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**Brighton
Council**

29 August 2017

Hon Rosemary Armitage MLC
Chair
Legislative Council Select Committee into TasWater Ownership
Parliament House
Hobart TAS 7000

Dear Ms Armitage

Legislative Council Select Committee into TasWater Ownership

The Brighton Council is pleased to make the attached submission to the Legislative Council's Select Committee inquiring into the future ownership of TasWater.

Following the establishment of the regional authorities and subsequently TasWater, the Brighton Council has a long involvement in the oversight of our water and sewerage services. Indeed, Mayor Tony Foster was the inaugural owners' representative, on behalf of all 29 councils, on the establishment of TasWater.

In May 2017, Brighton Council successfully moved the motion at the Local Government Association of Tasmania meeting that expressed councils' collective opposition to the proposed State Government takeover.

Prior to that meeting, on March 21 2017, Brighton Council voted unanimously to oppose the Government move.

Brighton Council is strongly of the view that the proposed takeover is not in the interests of our council or community, nor in the interests of all Tasmanian ratepayers, or the effective and efficient operations of TasWater. We consider the Government's proposal to be flawed, highlighted by a lack of consultation with owners and other key stakeholders, and a lack of financial data and modelling.

The proposed takeover would have significant and long-term impacts on our Council and community as a result of the loss of distribution payments.

More details of our concerns are outlined in the attached submission.

Because of Brighton Council's significant and long-standing interest in TasWater, I request the opportunity to present to the Select Committee through the hearing process.

Yours sincerely

DEPUTY MAYOR
On behalf of Tony Foster, Mayor of Brighton

Brighton
going places



Submission From the Brighton Council

Legislative Council Select Committee Inquiry into TasWater ownership

Overview

The Brighton Council is opposed the State Government's proposed takeover of TasWater because the corporation:

- Is legally owned by Tasmania's 29 Councils;
- Is directed and managed effectively and efficiently by an experienced Board of Directors and professional management team and staff; and
- Has an appropriate and fully-funded infrastructure upgrading program that will ensure all customers have access to high standard water and sewerage services.

Further, Brighton Council contends that a State Government takeover under the terms announced by the Treasurer, Hon Peter Gutwein:

- Is based on a false premise that Tasmania's water and sewerage services are in crisis;
- Will render it impossible for the Government to be able to deliver on its price or infrastructure upgrade promises; and
- Will result in increased cost for the Brighton community (and all other Tasmanian communities) in the form of either higher water and sewerage charges or increased State taxes due to proposed increased and unnecessary additional borrowings, and higher local government rates or reduced services as a result of lost council revenue.

At its meeting on March 21, 2017 Brighton Council unanimously passed the following motion:

"That Brighton Council outright rejects and dismisses the Hodgman State Liberal Government's ill thought-out and politically motivated attempt to take over the \$3.2 billion assets of TasWater and force Councils to forgo revenue from this Council-Owned Asset. We note that previously, the Department of Treasury and Finance determined that the Water Authorities and councils were required to make a commercial return on our assets."

We note that the TasWater board has an excellent 10-year plan in place to fix issues with its aging infrastructure and reject the Government's claims that it is not doing the job quick enough.

We call on Peter Gutwein, the Treasurer, to stop denigrating local Government and TasWater for his own and his Government's political gain."

Not in the community's best interests

Brighton Council remains firmly of the view that the State Government's move to takeover TasWater is more based on politics rather than serving the best interests of ratepayers and the Tasmanian community.

Councils must base decisions on facts and on this issue, the known facts are being provided by TasWater, based on its actual management and operation of Tasmania's water and sewerage business. On the other hand, we have the questionable forecasts and short-term promises made by the Treasurer. Tasmanians should not be misled by the, at times, flimsy forecasts and doubtful political promises.

The real issue for Councils and their ratepayers, in the event of a State Government takeover, is the loss of revenue required to fund essential community services.

Long-range financial projections show TasWater will generate significant returns into the future. These returns go **directly** into the local communities that councils serve—funding roads, footpaths, community health facilities, parks and recreation areas, and other services vital to the community's well-being.

Significant projects in the Brighton Municipality that have been funded from TasWater distributions include a new medical centre in Brighton, the Old Beach cricket clubrooms, the major Brighton Streetscape development, the development of a third oval at Pontville including turf wickets for high level cricket competition, the Old Beach Park and the Bridgewater Park.

