in July 2016
- TasWater's ongoing Zero Harm Program maintains a high level of safety and risk reduction.

Salaries

Salaries, and particularly those of executives, are occasional sources of criticism for TasWater. There is no legal requirement for TasWater to report its executive salaries, but it routinely does so in the interest of transparency. Its executive salaries are benchmarked against the national Mercer Evaluation Scale, a commonly used means of calculating appropriate remuneration, and are comparable with similar roles within other Tasmanian utilities and service providers.

TasWater's average employee expense per full-time equivalent (including associated on-costs) is approximately \$69,000. By comparison, Australian Bureau of Statistics figures indicate the average wage in Tasmania is \$82,000 for public sector workers and \$67,000 for private sector workers.

An analysis of 2015-16 annual reports from water organisations across Australia has shown that other water organisations have average employee expenses ranging from \$83,000 to \$144,000. TasWater easily sits at the bottom end of this range.

Utility	Average employee expenses
Sydney Water	\$144,162
Melbourne Water	\$122,587
Gladstone Area Water Board	\$115,000
Seqwater	\$119,000
Water Corporation	\$97,513
City West Water	\$90,937
South East Water	\$87,520
SA Water	\$83,950
Yarra Valley Water	\$82,506



What is trade waste?

Trade waste usually refers to fats, oils and grease which can accumulate in and block sewerage systems, damaging pipes and treatment plants. But trade waste can also include chemicals from a range of activities including industry, commercial business, education, medicine, dentistry, vets, agriculture, horticulture and science. The vast majority of Tasmania's sewerage treatment plants involve biological processes and are not designed to treat trade waste.

Many businesses, both big and small, generate various forms of liquid waste, or trade waste. This is different to the liquid waste created in most homes and often much higher in volume. Trade waste also includes hydrocarbons, which can actually explode inside sewerage infrastructure such as pump stations and treatment plants. Sewerage systems are not designed for this waste and it is a risk to both transport and treat safely.

Effectively, trade waste is pollution and TasWater is obligated by legislation to implement measures to mitigate the problem in such a way that it does not make residential customers incur the cost.

Can't TasWater just fix the infrastructure to deal with it?

If TasWater had only a handful of sewerage treatment plants, such as is the case in many major cities, then building dedicated sewerage treatment plants to deal with some of the trade waste generated might make sense, however this is clearly not the case with 113 sewerage treatment plants across the state.

The cost to modify these plants to accept and treat trade waste is prohibitive and highly unlikely to be successful in most cases. Additionally as new industry sets up, sewage treatment plants would have to be progressively modified again to accept the different forms of trade waste. There is also the question of what happens when an industry generating trade waste shuts down.

Trade waste compliance is not new

Since the creation of TasWater in 2013, the trade waste issue has been approached in an equitable manner across the entire state, bringing Tasmania into line with legislation and practices in other states:

- The *Water Management Act 2000* in NSW
- The *Water Industry Act 2012* in South Australia
- The *Water Act 1989* in Victoria, the *Water Act 2000* in Queensland
- The *Water Services Act* in Western Australia
- The *Water and Sewerage Act 2008* in Tasmania.

The Act requires TasWater to give consent to a customer discharging trade waste into sewerage infrastructure, through a 'permit to discharge'. Penalties apply if TasWater fails to make every possible effort to comply with this requirement. Conversely, the customer is also in breach of the Act if they discharge trade waste to sewerage infrastructure without TasWater's consent.

TasWater working with business

Trade waste is the single biggest contributor to sewage non-compliance in Tasmania.

Effectively disposing of trade waste and removing it from sewers protects the environment from spills, protects the health of communities and the safety of TasWater staff, and increases the serviceable lifespan of sewerage infrastructure.



It is the responsibility of each business to dispose of its own trade waste appropriately. This can be achieved through a range of means, from the proper handling of waste on site, to the installation of simple pre-treatment systems such as basket arrestors in sinks to capture solids, or by installing grease arrestors (aka 'grease traps').

