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**THE HOUSE OF ASSEMBLY SELECT COMMITTEE ON TASMANIAN WATER AND SEWERAGE CORPORATIONS MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART, ON MONDAY 14 NOVEMBER 2011**

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**Mr MILES HAMPTON**, CHAIRMAN, **Mr BARRY CASH**, BLW CEO, **Mr ANDREW KNEEBONE**, CMW CEO, **Mr MIKE PAINE**, SW CEO, **Ms CAROLYN PILLANS**, SW/ONSTREAM CORPORATE SECRETARY, WERE CALLED AND EXAMINED. **Mr GRAEME ROCKE**, CMW CFO, **Mr MATTHEW PIGDEN**, JOINT GENERAL MANAGER AND CFO (SW & ONSTREAM) AND **Mr DAVID GREGORY**, BLW CFO, WERE CALLED MADE THE STATUTORY DECLARATION AND WERE EXAMINED

**CHAIR** (Mr Gutwein) - Thank you very much for attending today. We would like you to give the presentation, or something that closely resembles it, that was presented to LGAT relating to moving the four corporations to one.

**Mr HAMPTON** - Today we have the CEO and CFO of each of the three regional corporations. At Onstream we no longer have a CEO; we have joint general managers. We have prepared a PowerPoint presentation that you have in front of you in hard copy and it is in five separate sections.

I made a presentation to LGAT back in September, at which I proposed a move to a single corporation. I did so for a number of reasons that will come out in this presentation. The presentation was from me as chairman. The matter had been discussed with my boards. The majority of my directors across the four corporations agree, but not all of them agree; some have reservations. Largely those reservations are about regional employment. One has reservations about the timing, believing it inevitable. There are 10 directors, so a clear majority, seven out of 10, favour a move to a single corporation and sooner rather than later. In presenting it to LGAT I could not present it as the board's view. I made it quite clear it was a majority view and it was certainly my view, but there were some directors who had concerns, particularly about regional employment.

Over time I have met with all of the mayors and all of the general managers around the State and they gave me a couple of very clear messages. They wanted to see us increasing the dividends. Their language would be they wanted there to be no price increases; I interpreted that to mean that they wanted price increases to be kept as low as possible, because the former is unrealistic whereas the latter is realistic. I met with 27 of the 29 mayors and general managers in a one-on-two conversation. While it varied - some were more interested in capital expenditure in their region - there was an overwhelming message, 'We don't live in an affluent community. The language in your space, Mr Hampton, is about massive increases in price. We think you should be doing whatever you can to keep it as low as possible.' I think I shared that with you at previous presentations. I had not completed all those discussions. It also became very clear that councils were very unhappy with the Government's arrangements and again I addressed that when we last met.

So onto page 5, when the corporations were established, as you know the Government at the time favoured a single corporation but we ended up with our compromise. One of

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the principal concerns I think at that time was equity within the regions. But what are the issues? The issues are: will one region be cross-subsidising the other? I still get that today. I still get people on the north-west coast saying, 'We do not want to cross-subsidise southern beaches'. I have people in the south saying, 'We do not want to cross-subsidise the huge amount of debt that Cradle Mountain Water have'. So the issue has not gone away; the perception is still there that they do not want to cross-subsidise each other. If we came together, what is the effect on distributions and will all councils benefit? A very strong concern about capital expenditure program: will one region miss out at the expense of the other? Regional employment cannot be projected and is there a governance model that will work?

I turn to the next slide - six - to particularly highlight that this is financial year 21; this is 10 years out. You can see the key metrics, particularly the metrics of return on equity and gearing and interest cover at the bottom of the chart. In 10 years time we become remarkably similar. The reasons for the distrust go away, if you like, in terms of the financial structure. The principal reason for that is demonstrated on the next page, which is showing actual average residential tariffs last year, what we forecast them to be in the current year and what target tariffs are in financial year 2013, 2014 and 2015. We will not quite reach those target tariffs with some of our customers because we would be ramping them up faster than we are forecasting they should be ramped up. But inexorably we have different starting points but we move towards the same finishing point. Is that logical? Well if you are set up on the basis that your charges are meant to be full-cost recovery with a nominated margin, then that is actually true. There will be slight differences that I think are quite evident here.

It is actually more expensive to provide our services on a per customer basis on the north-west coast because of the long-strip character of a number of reasonably sized towns, rather than Hobart or Launceston where you have two very large centres. So inherently the numbers here are logical but this slide underpins why the organisations are drifting towards the same kind of p-metrics. We are in a regulated space; we are expected to get to a pricing that delivers a properly regulated return. Ipso facto you will end up in the same space. It is only a matter of how long it will take you to get there as an individual corporation.

**Mr MORRIS** - What are the inflation assumptions in table 7, the net present dollar value increases?

**Mr HAMPTON** - We have indexed costs at 3.5 per cent beyond the initial period. We set a target of CPI -1 for the life of the corporation plan, but once we get beyond that we move to CPI. You are not going to keep on doing it forever. It is trying to drag an efficiency dividend from there on. We have increased aggregate revenues by 6 per cent, not the 10 per cent that was foreshadowed; we have brought it back to 6 per cent. In the early years we have some cost savings happening as well in our operations and then it is largely flowing through with the price adjustment transition that is happening to all of our customers.

Slide 8 - cross-subsidisation. If that is still a concern the starting points may have been different but the metrics will converge. It took me a long time to come to grips with this but it flows from the regulated space we are operating in. There is no science in it whatsoever. We have not created it; it just flows.

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Will there be savings in corporations and I looked at the expenses. I am looking here at financial year 2012 and I have looked at the expenses of the three corporations. Remember that Onstream is inside the three so I did not need to put a fourth corporation on here because the expenses are already there inside the three corporations. I have deducted what I call the non-discretionary expenses: the materials, the depreciation and the interest. The materials are the raw materials that we use for water treatment and wastewater treatment. It is \$101 million worth of discretionary costs. Largely we cannot save a lot out of depreciation, interest and materials by bringing the corporations together. We can really only save out of the discretionary costs.

I have then looked at the discretionary costs on slide 10. I put a range of 3-5 per cent savings and in financial year 2012 dollars it is \$3 million to \$5 million; indexed at 3.5 per cent it is \$4.1-6.8 million in financial year 2021.

Before going on to the analysis we have subsequently done quite a bit of work. It is not publicly available, but we have engaged Deloitte to confirm the level of savings as being reasonable. We specifically asked Deloitte to provide a report and to respond to the question of the reasonableness of the savings target and that report is almost completed and will be provided to all of our owners. My expectation is that it will conclude that savings at the upper end are reasonable if not conservative, not overnight but over a period of time, and savings of the order of \$5 million-plus are achievable in bringing the corporations together.

**Mr MORRIS** - Do I conclude from table 11 that the way you have done this has all of the savings going into increased dividends?

**Mr HAMPTON** - I presented it in that way.

**Mr MORRIS** - Yes, it was for councils, after all.

**Mr HAMPTON** - Yes. Some councils, I have to say, have a very clear view that any savings should be given to them, some have a view it should be given to our customers and some are in between. I take a positive view that if we give it to our owners they will reduce their rate increases, but that maybe a naïve view.

*Laughter.*

**Mr MORRIS** - Again, I suspect it will be a mixed bag.

**Mr HAMPTON** - I suspect it will be a mixed bag but, to be honest, if I presented all the savings going to our customers I don't think you would have invited me here to make this presentation to you.

**Mr MORRIS** - I guess the other place it could go is to capital works to some extent.

**Mr HAMPTON** - It will help us defer borrowings, so if we didn't distribute it and kept it all and our customers didn't benefit and our owners didn't benefit then it would diminish our need to borrow. Obviously that would be helpful. But from our 10-year projections for the corporations, the debt-to-equity position in 10 years time is not disastrous. It is not

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disastrous on an individual corporation basis and it is not disastrous on a collective basis, as you saw from that earlier slide where I showed you the gearing of the three corporations. Again, that is reflective of the regulated space that we are in.