The development of these important community facilities would not have been possible but for the annual distributions received by the Brighton Council flowing from its investment in TasWater.

Under the State Government's plan, councils, including Brighton, are being offered just six cents in the dollar for their multi-billion-dollar investment in TasWater. Brighton's investment in TasWater is valued at more than \$46 million, paid for by every Brighton ratepayer. Yet under the Government's plan, Council's guaranteed return over the next eight years will be less than \$3 million. Brighton's losses would be even greater into the future.

A loss of this magnitude would place Brighton's finances under significant pressure and seriously harm our capacity to retain our fair rating system that enables us to hold down rate increases. The impact will be similar for other councils and perhaps that is the Government's intention?

Despite the Government's promises, the Treasurer has already warned that "depending on circumstances" there may be no distributions from a TasWater Government Business Enterprise after 2025. Clearly, this points to the strong possibility of no distributions after 2025, should the Government get its way.

Based on TasWater's original distribution profile to owner councils on May 2016, the projected annual losses to Tasmanian councils from the 2025 financial year will be \$45.7 million. Brighton's losses alone will amount to \$1.4 million per annum, equal to up to 15 percent of Council's rate revenue. The position may well be similar for most councils (**see attached list of projected annual losses for Tasmanian councils from financial year 2025**).

The statewide total represents almost \$50 million lost annually that is spent by councils on vital community services in every region of the State.

It must be noted, that when councils were the individual and direct owners of their water and sewerage assets, they were required by the Commonwealth Government and the Tasmanian Treasury Department to provide for a commercial return on these assets under a competitive neutrality framework. Councils then lowered council rates and increased water and sewerage charges to comply with this requirement.

The Government claims our water and sewerage infrastructure is owned by all Tasmanians and not Councils. However, Councils have invested a significant amount of ratepayers' money over many years and are entitled to receive a return on this investment.

In the short term, the Government has promised that the \$20 million annual payments to Councils will be directly funded from the State Budget. This is hardly a promise cast in stone. Presumably it will be reviewed at every budget and be at the whim of the Treasurer / Government of the day, with no surety of its continuation. In the medium term, the Treasurer has said Councils will receive 50 per cent of the total value of returns after 2024-25, but he went on to say that councils have "eight years to get ready for life without dividends." He also said the Government would be investing its share of dividends into new infrastructure and said that councils should do so as well. Assuming the takeover bid is successful, Tasmanians can imagine Mr Gutwein saying "the situation is far worse than we expected so we need to put this money back into the GBE."

So, councils and their ratepayers should be under no misunderstanding. The future will see revenue to councils from their 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.

Absolutely no crisis

Brighton Council's firm belief is that Tasmania's water and sewerage services are not in crisis. This has been stated authoritatively and repeatedly by TasWater. Currently in excess of 99 per cent of TasWater's reticulated water customers currently have access to potable

water and this will rise to 100 per cent by August 2018 – the proposed time of the State Government takeover.

Regarding sewerage services, no concern or complaint has been received from either the Environment Protection Authority or the Department of Health and Human Services, nor has the Government been able to provide any evidence to support its claims that Tasmania's water and sewerage services are "Third World". Further, the Government has claimed that pollution from sewerage plants and sub-standard water is harming Tasmania's 'clean and green' image, yet has offered no evidence to support this. To the contrary, Brand Tasmania has recently reported Tasmania's clean and green brand image continues to rise.

TasWater is successfully implementing a fully and responsibly funded infrastructure upgrading program over 10 years that will ensure all Tasmanians enjoy the highest standards of water and sewerage services. Funding is being provided by reductions in distributions to the owner councils and a responsible borrowing program based on TasWater's assets and the capacity of consumers to pay. This program will also provide the optimum return to Tasmania in terms of employment and economic activity, as well as restraining TasWater and council rate increases. This program will have advanced some two years by the proposed date of the Government takeover. Importantly, TasWater has made significant progress since its formation in 2013 and is working as hard and as fast as it can to upgrade necessary infrastructure while keeping water bills as affordable as possible.

In contrast, to date, the State Government provided no substance to back up its plan, nor explained how the infrastructure upgrading work can be completed in a reduced timeframe or outlined how costs will be reduced. The brief detail provided by the Government shows that under its plan, TasWater will be saddled with debt to the point where it will be unsustainable and Tasmanian ratepayers, or taxpayers, will pay substantially more.