TasWater's trade waste compliance program

TasWater started a statewide trade waste inspection and compliance program in March 2016, with the aim of increasing customer awareness of trade waste and improving compliance levels. By May 2017, TasWater had inspected approximately 2,700 trade waste customers. The majority of these businesses (approximately 1,450) were found to be compliant. The remaining businesses were given 18 months to comply with their legal obligations to install appropriate pre-treatment systems.

TasWater's approach is consistent with the national approach and is not a matter of choice. TasWater is obliged under the current legislation to address trade waste. Failure to do so could result in:

- Significant ongoing health and safety risks for employees including the risk of explosion and dangerous gas emissions in mains
- Ongoing sewage spills as a result of blocked sewer pipes, impacting the amenity of many Tasmanians
- Rapid deterioration of assets which will ultimately have to be paid for by customers
- TasWater being subject to significant monetary penalties for lack of action
- Ongoing failures to meet its environmental discharge obligations and sewage compliance targets at sewage treatment plants
- Ongoing inequities for business that have done the right thing by the environment and are effectively penalised for doing so.

The cost to business

For some businesses, the cost of meeting compliance is minor (\$200-\$300 for the installation of a basket arrestor). For others, the cost may be in excess of \$20,000 for the installation of a grease arrestor, depending on the physical constraints on each site.

TasWater acknowledges this is a significant cost, particularly for small businesses, but this is not being imposed on customers without warning. Businesses are given 18 months (540 days) from the time they receive initial notification to become compliant. In other states, the compliance period is only 90, 60 and in some cases 28 days, depending on the risk and severity of noncompliance. TasWater's compliance timeframes are considered generous by national standards, and the process is considered fair and equitable.

TasWater is committed to working with customers to provide guidance and assistance while they are moving towards compliance, and generally speaking punitive action is a last resort. For example, where there are site constraints at a business TasWater can work with customers to develop a fit-for-purpose solution, including advice on a practical and serviceable location for a grease trap or sharing of a grease trap, proposing cleaner production activities, alternative pre-treatment devices, or storage and disposal options.

TasWater is expecting to complete an inspection of all businesses across the state by the end of the 2017 calendar year.

Business and community expectations

TasWater cannot allow non-compliant discharges into sewerage system to continue just because this is what has happened in the past. TasWater has the responsibility of enforcing compliance and educating customers, but acknowledges this change has been challenging for some.



It is important to note that in March 2017 during the development of TasWater's third and latest Price and Services Plan, both business and residential customers were surveyed to gauge sentiment on who should bear the costs of treating trade waste. The results were:

- 84 per cent of business and residential customers supported only those businesses generating trade waste paying for treatment
- 77 per cent of business supported only businesses generating trade waste paying for treatment
- 10 per cent of all customers supported trade waste costs being shared across all customers.

TasWater is confident the majority of businesses accept that as generators of trade waste, they should be responsible for disposing of it correctly. Since the commencement of this program, TasWater has received only a small number of complaints. More than 75 per cent of all Tasmanian businesses have already participated in the program, so any late change to the enforcement of trade waste compliance would be grossly unfair to participating businesses.

What is the State Government's approach to trade waste?

Since the State Government announced its intention to takeover TasWater, there has been media commentary to the effect that trade waste compliance costs are being "shifted" or "forced" onto small businesses.

Trade waste has a significant impact on sewage compliance and if the State Government is serious about protecting the environment, it will continue to support the trade waste program. Instead, it has simultaneously criticised TasWater for both sewage non-compliance and for doing something about it.

Trade waste is an issue which must be dealt with at the source. Any claim that simply upgrading sewerage infrastructure will somehow prevent the problem shows an ignorance of how it really works.

In practical terms, there is unlikely to be any change to trade waste compliance under State Government ownership. There has been no stated intention to change the legislation and whatever organisation replaces TasWater will need to report to the same regulators.



TasWater's standard of service

TasWater is entrusted with providing essential services to Tasmanians, who rightly expect their water and sewerage to be of a certain standard. Under the terms prescribed in the *Water and Sewerage Corporation Act 2012*, these services must be:

- Efficient
- Managed on an economic and commercial basis
- Operated in accordance with good commercial practice.