I am very comfortable with the forecast upper level of savings. I put this range in; Deloitte have done quite a bit of work and researched similar sorts of consolidations in other utilities across Australia and they will be making comment on that report. They are not at all concerned that the level is ambitious at \$5 million.

**CHAIR** - I am presuming you will explain where some of those savings will come from. I would presume that council concern about regional employment was about those savings being applied to the -

**Mr HAMPTON** - I touch on that in the regional employment slide. The next two slides were aiming to point out the effect on dividends in the high case and the low case. The next slide, which I think is perhaps the slightly more relevant slide, is the effect on potential distributions, which is made up of loan guarantee fees, taxes and profitability. The percentage uplifts aren't as great and you wouldn't expect them to be as great.

The next three graphs are slides on the effect of the regional corporations owners' share of the profitability, the taxes and the loan guarantee fee of a merge. You can see that in Southern Water it is very clear; it just flows all the way through over a 10-year period. In Ben Lomond it flows all the way through over a 10-year period, but in Cradle Mountain Water there is a bit of a hiccup. That simply reflects the extra assistance provided by the State Government to Cradle in the current year budget. As you are aware, we are expecting to receive about \$28 million across the three corporations this year. That was changed in the budget and Cradle will receive \$5.7 million over three years, which in fact is more than had originally been expected. In Southern Water we have dropped from \$11.5 million we were expecting this year to \$2 million this year and \$1 million next year. In Ben Lomond, we were expecting \$7.4 million and we're down to \$1.5 million. The blip in the graph is reflective of the distortion of the north-west coast receiving that money.

If I look at the capital expenditure plans, remember this was basically a presentation given to LGAT. I knew they would be concerned that all the money would be steered into one region or another. I have sat at this table before and talked with you about the role of health and the environmental regulators in setting our capital expenditure program and priorities. In large measure now we have identified the work that needs to be done. At least in the immediate future we have an agreement with the regulators about what will be done first - the EPA and Health.

**Mr Hidding** - How far forward is that list?

**Mr HAMPTON** - The broader list is going out six or seven years; the shorter list, where it's really detailed, is one or two years. It has to be because if we're not working on it now we won't be delivering it.

**Mr HIDDING** - What's the degree of agreement between your three corporations and that shorter list?

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**Mr HAMPTON** - I think we are broadly in agreement.

**Mr CASH** - We have signed off with the regulators.

**Mr HAMPTON** - We are not unhappy. There has been some coming and going. I think it would be fair to say, Andrew, that on the north-west they are quite crabby about our speed, or lack thereof.

**Mr KNEEBONE** - Yes.

**Mr HIDDING** - Is that a priority thing?

**Mr KNEEBONE** - No, it's just an inability to fund it. They now want the works done more quickly and they think we're not addressing it as quickly as we should. That is because we don't have the capital capacity to do it.

**Mr HAMPTON** - At this point in time the Cradle Mountain Water balance sheet is constraining. The board of Cradle Mountain Water said to the management team, who have communicated to the regulators, 'This is all we think we can afford to spend'. In time that changes.

**Mr HIDDING** - Who's grumpy about the time line?

**Mr HAMPTON** - The EPA. They would like us to go faster.

**Mr KNEEBONE** - We've now reached agreement. I got an e-mail this morning saying we are going to sign off on wastewater management plans.

**Mr HIDDING** - How many years is the short list?

**Mr HAMPTON** - Three.

**Mr HIDDING** - So you know what your program is?

**Mr HAMPTON** - Yes. What I was really trying to say to our owners is that it is there, it is locked in. The capacity to juggle it is always there but if our owners were concerned about that they could put a constraint around it. If they were supportive in principle of a move to a single corporation because of the savings to the community, they could put a constraint around it that we have to deliver certain things and one of them would be the capital expenditure program. That is what I was trying to convey to them. I emphasised that to a large degree we have little discretion. A couple of them over the last two or three weeks have said, 'Who's to say that the Environmental Regulator might say that priority 21 in the south is more important than priority 10 in the north and north-west?'. That is a reasonable question and I'm not sure how I answer that. If in fact priority 21 in the south - for example - was fixing a major environmental problem and priority 10 on the north-west wasn't an environmental issue, the broader Tasmanian community might be more comfortable with that. There is a concern about what needs to be fixed in a region being fixed in that region.

**Mr HIDDING** - Is that list available?

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**Mr KNEEBONE** - It is in our price and services plans that are on the website now.

**Mr MORRIS** - Just the three year's worth or the entire 10 years? I'd be very interested, given that you know the jobs you have to do over the decade, to see what that list is, without necessarily having dollars attached.

**Mr CASH** - The regulators have given us a priority list. Each of the CEOs signed with all the regulators the compliance and implementation plan, which required lots of things. One of the things it required regulators to do was to give us a priority list. So that is where the list is and it came from EPA.

**Mr MORRIS** - So you gave them a list of total projects that were known?

**Mr CASH** - No, EPA gave us a priority list and the Director of Public Health gave us a priority list for public health for drinking water. They were priorities that we then had to work from, but then in turn for EPA we had to develop an agreed wastewater management plan. We had to develop a management plan as to how we were going to deal with their priorities and that had to be agreed by them. As Andrew said, he has had a little bit more trouble about getting agreement, but he now has agreement and we all have that signed off with them. So the wastewater management plan would be the document that sets it out. Similarly we have a drinking water compliance plan agreed with the Director of Public Health.

**CHAIR** - What mechanism would you argue to councils that would solve this issue of their parochial needs?

**Mr HAMPTON** - The three corporations have effectively put forward price and services plans that are now with the Economic Regulator and that have the initial three-year programs.

**CHAIR** - Three years, but post that?

**Mr HAMPTON** - That is a difficult one because I would imagine if there were a single corporation then the Environmental Regulator would be wanting to talk about the most serious earlier. The overall estimate of expenditure that we have foreshadowed here is in excess of \$1 billion over the 10-year period and it is in regions. We have identified it in regions. We do not think that either the amount or the regional spend is going to change. So if we are out in year four or year five or year seven, if a little bit more is spent in one region than another, but we still are aiming in that 10-year period to achieve substantially a fix, then in that 10-year period we will address the issue. All I can really make them comfortable for is around the first price and services plan. It is there and it is in the public domain. We know the other things we want to work on. The Environmental Regulator may have a different view as to the priority in respect of three corporations, let alone a single corporation. I could not give them a great deal of comfort other than saying the total amount will still have to be spent and it will be spent between years four and 10, or our expectation is that it would be.

**Mr MORRIS** - The 10-year period, when did that start or hasn't it yet?

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**Mr HAMPTON** - We have done some financial modelling, it is reasonably basic, but it includes the current financial year. We are going out over a 10-year period.

**Mr MORRIS** - So 2011-12 forward.

**Mr HAMPTON** - Yes, 2011-12 forward to 2021.

**Mr MORRIS** - Michael Aird, when he started talking about this - this is going back to 2006 - said that over a 10-year period we need \$1 billion spent. It was very tricky to work out when that starting period might be, but from where we are at the moment what we now see is that we have a 10-year period starting this year and it is actually \$1.25 billion. So given the lack of information they had it wasn't probably too bad a guess.

**Mr KNEEBONE** - The majority focus of that capital expenditure is also on compliance, not on renewals, so there is still a backlog of renewals that is going to have to be addressed. The mechanism for that is an agreement with the Economic Regulator about our asset management approach. As part of the compliance implementation plan we also each submitted an asset management plan, which will be agreed with the regulator. It also then links to the level of service and the service standards that apply in each of the regions and that those assets need to deliver. That is the other mechanism for regulating regional expenditure and investment through the economic regulation cycle.

**Mr CASH** - Andrew is quite right that we are concentrating largely on compliance, and renewals is taking second best. If we are not very careful we will push a bow wave of renewals ahead of us, so we have to be mindful of that. If we take too long doing the compliance work, that bow wave becomes bigger. If you look at Ben Lomond, for example, the replacement value of our assets is, in rough terms, \$1 billion. If the average life of assets is 50 years, that is \$20 million a year on renewals, and that is forever. We are not talking about spending this \$1 billion and there will be no capital works; there will continue to be a level of capital works not dissimilar to the level we're doing now. It will just change focus.