The financial risk

The Government wants to speed up this program and its answer is to borrow more money (an additional and unnecessary \$600 million) to add to TasWater's current \$430 million in debt. Increased debt means higher overall costs and this doesn't alter if the borrowing is undertaken by TasWater, councils or the State Government. The Government has claimed it will be able to borrow funds at cheaper rates than TasWater. However, TasWater already borrows money through the Government's Tasmanian Finance Corporation at the same rates, so there will be no savings there.

This proposal for huge additional and unnecessary borrowings is highly irresponsible and it is something that no sensible business would do. It has the potential to make TasWater unsustainable and become an unwanted burden on the State Budget and Tasmanian taxpayers.

The Government has said it will guarantee returns to local government at the same level proposed by Taswater – \$30 million next year, \$20 million each year for the following seven years and 50 per cent of total returns from the business in perpetuity. It has described this as "effectively a risk-free return from the corporation in perpetuity."

What the Government has failed to outline are the expected returns from the business after 2025. After all, if TasWater is unsustainable, there will be no returns and 50 per cent of nothing is nothing – hardly a risk-free return in perpetuity.

The Government wants to ‘fast-track’ TasWater’s infrastructure upgrade program. But the fast track invariably means less planning, loose contracts, less efficient working and therefore higher capital expenditure for the same end result. It is justified when there is a future economic benefit or revenue stream which can be brought forward, but that is not the case with Tasmania’s water and sewerage assets.

The Government has been unable to explain how its fast-tracking will cost less and bring lower water and sewerage rates. At the same time, all financial and engineering knowledge points to the reverse being the case – higher costs and higher consumer charges.

The Government’s GBE record

Currently, Taswater has assets around \$2.1 billion, with borrowings of some \$430 million, so net equity of approximately \$1.5 billion. As a Government Business Enterprise (GBE) under Ministerial control, the Government will be able to raid the books to prop up the State Budget, as it has done with Hydro, Aurora, MAIB, Tas Networks and TT-Line.

An examination of the Government’s performance in relation to its GBEs makes salutary reading. From the secrecy around the aborted sale of Hydro Tasmania’s gas-fired power station at Bell Bay with the Parliamentary Public Accounts Committee still seeking copies of the Treasury advice, and the Treasurer risking contempt of parliament charges by continuing to refuse to provide it, to the \$80 million taken from the TT-Line to prop up the budget bottom line, the cross subsidisation between TasNetworks and Hydro and the \$30 million taken from TasNetworks to prop up Forestry Tasmania.

In Tasmania, GBEs frequently suffer from either excessive political interference or else benign neglect. For example, the Hydro Electric Commission worked well as a largely independent commission. It had kept a tight rein on costs and was recognised for its excellent work. When it was split up into three Government-owned businesses, Hydro, Aurora and Transend, the situation became very different. Hydro was used by the Government for cash purposes and was not able to plan well for Tasmania’s energy future. Transend decided to heavily re-inforce its system. Aurora proceeded on a wasteful purchase and upgrade of the Bell Bay Thermal station in a futile attempt to have its own source of electricity. The result of all this was a large waste of capital which still has to be serviced. With now three organisations, operating costs have surged and Tasmania has gone from having the cheapest power in Australia to having nearly the most expensive.

Other GBEs like Forestry have been similarly managed at the whim of the Minister, the single shareholder, and have therefore not been able to properly plan for their future. TT-Line has done a little better operationally, but it has competition to keep it in line.

As a GBE TasWater will lose its sense of independent accountability, something that is enormously important when deciding development priorities and spending money efficiently.

TasWater is currently run by an independent, skills-based board and a management team of experts in their field. This structure means it is free from political interference and makes sound decisions based on need and not where politicians want to win votes. Local Government representatives meet with the Board and management regularly to keep councils informed. This process also keeps TasWater accountable to its chief owner, the people of Tasmania.

The Tasmanian public has very little opportunity to influence GBE outcomes. GBEs are not as accountable to community as TasWater is under its present structure. Councils, on behalf of ratepayers, currently have ready access to TasWater, its management and Board. Should it become a Government GBE, answerable only to the Minister.

Under the current TasWater ownership, financial distributions flow through to every council, with funds spent fairly and evenly throughout Tasmania. As well, TasWater's development priorities are determined on the basis of need and professional engineering considerations, not political desires. If the Government takes over, it will decide where that money is spent and it's likely it will lead to unsavoury pork-barrelling to curry political favour, particularly in the approach to state elections.