Achieving these goals means setting service standards that reflect customers' needs and expectations. These standards then inform TasWater's planned operational and capital expenditure, which in turn help to determine customer pricing. However, TasWater does not set its own service standards. Like pricing, service standards are overseen by the Tasmanian Economic Regulator (TER) through the triennial Pricing and Services Plan (PSP3) submission and investigation process, currently in its third iteration.

The service standards included in PSP3 have been developed by:

- Revising the current list to ensure they are relevant, fit for purpose and meaningful for customers
- Gathering historical data on each service standard to develop evidence-based targets
- Engaging with customers to understand their expectations, priorities and the acceptable trade-offs between services and pricing.

Once approved, PSP3 will come into effect from 1 July 2018 until 31 June 2021.

Understanding customers' priorities

The extensive customer consultation undertaken to develop PSP3 has included focus groups, telephone surveys, discussion workshops with peak bodies and State Government departments, meetings with major customers, written submissions, consultation through TasWater's website, a consultation issues paper and general information for all customers.

Across a range of activities and groups, customers consistently expressed the opinion that the provision of safe drinking water should be prioritised over meeting environmental standards for treated wastewater discharges, although both issues were still considered important.

Customer consultation also revealed a very high awareness of TasWater's challenges and the understanding that not everything can be done at once. These results informed the decision to keep service standards at their current target levels for PSP3 and focus on maintaining or improving compliance levels to those standards, although some additional service standards have been added to the list for the first time.

Interstate comparison

TasWater voluntarily participates in national benchmarking with interstate water utilities, but comparisons are often unhelpful without context because it is not necessarily comparing 'like with like'. The figures below come from a 2015 Water Services Association of Australia survey of 19 Australian and New Zealand water utilities, which found that TasWater has a disproportionately large number of assets to manage and maintain, in relation to its customer base.

This basic equation is at the heart of TasWater's ongoing plans to improve service standards at a sustainable rate, without unduly impacting the affordability of services for all Tasmanians.

Key statistics	Total of all utilities	TasWater	TasWater's % of the total
Revenue	\$13 billion	\$0.3 billion	2.3%
Operating cost	\$4.5 billion	\$0.2 billion	3.7%
Capital expenditure	\$4 billion	\$0.1 billion	2.6%
Water treatment plants	198	76	38.4%
Sewage treatment plants*	212	79	37.3%

*Level 2 sewage treatment plants only

TasWater's performance

Over the past two years, it is fair to say that while TasWater has performed extremely well against some service standards, it has not done as well against others. The overall picture is one of progress in its prioritised areas and building momentum, particularly given the improvements made in data collection across the state. TasWater has never understated or hidden the challenges it was created to address, but four years into the job its knowledge and planning to address those challenges has never been better.

TasWater is continuing to put actions in place to improve its performance. For example, to improve response times to bursts and leaks, it is giving greater consideration to the replacement of critical water mains as part of its renewals program. TasWater has also implemented a new asset management information system, which enables it to gather better data on the condition of its ageing networks, to inform its asset management plans and planned maintenance, and enable its field crews to respond more quickly when events do occur.

Service standards	2015-16 Actual	2016-17 Actual	2018-19 Target	Aust average
General indicators of customer service and water main network condition				
1. Water main breaks (no. per 100km of water main)	32.9	48.2	35	26*
2. Percentage of responses within 60 minutes for Priority 1 water bursts and leaks	87%	93.4%	90%	N/A
3. Percentage of responses within 3 hours for Priority 2 water bursts and leaks	98%	93.8%	90%	N/A
4. Percentage of responses within 3 days for Priority 3 water bursts and leaks	91%	81.1%	90%	N/A
5. Unplanned water interruptions (no. per 1,000 properties)	167.4	148.1	170	189.5*
6. Customers with repeat unplanned water interruptions	A new metric to be piloted in 2018-19			
General indicators of customer service and sewerage main network condition				
7. Sewerage mains breaks and chokes (no. per 100km of sewer main)	61	45.5	65	25.2*
8. Percentage of responses within 60 minutes for sewer spills, breaks and chokes	78%	73%	80%	N/A
9. Customers with repeat sewage overflows on private property	A new metric to be piloted in 2018-19			

*National performance report 2015-16: urban water utilities (Bureau of Meteorology)