**Mr MORRIS** - So you'd expect to push up a slight bow wave in order to achieve the compliance as quickly as possible and then there will be another capital works program beyond that that is predominantly aimed at bringing that replacement back to a sustainable even level?

**Mr CASH** - That's right.

**Mr PAINE** - The other things that come to help that are the change in time, the corresponding change in technology, and other sorts of improvements may assist in helping with that download.

**Mr CASH** - And there may be some things in the compliance capital works we do that might reduce that too. For example, Ben Lomond is doing a big project at the moment on the greater Launceston sewerage strategy. We have seven sewerage treatment plants in and around Launceston, supplying 80 000 people. We are looking at whether that should be the case in the future. If you were starting from a greenfield in building the city of Launceston, you would definitely only have one. Melbourne has only two for 4 million people, so we are looking at whether in the long term we should have one or seven. The

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reality is that we have sunk assets now, so we are not greenfield. It may well be that we end up with fewer than seven. If we end up with fewer than seven, that reduces the renewals. A lot of this work we're doing on compliance fixes up existing assets so that there is part of a renewal process in that as well.

**Mr KNEEBONE** - So it's not like we're doing nothing on renewals and/or compliance.

**CHAIR** - In your discussions with councils obviously they had indicated that increasing the dividend and limiting price increases to customers were their two key drivers. What about economic activity in regions? I am wondering whether or not, with the savings that are potentially there from moving to one corporation, there is the opportunity to bring forward some of the capital works, which might give a stimulus to the broader economy?

**Mr HAMPTON** - A number of the councils are quite focused on that. While there is oblique reference in our legislation to economic development, it is not a priority objective of ours. That being said, as we have learnt over the last two years we can't ignore it because it comes before us. For example, with the proposed new milk processing plant in Circular Head, we will be taking their trade waste. We've had conversations with them. We encourage proponents of projects to come to us early and talk to us about what they are proposing to do so we can work with them in identifying the lowest cost solution. If they don't do that but lodge an application in front of us, we have to comply within a certain time frame with inadequate information. We have to respond in a certain time frame, we are required to do so, so we have been accused sometimes of putting forward numbers that are ridiculous. Probably with the benefit of hindsight we have, but there is nothing we can do about it because we have an obligation. We have found that by engaging with the local council, normally a champion of a project, and the proponent of the project we have been finding solutions that work better for everyone and will work for us.

**CHAIR** - If savings can be generated by moving to one corporation, is there the possibility that you could bring forward borrowings and do projects earlier than you were previously considering? In respect of the legislation, should there be a tweak to the legislation to provide you with the opportunity to take a focus on economic development?

**Mr HAMPTON** - In terms of the plan going forward on a single model, we have ramped up the capital expenditure on Cradle Mountain, as mentioned earlier in our initial plans. In fact I think our corporate plan, Andrew, is \$17.5 million?

**Mr KNEEBONE** - Yes, \$20 million and \$17.5 million, and it is now up to the \$20 millions.

**Mr HAMPTON** - But we have got it going up to \$30 million, so the north-west coast in moving to a single corporation will have a significant benefit in terms of doing exactly what I think you are suggesting there.

The difficulty with the economic development role is whether it is our place to make the judgment. Do we want to get into a debate about a proposal that might go in Burnie or might go in Devonport and if we do make the support of that - and I am using the north-west coast as an example - will the councils in the other regions be happy that we

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effectively have an element of cross-subsidisation? Remember our mandate, which is full cost-recovery and full equity. If that were to be changed - and of course councils have always found ways to encourage development in their regions -

**Mr BEST** - That's being polite.

**Mr HAMPTON** - and they made things happen - councils' ability to get money from outside sources is far greater than ours. We can't deny that the infrastructure that we have and are meant to be providing to the community is really important for development, but how can you be quarantined from it, but put a caveat around it so that in fact it wasn't a significant distortion? We keep on coming back to this premise that we are set up with full cost-recovery and equity. There are different views. On the north-west coast we still have a debate as to whether the model approach that we have taken to establishing developer charges is the right approach. The other parts of the State are there but the argument is not about developer charges, it is about whether we have the right model - well actually that is not quite true, they don't like developer charges anyway!

*Laughter.*

**CHAIR** - You made the point about whether the council in Burnie would be happy about a development going ahead or being potentially cross-subsidised in Devonport. If it meant that a development would be lost to the coast entirely then surely what we should be looking at is whether or not a mechanism or framework can be provided so that judgments like that can be made. That would appear to me to be sensible because, whilst councils might argue against a development going ahead in another municipality, I think if push came to shove when faced with the potential of losing a development to an entire region then their thought processes might be somewhat different. I would just like a response from you as to whether or not we should explore a mechanism like that?

**Mr HAMPTON** - I think it should be explored because to ignore it is to ignore reality.

**Mr KNEEBONE** - Taking Miles' point in respect of the full cost-recovery, there is potentially a conflict there in terms of the Economic Regulator looking at our asset base and the ability of these corporations to make speculative investments in long-term assets and then get a rate of return on those assets is then subject to external scrutiny. The debate that I have had with the general manager on the coast is that we are not anti-development, we are just anti-uneconomic development. If we have to fund something then we need to ensure that we are making a rate of return on it and that there is a reasonable chance, a commercial risk to making that rate of return. We are not there as speculators, because otherwise we are playing with their money as well.

**Mr HIDDING** - And if it wasn't, is there a case for some other agency like Economic Development or someone to come in to balance it?

**Mr KNEEBONE** - Yes, absolutely. I am not sure that we can be all things to all people.

**Mr PAINE** - I want to talk about activity and put on the record the increases in levels of spend that we have had in the last two years.

**Mr HAMPTON** - I might just finish off.

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**Mr PAINE** - Yes.

**Mr HAMPTON** - Another example that I put in front of you is the proposed Lion Milk Project in Burnie and, despite the fact that it is relatively new, our new wastewater treatment plant on the coast simply couldn't handle the volumes. However in cooperation with councils we have established that a significant part of the volume that we are handling there is actually coming from stormwater, which we do not have responsibility for. So really good dialogue has been had and the Burnie City Council are exploring ways that they could finance the removal of the stormwater which would mean that we could handle the trade waste capacity. So we have become engaged in trying to find solutions which I think is part of our role.

**Mr HIDDING** - Infrastructure failure requests are in the May one and there has just been an update. What is the basis of it and should that be successful what is the plan for that?

**Mr HAMPTON** - We have provided information from the three corporations to the Government and it has gone in as part of a whole-of-State submission across a range of infrastructure asks. I think we are not optimistic -

**Mr HIDDING** - It is project-based, is it?

**Mr HAMPTON** - It is project-based. We are not optimistic. The really sad part about all of this is that Burnie can go off and apply for RDA money for fixing stormwater because it is council, but the chances of our getting money -

**Mr KNEEBONE** - We are actually excluded from making those submissions.

**Mr MORRIS** - Because?

**Mr KNEEBONE** - Just by the rules of the funding.

**Mr MORRIS** - Because you are a corporation?

**Mr HAMPTON** - Yes. The most interesting thing about this, as I understand it, is that if a council had permission to put in its own wastewater treatment plant and was prepared to hold it for five years it could access funding and then transfer it to us. This all seems a little bit pointless, doesn't it?

**Mr PAINE** - I think there has been a recent ruling on that too that is not promising,

**Mr HIDDING** - Someone has closed that little loophole?

**Mr PAINE** - I think so. For many years, since 1994, water and wastewater has been on a path of sustainability and avoidance of need for external funding for want of a better word.

**Mr HIDDING** - So you are not expecting a cheque this year? Is that what you are saying?

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**Mr HAMPTON** - No, our plans do not in fact have a cheque coming to us. We have made our plans on the assumption of no cheque. Any cheque that came to us would enable us to keep our price increases lower.