History shows the State Government to be a serial raider of GBE funds and a program influencer to suit its own political purposes, and there's every reason to believe it will treat a TasWater GBE in the same manner. The losers will not only be the existing TasWater and its owner councils, but also Tasmanian taxpayers and the community.

The Government's asset grab

Aside from any political gains and budget considerations, what else does the State Government gain from a TasWater takeover? Perhaps:

- The opportunity to boost construction activity in the state during its tenure;
- The opportunity to give developers special treatment when it deems necessary;
- The opportunity to clear Macquarie Point for re-development at ratepayers' cost;
- The opportunity to resolve the politically sensitive Launceston combined sewerage and storm water system without impact on the State Budget;
- Borrowings which are off the Government's balance sheet; and
- Access to Taswater's billing structure so ratepayers are responsible (i.e. pay) for servicing the additional debt.

This proposed takeover has similarities with the restructure of the former Hydro Electric Commission and is likely to be similarly expensive for Tasmanians. But, like the Hydro changes, the Government is relying on Tasmanians likely forgetting who was responsible

when promised timelines are not met and interest rates rise, and the big costs start being passed down to ratepayers.

Conclusion

The bottom line for Tasmanians is that if the Government succeeds in this asset grab, TasWater will be saddled with debt and future generations will have to pay for it. Tasmanians will undoubtedly have to pay more for their water and sewerage services and / or State taxes, and likely pay more in annual council rates.

The Government is promising that increases in water and sewerage charges in the immediate future will be a little lower, but at what cost? A \$140 million hit on the State Budget and additional and unnecessary borrowings of \$600 million with resulting interest and repayments that will have to be met by taxpayers in the years ahead.

The same taxpayers, who are the customers of TasWater and who may benefit by being charged a few dollars less for water and sewerage over the next few years, will pay dearly in extra state taxes or reduced services in the future.

Local Government is the sector of government closest to the community and it best knows and understands the community's needs. This is particularly relevant in the provision of water and sewerage services, which is a fundamental requirement of all communities. It follows that local Government is best placed to own and oversee TasWater, with the corporation directed by an experienced Board of Directors and run by an expert team of professional managers.

If the State Government is serious about water and sewerage reform, it would work with councils and TasWater to deliver the outcomes all Tasmanians want and deserve.

As a shareholder with an ongoing and active interest in TasWater and the provision of high standard water and sewerage services for the community, Brighton Council remains strongly convinced that the current local government ownership and expert Board and management structure should be maintained.

Council welcomes the opportunity to make this submission to the Legislative Council Committee and would be pleased to appear to expand on the issues raised herein.



for Tony Foster
Mayor

Brighton Council Contacts:

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Projected Annual Losses to Councils from FY25 with TasWater being a GBE

Based on TasWater Original Distribution Profile May 2016 with no payment from GBE for one half the profit.

Council	% Distribution	Estimated loss
Break O'Day	1.94%	\$ 886,580
Brighton	3.08%	\$ 1,407,560
Burnie	4.14%	\$ 1,891,980
Central Coast	4.77%	\$ 2,179,890
Central Highlands	0.51%	\$ 233,070
Circular Head	1.58%	\$ 722,060
Clarence	11.06%	\$ 5,054,420
Derwent Valley	1.36%	\$ 621,520
Devonport	5.46%	\$ 2,495,220
Dorset	0.97%	\$ 443,290
Flinders	0.18%	\$ 82,260
George Town	1.13%	\$ 516,410
Glamorgan Spring Bay	2.07%	\$ 945,990
Glenorchy	10.86%	\$ 4,963,020
Hobart	10.86%	\$ 4,963,020
Huon Valley	2.12%	\$ 968,840
Kentish	0.44%	\$ 201,080
King Island	0.33%	\$ 150,810
Kingborough	6.16%	\$ 2,815,120
Latrobe	1.91%	\$ 872,870
Launceston City	13.62%	\$ 6,224,340
Meander Valley	2.78%	\$ 1,270,460
Northern Midlands	2.34%	\$ 1,069,380
Sorell	1.62%	\$ 740,340
Southern Midlands	0.76%	\$ 347,320
Tasman	0.05%	\$ 22,850
Waratah Wynyard	2.81%	\$ 1,284,170
West Coast	1.81%	\$ 827,170
West Tamar	3.28%	\$ 1,498,960
Total		\$ 45,700,000