**Mr PAINE** - Mr Chairman, just to answer Mr Gutwein's question in another way is that we have increased the level of capital spend from around \$30 million to around \$100 million a year across the State and one project in particular, the water meter project in southern Tasmania, has employed 130 local people. That is the sort of economic activity that we have created as part of the information of these new entities and that level continues for nine more years.

**Mr CASH** - And the significant increase from about \$30 million before we started across the State to in excess of \$100 million a year is very challenging to deliver. We were well short last year on our plans to deliver so it is not -

**Mr BEST** - Sorry, on your planning you mean?

**Mr CASH** - No, we did not deliver on our full capital works program last year because the ability to deliver these -

**Mr MORRIS** - You can only dig so fast.

**Mr CASH** - We are ramping up our capacity but the program we set ourselves is very challenging.

**Mr BEST** - Is it hard to get the workforce - such as contractors and so on?

**Mr CASH** - We have not had too many problems with contractors but it is hard to get engineers. Ben Lomond has just entered into a consultancy agreement, so we'll fix that.

**Mr HAMPTON** - It is as much about building up the head of steam.

**Mr MORRIS** - That is right.

**Mr HAMPTON** - If the water and sewerage sector - 29 councils and three bulk water authorities - were spending \$30 million a year to build it up, I guess we were perhaps naive to think we could go from \$30 million to \$100 million in one go. But it has been a very significant focus of the boards of the three regional corporations. What do we need to do now to be making sure that our capital delivery plan for next financial year has a greater chance? Of course coming from the private sector, I was always pleased when we spent less than we contemplated. There is a different paradigm in that space.

**Mr HIDDING** - Welcome to the dark side.

*Laughter.*

**Mr HAMPTON** - On a lighter note one of our senior asset manager engineers recently expressed the view, 'I've identified savings in a project, but it means I'm not going to deliver on the capital program.' We assured him, didn't we Barry, that there was no need to be concerned - we wouldn't rap him over the knuckles if the reason for under-delivery

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was savings. If the reason for under-delivery was that we had not actually ramped up the programs we were working on, that would be a completely different issue.

I might go to employment.

**CHAIR** - Yes, please.

**Mr HAMPTON** - The numbers here a little bit old and they do not have the remaining Onstream numbers on them. Across the State we are employing about 800 people today. So there are about 50 people still in Onstream, of whom two-thirds are in the north of the State and one-third are in the south. I did not foreshadow this at the LGAT meeting, but I have subsequently been quite open about it - I have indicated that I am contemplating that there would be savings of about 30 positions on a statewide basis. That is 30 out of 800. But significantly you would conclude it is not at the coalface, it is behind the coalface.

**CHAIR** - There are two processes, aren't there? One is the restructuring of Onstream and allowing it to come back to the corporations as previously announced, and then the potential of moving to one corporation. Those 30 savings are they -

**Mr HAMPTON** - Beyond Onstream. So it is in addition to what we have achieved with Onstream. We have been quite open about that. Unfortunately, on the north-west coast between 20 and 40 positions are being talked about.

**Mr BEST** - Don't say that.

**Mr HAMPTON** - I am not talking about it, but other people are talking about it. So in council land there is a view that it could be 20 to 40 positions on the north-west coast and, despite my assurances that that is not the case, I have some work to do to counter that.

**Mr BEST** - Okay.

**Mr HAMPTON** - Thirty positions across the State. When I presented to LGAT I invited them to consider the proposition that again coming back to conditional support that if there is to be a reduction in employment it ought be pro rata. That is the first question. The second question that they might like to think about is that Onstream presently has the billing and IT for the four corporations in Launceston. They have been in Launceston from day one and some other things that Onstream do are based in the south. If it were a single corporation, is there any reason why some activity that is across the State couldn't actually be based on the north-west coast? I pick as a perfect example of that the Australian Taxation Office that has put offices around Australia that specialise in certain things across Australia. So despite my invitations to the north-west coast to treat, if you like -

**Mr HIDDING** - It might be that they are a little cynical about the TasPorts promise that the head office would be in Devonport and I do not think it ever eventuated.

*Laughter.*

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**Mr HAMPTON** - Mr Hidding, I know that you are right because in fact I have had that said to me and I do not know how you make people comfortable with that. All I can set out to do is firstly identify the facts. I am seeing five to seven positions lost on the north-west coast, but I am also seeing the possibility of transferring some functionality - and I am happy to say it here - that is probably currently based in all three regions. Why should it all be moved to Launceston or all be moved to Hobart? We are a small State and why couldn't some of the admin functions for a single corporation be based on the north-west coast. In my view they ought to be.

**Mr MORRIS** - There is no reason why it couldn't do, for example, your HR function.

**Mr HAMPTON** - That is right. There are a number of discrete activities that you could transfer and again you do not have to disrupt people overnight, some of those you can transfer over a period of time. You just need to have a commitment and a plan to deliver on it.

**CHAIR** - But you are being quite clear today, though, that the rumours that are circulating on the north-west coast of between 20 and 40 job losses are not true?

**Mr HAMPTON** - They are not true and I have told them that they are not true and you simply couldn't do it. Some have expressed the view to me, 'Miles, your view of 30 people seems very light, out of 800'. It may well be in time but I don't feel it would be helpful to throw an even larger number on the table. It is not difficult to identify 30 roles that would no longer be required but beyond that it takes time. I did quite openly invite the north-west coast to treat but I am not quite sure whether they are in that space at this point in time.

Slide 18, addressing the issues of a single corporation, will one region be cross-subsidising others? I don't think so. I think the model doesn't allow it. Will all councils benefit? They will all benefit. This ultimately comes down to a discussion about individual equity. Remember now the councils in the south have an equity in Southern Water and councils in the north have an equity in Ben Lomond Water. You then have to find a way, if you turn it into a single corporation, for the equity entitlement for each corporation to be determined. This is the second question that I have put to Deloitte. I put to them what I consider an appropriate basis. That is the second aspect of their report and they are going to come down with a view on that. I think they will broadly say it is a challenging space because, depending on which way you look at it and at which point in time you look at it, you might conclude a different answer. It might not surprise you that the scenario that we have proposed doesn't have any councils losing.

**Mr MORRIS** - Very clever. From the current position or -

**Mr HAMPTON** - From their projected position on a stand-alone basis. It gets a little bit more complicated when you still have a year-and-a-half, if it were to be a single corporation from 1 July next year, which is probably unlikely. We would only have one year and four-and-a-half months of priority distributions, which were a major issue of angst between councils, somewhat unfairly directed a bit in our direction, but even taking that into account all councils can come out ahead.

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When I went to LGAT with a single corporation and savings to be had, the second major issue to them was governance. I presented to them a governance model that I thought would work on a statewide basis. I didn't suggest that it was the only model that would address their governance concerns because I have sat in this forum before and said that three regional corporations will address their governance concerns, and it will. I didn't try to say that this was better than three regional corporations, but a model where there was one representative per council rather than the present reps model overcame that concern. The issue of common directors goes away because you only have one board. Then you have to come up with a process of how the board is appointed. I put forward a model that encouraged regional representation, a minimum regional representation, and a skills-based board. It is always difficult with 29 owners. It is a lot easier to come up with a model that everyone can immediately relate to if it is regional. It is more difficult on a statewide basis. I put the governance forward, flagged a proper communication process and since I was last with you we have at least partially advanced. For example, on the north-west coast we were meeting with our reps. We have taken that reps meeting, which is only three reps on the north-west coast, and put it inside a Cradle Coast Authority meeting so that all the councils can be there while we are having our conversation and can contribute. At the end of the day, the reps don't, in a sense, vote. We have done our best to have conversations on an expanded level, which is exactly how I would have envisaged it. If you have a single corporation, I envisage that every quarter - and that probably means it is happening every month - in each region there would be a regional meeting between the CEO and the CEO and it would be focused principally on what's happening in that region. It would be talking about the financial position of the business and what's happening in that region, giving the owners in that region the opportunity to have their say directly with the board. So that is four times a year in each region, and twice a year a full statewide meeting of the 29 councils to talk through and agree the corporate plan and ultimately approve the accounts.

**Mr MORRIS** - That would be a stand-alone meeting, not something inside LGAT?

**Mr HAMPTON** - That would be completely stand alone.

**CHAIR** - What's been the response to that?

**Mr HAMPTON** - I debated at length whether I should go so far as having the cheek to put forward a governance model but then I reflected on the fact that we as boards were probably in a better position to make a comment. My reading is that the north and the south are quite comfortable with it, but it's a long way away from the north-west coast.

**Mr HIDDING** - The selection committee you are talking about would be an outside selection committee?

**Mr HAMPTON** - No. I suggested to the LGAT meeting that the selection committee be four: two from the south, one from north and one from the north-west. This is one area where they've already got ahead of me and said, 'No, we think it should be eight because four is too few'. That is fine.

**Mr HIDDING** - Can they do that skills-based assessment?

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**Mr HAMPTON** - I think they can. As you know, I was chairman of Hobart Water for a period and observed what happened at Ben Lomond Water and Cradle Mountain Water and I think they put together skills-based boards. I suggested a skills-based board of six - again evidence of trying to keep the costs down - with a minimum of two on the board from the south, one from the north and one from the north-west, which gives you the opportunity to bring in a director from interstate who has solid experience in this space, which we presently have. One of the common directors is Brian Bailey from interstate and he has a wealth of experience in the Victorian water industry. I think I put forward a model that could work. It's up to the owners. In the carriage of this conversation with councils, I think I have done my bit on governance and it's now up to councils and LGAT to work that out. My carriage is still around the financials and being able to demonstrate to the owner councils that it is something worthy of consideration.

**Ms PILLANS** - The Water and Sewerage Corporations Act can specify a skills-based board. We work to the ASX corporate governance principles, which requires a whole lot of process around director selection, skills-base and that sort of thing. All those frameworks are in place. Our evidence and experience to date, right through from the water authorities to now, is that none of our council owners are interested in going outside that model. They are very committed to that, so I don't see we would have an issue with that.

**Mr HIDDING** - They are accountable; it's their business.

**Ms PILLANS** - Yes.

**Mr HAMPTON** - Having raised the issue it is up to our owners and ultimately the Government to decide whether they want to change.

I believe the majority of councils in the south support the move to a single corporation in principle. They have caveats around being satisfied with the governance and the financials. I believe, but I am not as certain because I haven't seen minutes come out of meetings, that the north is probably not far from that. Their driver is keeping the cost down for the community. Wherever the revenue goes, it is to keep the cost down to the community. My reading is that the north-west coast is more significantly opposed to it or wanting to buy more time, maybe more studies, to see if they can become comfortable with it. That being said, I'm not whether some councils on the north-west coast will become comfortable with it.

I can see a situation where at an LGAT meeting, which is being held this week, the resolution supporting in principle might get up but whether it is nailed down is another matter.

**CHAIR** - Have you considered any further process with the north-west coast or with any council which may have concerns? Are there meetings or further communications planned? How do you see the process rolling out from here?

**Mr HAMPTON** - Chair, my proposition to LGAT is that I am hopeful because it is not contemplated that the meeting this week is a sign-off. It is agreement in principle. So what are the next steps before they come back together to say, 'Yes we are comfortable'? While I have been around the State and made presentations to councils of largely what

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you have had, by the end of this week I will have the Deloitte report. My intention is to provide it to councils and I have proposed to LGAT that we do the same thing again, but their having got it beforehand they will have the opportunity to ask questions at the time. I would have thought that LGAT/councils need to be putting on the table exactly what their governance model is. Because to many of the councils that is probably more important than the dollars and cents. You do not want to change from a governance model that you are unhappy with to another one that you might be even less happy with. So I am contemplating that it will take more time. How much time? As I said at the LGAT, a number of councils have accused me of perhaps trying to push this too fast. My biggest concern is in fact the 800 people whom we employ, because I have added to the uncertainty. The sooner a decision is made in principle the sooner we can actually be starting to plan towards it.

Wouldn't it be great if between when it is announced that it is going to happen and when it happens we can manage our businesses so that the people who are to be made redundant in the process are next to nothing - that would be our objective. But the sooner that we can create clarity -

**CHAIR** - What is your ideal commencement date? Do you have everything lined up for 1 July next year?

**Mr HAMPTON** - 1 July next year would be good, but would it really matter if it was 1 August or 1 September? 1 July would be great because it ties up with all the accounting and everything else and there is a bit of extra work if you do it at another point of time. I see my CFOs are very interested in this.

*Laughter.*

**Mr HAMPTON** - Realistically we have to take the councils with us. To take the councils with us it would be most unfortunate for the Parliament to have to consider this if in fact the north-west coast were uniformly against it but the north and the south wanted it. To take the time to try to make more councils more comfortable with it is essential. I am not sure that we will ever get 29 out of 29 but if we could get 24, 25 out of 29, that is pretty overwhelming endorsement. I think with some work we could get to that.

**Mr MORRIS** - Is there any reason why perhaps picking on a 1 July 2013 date might not be more sensible? Firstly, the Parliament has no chance of putting legislation through any time in the next six months, so only just ahead of 1 July next year anyway, given the changes that would be needed for the legislation. You are saying the longer you have in order to give people notice and rearrange positions the better, so would that not be more a sensible date to be targeting? The other thing is, of course, you have the two-part pricing fully coming in on 1 July next year which is going to be a big event in some ways - or maybe hopefully it will not be, but it is likely to be - and that is something that has to be bedded down. You do not know what problems might yet occur with that, so would it not be, perhaps, more logical to have the following 1 July as being the more appropriate date and preferably with it being announced sooner rather than later?

**Mr HAMPTON** - Clearly, legislation needs to be changed, so in a sense the legislative timetable will dictate our timetable. But what actually needs to be done to make this happen, operationally? You need a board and you need a CEO. That is all you need -

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**Mr HIDDING** - That could occur in any case, couldn't it?

**Mr HAMPTON** - to effectively make it happen because operationally it will never happen on day one, whether day one is 1 July next year or 1 July the following year or 31 December next year. There are a whole lot of things that you simply cannot do beforehand. Remember, we actually have legal entities, we have a whole lot of reporting around those, but in terms of making it operational, the operational test requirements are legislation, board and a CEO. Sitting here today, I think that is an impossibility for 1 July next year, but there is no reason why it couldn't be 30 September next year or 31 December. It all flows from having a board who then appoint a CEO and the CEO then works on the management structure across the State.

**Mr HIDDING** - In practical terms and probably to Mike who probably has the most of the 800 employees, would it be better or worse for them to be told that it is going to be 2013? Would there be a frustration there to say, 'We still don't know what is happening?'

**Mr PAINE** - Certainty is the best thing to hear.

**Mr HIDDING** - It is on the table, so get on with it.

**Mr PAINE** - Get on with it.

**Mr HAMPTON** - I have been accused by some councils, 'Miles, you seem to be saying we have to go in a hurry, but you have created the uncertainty,' and I guess I probably did.

**Mr HIDDING** - Or the Parliament did.

**Mr PAINE** - I think the uncertainty was always there.

**Mr HAMPTON** - We do not have a model that anybody actually really likes.

**Mr MORRIS** - We can all share in the blame for -

**Mr HAMPTON** - Whichever way it gets changed, let us change it and settle on it, and let us do it expeditiously but make sure that we have it right. One of the hardest tasks we face is taking the community with us and in more challenging times four corporations is very difficult to defend.

**Mr MORRIS** - However I still think there is a bit of a mixed view from the community between whether the whole thing should just be broken up and given back to the councils versus a single corporation, which leaves the current situation as the in between that no one seems to be happy with.

**Mr HAMPTON** - I would not be being honest if I didn't report to you, given that you made that remark, that at some of these council presentations that I have given over the past month or so, in fact at all of them, I have had somebody stand up and say, 'This ought to be given back to councils.' I think there are some people out there who genuinely believe that. There could well be some people who believe that, if it stayed on a regional basis, maybe the region will get to determine pricing and the capital expenditure timetable - i.e.

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that the councils will, as distinct from the board. I do not think that whatever the structure is that anyone is going to allow the situation that we are in the process of repairing to continue or to happen again.

**Mr MORRIS** - Absolutely.

**Mr HAMPTON** - Whatever the structure is, the ability to do things that have led to our current situation, I cannot see being allowed to happen.

I have just three more slides that I would like to make a comment on them, broadly in relation to our space. One is in relation to billing. With billing, we did not have an initial capability. Some might say we should have done. The reality is that I do not think - and I hope my colleagues around the table would concur - we could have created a billing system without understanding the complexity in each of the 29 different councils. We actually needed to understand the complexity in order to build a billing system. So we did not have the capability and for the first two years we had to rely on councils and third parties. Our error rate - and we measure it, we know what has been wrong - has been within what the utilities sector would regard as an acceptable rate, but we regard it as completely unacceptable, and we are working on it.

**Mr HIDDING** - Would the utility industry see that as acceptable for an implementation period or just a normal period?

**Mr HAMPTON** - I guess I was looking at normal. We had teams working on a new billing system, coordinated and led by Onstream over this past year. We have gone live with it. It is an off-the-shelf billing system. It has not been modified. It has come in and I would say, in fairness, two months late and it has come in under budget under \$3.5 million.

**Mr HIDDING** - If I said to you that our at the offices of members of parliament - or of 11 of us - top of the pops, is water corporation billing complaints, would you be surprised?

**Mr HAMPTON** - There is a whole range of issues there. We have had legacy issues where change of ownerships and things like that have just not been dealt with in time but we are very confident that we have the plans to get on top of it. We are not thinking the noise will go away for some time. Until people get used to the bill coming in, they get used to the format of the bill this will happen. At least now the bills are out there, the new billing format is out there, it is showing a balance brought forward, it is showing the new charges, it is showing the payments, it is showing the balance outstanding -

**Mr HIDDING** - Some of the feedback we get includes elected members of councils who say that they would never have mucked it up like this. For the first two years you have relied on material from councils.

**Mr KNEEBONE** - That is exactly right, we paid them to do the work for us.

**Mr HIDDING** - Your comment to anybody providing us with that input would be?

*Laughter.*

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**Mr HAMPTON** - I will make a comment. I think some individual council employees have been actually quite mischievous in dealing with us.

**Mr KNEEBONE** - I might be a bit more charitable. I don't think they understand the change from how they previously had billed and the complexity of moving from a property-based system to a customer-based system and whilst we still have the integration of customer and property it does not work on the same way as local government works.

**Mr HIDDING** - Could they argue you asked for the wrong information?

**Mr KNEEBONE** - We asked them for all their customer-related data and they undertook to maintain it for us for a year and then we consolidated it into a single data set. The complexities come a lot in that not only did we just get our bills out in the first year, we then had to go back and re-issue them a couple of weeks later because of this price cap compensation and we are still working through the legacies of that price cap compensation. It can virtually be mapped: the delay in getting our first quarter bills out is related to the price cap compensation.

**Mr HIDDING** - The material that you were getting from the local government units was not presented to you with enough vigour and the mischief was in the lack of vigour or do you feel that material might have been withheld?

**Mr HAMPTON** - Remember, I didn't say all councils and I didn't say councils. I have it on reasonably good authority that in some cases we didn't get all the information we should have when they knew what we should have got. We didn't necessarily get it on the time frame that was expected and we carry all the cans which takes me through to the price cap introduction. As Andrew has mentioned, we had already issued some bills when we had to change them. This was not an easy fix. Remember, 29 councils, 2 000 different tariff models. We had to implement a scheme that effectively meant that our customers paid no more than 5 per cent more than they had paid the previous year, but they were all being charged in different ways.

**Mr CASH** - And it was a bill cap and not a tariff cap.

**Mr HAMPTON** - It was an extraordinarily complex task thrown on us after we had started issuing bills using third party providers. It is noted here in some cases we had to make refunds; it confused our customers and we were reasonably confused.

**Mr HIDDING** - We were, just a bit!

**Mr HAMPTON** - And we are still working through the issues but the nonsense of it was the inequitable nature of it that a large customer benefited a lot more than a small one.

**CHAIR** - The question, though, that customers really want an answer to is how long will there be continued uncertainty in respect of some of the accounts? Mr Hidding made the point that certainly our offices are receiving quite a number of complaints on a weekly basis. In my electorate Mr Cash has put in place a hotline number that is working quite well. We've had some success in sorting out matters quite quickly but they are still ringing up and bringing in their bills and saying they have problems. In some cases, not every one, it is a matter of misunderstanding on behalf of the customer but in others there

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have been errors that have been worked through. I guess the question from a customer point of view is: when will we get it right?

**Mr HAMPTON** - As you alluded to earlier, we are going to have a major challenge from 1 July next year when two-part pricing is rolled out in the regions that didn't have metering. That will be a shock. The bill has been presented in a way that lends itself to a smooth transition but there will be people who will ring up and disputing a meter reading. When the CEOs make their brief presentations to you shortly we will be showing you the communications that come to us. We know that most of the contact with us is about billing, therefore we know that most of the contact with you would also be about billing. Is it because there is an error? Is it because it is late? It is because it is unfair in any event? Most of them, I would say, would be about the customer thinking there is an error but when we do the work in most cases there's not.

**Mr HIDDING** - What about prior education, before they receive their bill or when they receive it? That education process generally starts in our office and we explain -

**Mr CASH** - We wrote to every customer in June explaining some of the changes and we've been criticised for spending the money in doing that.

**Mr HAMPTON** - Whether we put it in a separate envelope or in the envelope with the bill, we will still be criticised but we have bent over backwards to try to communicate. Regrettably, some of us have become somewhat resigned to the fact that until we are probably in year two of the new billing system we are going to have rocks thrown at us.

**Mr HIDDING** - Will there be a Mike Paine hotline?

**Mr PAINE** - There is. I deal with customers on a regular basis who don't want to take any of the advice of anyone who works for me. I'm happy to do that. We had quite a detailed flyer in our first account for this year which had red ink and a note saying how this all changed, but you have to read it. That is the important thing. There have been changes to our billing formats: the introduction of the new format with quarterly billing this year, and a customer code requirement. There is the final change next year when some customers get a volumetric account for the first time. After that, it has some semblance of ratcheting down. I think the error rate, as the chairman said, is low in my patch. I know that because customers come in and we show them how it is billed. It is new, they have read various things in the paper and been hyped by it perhaps.

**Mr CASH** - I would like to add two other things about the billing. The first is that we have just implemented a new billing system and we geared all the information, the pricing plans in that billing system, before the beginning of this financial year to our old pricing arrangements. At our instigation the interim pricing order was changed to remove the 5 per cent cap one year earlier and allow us side constraints. That was at our request but it came quite late and we had to rebuild the whole pricing plans in our billing system for that new system. That has been a massive task Onstream has undertaken, with a lot of input from our people, so that has delayed some of our billing this year with our new billing system. It had to be done.

**Mr HIDDING** - Is this an IT challenge?

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**Mr CASH** - It is a data challenge. The second thing is that we have talked about two-part pricing. Fortunately for Ben Lomond Water we are largely there; 95 per cent of our customers are already metered. Historically we have been meter reading on a six-monthly basis and we needed to build this year on a quarterly basis on consumption. As you are probably aware we are all rolling out not smart meters but they verge on smart meters, which will reduce significantly the meter reading burden. So next year our meter reading will be far more efficient and we would be able to read those meters quarterly with the same staff who currently read six-monthly. So we had two choices: one was to ramp up our staff and read quarterly and then get rid of them at the end of the financial year. What we chose to do was estimate the meter readings in the interim six-monthly period. Whilst they might not be perfectly accurate you catch up within the next six months -

**Mr MORRIS** - You would clearly state that on the bill notice?

**Mr CASH** - We had enormous grief about meter estimation, largely because people do not understand. We had people coming to our front desk saying, 'I have read my meter and you are one kilolitre out with your estimate, 70 cents, and I am not going to pay that 70 cents'. So we are investing a significant amount and we are no longer estimating. We are going to read all our meters quarterly because of community angst.

**Mr KNEEBONE** - Barry is right; we made that decision last year as well. We actually had to ramp up our meter reading team, so that is another reason why costs have gone up. We needed more people to read them more often.

**Mr CASH** - It is significant one-off cost for us.

**Mr HIDDING** - What must be really annoying to you people is that the councils, the 29 owners, have rates going all over the shop every year and everybody just pays them without even blinking.

**Mr PAINE** - That is part of what was happening here. This was all part of a thing that added up to something else; it was part of how we worked. This is a changed process that everyone is getting used to.

**Mr MORRIS** - In relation to the introduction of two-part pricing for those who have not had meters up until now, how do you determine the first reading? In sending out the first bill with a reading on it, obviously the meters will in theory be all as at 30 June, but you cannot instantly read them. Do you then just send the team out and do the readings as quickly as you can to get a zero point?

**Mr PAINE** - We have a program that starts first week in April, the first week of the last quarter, and we read through to the end of June. This program starts again the first week in July and moves forward, so there will be a quarter of reading for every meter, remembering that the last meters to go in will be the last ones read and so on. That is our plan. That then requires little or no estimation.

**Mr CASH** - Fixed charges are in advance and consumption is in arrears.

**Mr MORRIS** - Yes, that is right.

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**Mr CASH** - So you might ask how they can charge for consumption in the previous year. It is because you reduced the fixed charge in that quarter by a commensurate amount.

**Mr PAINE** - We probably will not. It will be a fixed charge. The ones who do not have meter readings or volumetric charges now get fixed charges to 30 June and pro rata for any volumetric up to -

**Mr KNEEBONE** - Divided by the number of days.

**Mr MORRIS** - Until you can get a first reading.

**Mr KNEEBONE** - We have the first reading during the period but there will be a pro rata portion in it.

**Mr HAMPTON** - I do not think the noise in our space over this will go away until we are well into that following year. Until people have the pattern and cannot argue about the meter -

**Mr MORRIS** - And they know roughly when the bill is going to be read again.

**Mr HAMPTON** - Of course on the north-west coast we have the significant issue where people already have allowances and transitioning them from allowances, which are quite varied, to zero allowance is part of the challenge. The noise is going to be there.

**Mr MORRIS** - So you will have another noise over the top of it?

**Mr HAMPTON** - We can plan and do our best to get on top of the issues in advance and then respond. We have responded to the noise on the north-west coast about estimates. They did not like it so we have taken a decision we are not going to use estimates. So we are wearing the extra costs; it is not huge, not company-destroying and so we are trying to listen.

**Mr HIDDING** - You are being very up-front about the level of complaint now and where the level of complaint is going. Surely there can be some moderation or education program over the process, even if it was an advertisement in the newspaper that says, 'You are getting your bill this week' or 'Over this next month you will get your water bill. These are the components of it. Try to understand this and this and if you are not happy with it, ring this number.' It would not matter if people ring them back later if you are busy or whatever, but it just seems to me that you can get in people's faces and say this is coming and there is an issue.

**Mr KNEEBONE** - Rene, this happens every day over the quarter from here on. Every day we read a meter, in the next couple of days those meter readings will go out, so it is not a one-off occasion like it used to be. Virtually every day of the quarter there will be a bill file produced from one of or all of our companies and they will roll out.

**Mr HIDDING** - I guess the other example is in the construction industry. A major department store is going to be completely gutted and rebuilt and at the same time they keep operating. The 'jack the hammer' signs go up, 'Excuse us while we rebuild your

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store'. So 'Excuse us while we rebuild a billing system that is going to make sense to you'. We are out there saying that. We are handling these problems as best we can but there is a case for your getting more in customers' faces and explaining.

**Mr HAMPTON** - I think we completely agree and we will take it on board. I have to say that some of our owners are not as keen as we are on spending.

**Mr HIDDING** - How is the rollout of meters going?

**Mr PAINE** - By the end of next week we will have installed 25 000 meters. We expect to install around 49 000 in southern Tasmania and then there are 3 000 in commercials and non-residentials, so 52 000.

**Mr MORRIS** - Are you metering your owners at the same time as you are rolling through?

**Mr PAINE** - Correct.

**Mr MORRIS** - How are they coping with that?

**Mr PAINE** - Good.

**Mr HIDDING** - Would you be metering councils that water parks in winter?

**Mr PAINE** - Yes.

**Mr CASH** - Every connection we know about will be metered.

I will quickly run through some of the financials which we presented to our annual general meeting a week ago. It compares to our corporate plan budget. That corporate plan budget was prepared after nine months of operation, so we did not know the business very well. So some of the information we based these numbers on weren't well known. I will not use the word 'rubbery'; I do not think they are that bad.

The first one is the operating result. It is significantly better than budget, largely due to depreciation being lower, so we cannot claim any huge wins there, but other than that it was pretty good. So we delivered a better profit than we were predicting.

If we have a look at income, our income was largely in line with budget. A significant outlier was 'other income'. Being an engineer and not an accountant I struggle with some of the things that we do in accounting to get these things. Part of that significant difference is that our loss on disposal of assets was \$250 000 less than we predicted, so it comes through as a revenue item. We have been contributing to the billing project with our staff, and some of the input from our staff has been capitalised as part of that project. So Onstream has met those costs and that is counted as revenue. But other than our income was pretty well in line with budget.

It is similar with expenses. The line that I point to particularly is employee costs. They were marginally below budget but significantly higher, about 8 per cent, than the previous year but in line with budget. The two significant reasons why that was the case is that we have our first enterprise agreement. Bringing employees together in one

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enterprise agreement from eight different enterprise agreements was always going to have some cost attached.

**CHAIR** - Obviously employee-related expenses take in a number of different components. Salaries and on-costs were around a 14 per cent increase. Once you add in the other components and wind out capitalised salaries and a few other bits and pieces and some savings, you come up with about the 8 per cent increase overall, but base salaries were around 14 per cent. Was that because of a new enterprise agreement specifically or were there more staff on?

**Mr CASH** - Both of those things - the two things I was leading to. The first one was the enterprise agreement. You might expect 4 per cent but we were always going to incur some additional cost to get some uniformity across things, so that was a contributor, as was increase in staff members. We have been building capacity and part of the difference between the 14 per cent and the 8 per cent is that we are building capacity in capital works. Across the board we have been building capacity. We started at 154 FTEs and there were 190-odd working in the industry in our region before we started. We have ramped up almost to that number again, keeping in mind that we are doing a lot of work now that wasn't done previously. The regulation field has a significant resource devoted to that and a significant resource to capital works but it is those two things primarily.

**Mr HIDDING** - Are your employee costs reflective of the fact that, as you advised earlier, you cannot get engineers and you have just signed up a consultancy?

**Mr CASH** - No, we have increased our engineering numbers and consultancy costs would be largely for capital works anyway, so they are not going to be an operating expense. They are going to be capitalised as part of the capital works.

**CHAIR** - Consultancy costs are actually 50-odd per cent below what they were the previous year.

**Mr CASH** - Yes, and that is probably related to the asset valuation because there would have been significant consultancy costs in the first year.

**CHAIR** - Property costs jumped considerably from \$600 000-odd to over \$1 million in that particular year, about a 70 per cent increase.

**Mr CASH** - Part of the reason for some of these movements, though, is in how they have been treated in accounting terms. The systems are still developing in accounting terms.

**Mr GREGORY** - It is really about a cost capture to the right areas as we matured.

**Mr CASH** - I think that is why our global expenses are probably a better line because there are movements between line items.

**CHAIR** - Who do you buy your power from?

**Mr CASH** - We have gone to the market twice and, from memory, I think we are still with Aurora across the board. We have gone to the market collectively with two tranches of competitive tendering and of course our smaller entity is not competitive yet and is still

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with Aurora. There is some work going on where another tranche will be out in the market some time in the near future, but Aurora has won both times.

Distributions to owners: the significant change in expenses was depreciation. That flowed through to our bottom line and hence to our distributional owners. Distributions in total were about \$1 million above budget, so about \$5 million. Our priority distributions are \$3.638 million so we had a general distribution of a bit over \$1 million to our owners.

Now we move to the graphs that Miles mentioned. This is one of our call centre and it is calls by type for the two years of our operation. You can see that accounts and billings dominate. Some 70 to 80 per cent of our calls relate to billing. I would expect that to reduce over time as we sort the billing. Both Andrew and Mike come from Victoria and have experience in this area and they said it will always be dominated by billing, so we don't expect that number to necessarily change.

**Mr MORRIS** - I guess that means that you try to make sure the processes, once the phone calls come in, are as efficient and smooth as you possibly can?

**Mr CASH** - That's true. As that billing system introduces more efficient functionality, some of that functionality is being moved from Onstream to the regional corporations. Initially someone would phone our call centre and the call centre couldn't even see the information for their account. We have all the information available now and they can answer questions over the phone. We will get to the stage where they can do change of ownerships and those sorts of things over the phone, or get enough information to initiate that. All those things are getting better and more efficient all the time. That's probably why some of the phone traffic will still be about billing because it's about the customer's billing and change of ownership et cetera.

**Mr MORRIS** - So incorporated in that figure are those who are just doing routine change of ownership and the like?

**Mr CASH** - Yes.

**Mr MORRIS** - They are not separated out?

**Mr CASH** - No. There is a graph of the percentage calls answered within 30 seconds. The dates are not wrong: one is last financial year and the other is for the first three months of this financial year. I have compared them to some information coming out of the national performance report, which produces information for various sized corporations across the country. We have about 55 000 customers and there is a band for 50 000 to 100 000 customers, so we have compared the data across the country for those sized corporations. You can see that the number of calls answered is below the bottom end, and you'd expect that. Some of our calls are taking 20 minutes but when we've gotten rid of the messy problems that would be much smoother, and it is improving. We are required by the customer code to get to 90 per cent answered within 30 seconds at the end of the second regulatory period. That is quite some years out and we would hope to get to that far sooner than that.

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The next graph shows the lumpiness with our billing. Our dropped calls were horrible in recent times, but as we move into the field we are almost into now with our new billing system we don't send all our bills out in one go. They are spread across the quarter so it will ease the load on our call centre.

The next graph is about the microbiological compliance of our water schemes. The blue one is fully treated water, the red one is chlorined and the green one is raw water. You can see that largely we comply with our treated ones. I'm a little horrified that we don't comply 100 per cent with all those but we had one month when we didn't. In particular the green one, which is untreated water, the microbiological compliance is very poor and that would come as no surprise. That is why in Ben Lomond Water we have a significant problem with untreated water.

**CHAIR** - Why is that around the warmer months?

**Mr CASH** - It's an interesting one. I have been in clean water for 30 years and it surprised me; you would think it would be when the water is dirty in the wintertime. It is probably because the microbiological load in the water doesn't change much. You still have the same number of animals in the catchment doing what animals do but you have far less water, so it's more concentrated. It came as a bit of a surprise when we had a look at this recently.

**Mr MORRIS** - Measuring around pesticides; do you report that publicly? Your predecessor organisation did.

**Mr CASH** - Yes, it did, and we will, but we are just not there with our data systems and website yet. It is certainly our aim but I am not going to promise it any time soon because it's going to take us some time. It is absolutely our intent that we will have on our website all of our test results, just like Esk Water did.

As far as pesticides go, or across-the-board testing, a little while after Ben Lomond was formed we rolled out the same testing regime that Esk Water had done for many years. So we now test that full spectrum of pesticides and heavy metals across all of our supplies. We have not had any difficulty with pesticides.

**Mr MORRIS** - What do you mean by 'difficulty'? Have you had detections?

**Mr CASH** - I don't think we have had any detections. We certainly have not had any that we were concerned about. I will not guarantee we didn't, but I do not think we have. We have had some metal detections. We found cadmium twice at Avoca and we have more recently had lead on Flinders Island. We do not know what the lead is caused from. We went back and retested and found some in the reticulated but did not have any in the source waters, so we are still investigating that. It might be a plumbing issue. We know where the cadmium comes from at Avoca and it is an issue for us. It is clearly not a new issue. We found it twice in the last 18 months.

**Mr MORRIS** - That is the Royal George tailings?

**Mr CASH** - No, it is not. Our water comes out of the South Esk, upstream of St Pauls. It is coming out of Storys Creek. When we found it the first time we went up the river and

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tested and it is clearly coming out of Storys Creek. The last find we had was double the Australian drinking water guideline. It is happening when the catchment flows are such that the flow coming out of Storys Creek dominates.

**Mr HIDDING** - So it is low flows in South Esk, higher in Storys Creek.

**Mr CASH** - Probably something like that, but we do not know the details.

**Mr HIDDING** - What are you going to do about it?

**Mr CASH** - We are having a look at that. Whilst the number in the last find was double the Australian drinking water guideline, the guideline is set for a lifetime exposure, so above that number if you consume it every day of your life for 70 years it may cause some risk. You can say that a spike for a week once every 18 months is not a health risk, but it looks awful, so we are actually exploring now whether we can move to St Pauls. DHHS tell us that there is not a problem with the St Pauls at Avoca.

**Mr MORRIS** - Down that far it is diluted enough.

**Mr CASH** - Yes, down that far so they tell us but we haven't done any testing yet. The other alternative is that we may need to build a treatment plant. It is not one of the DHHS priority towns. You can use conventional water treatment plant but not use alum. Ferric chloride will take out cadmium, so we will work on that over the next little while.

Wastewater treatment plant compliance: in a good month we get 50 per cent of our plants compliant. The reality is that very few, if any, comply for a full year. So this is just horrific. I do not see too much difference in the other two corporations. This is where there is a significant challenge.

**Mr MORRIS** - That is where the work is and the money.

**Mr CASH** - It is certainly where the money is. This is not something so regulated by EPA, but you can see that our sewer bills are significantly higher than the national averages. So we are doing a bunch of work right now. We are spending several million dollars this year on replacing or upgrading sewer pump stations. We have two sewer pump stations on the edge of Georges Bay that do not have dual pump stations, do not have any storage, do not have any backup power, so every time something goes wrong it spills raw sewage into Georges Bay. So we are spending a bunch of money outside the regulated field in wastewater on pump stations and the like.

Similarly, the next one is sewer chokes. They are above the national numbers, but not so far above. What these things tell you is that we have problems not only in wastewater treatment but in wastewater reticulation as well.

The next one is on water main breaks. This one is a little unfair because our regulator requires us to report an unplanned interruption, which includes some other interruptions other than main breaks, so our numbers are going to be a little bit higher, so it is probably a bit of a distortion. Interestingly, if we go to the next one it shows that we have more breaks than we should, but we fix them quicker than the rest of the country.

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**Mr MORRIS** - You have an obvious expertise in fixing them.

**Mr CASH** - Probably because some of the other interruptions are simple things. If we caused the interruption we are there to fix it straightaway, so it is a little bit unfair.

These are development applications and interestingly the numbers are quite consistent from the previous year but they have all dropped off just a little bit so we are not quite sure why that is. That is me done.

**CHAIR** - Thank you. I have a couple of questions before we move on. I noted - and this is something that is consistent across the corporations - lost time injury.

**Mr CASH** - Ours is the worst.

**CHAIR** - Yes. Can you provide an update on that and where we stand in respect of the industry more broadly because it seemed to be something that was highlighted in all of the reports?

**Mr CASH** - Our lost time injury frequency rate is above 20 - in fact it is at the top end of 20 right now. For the industry generally I think the number we are looking at is about four; our aim is zero of course. We need to get down to those sorts of numbers.

**CHAIR** - More importantly, why is it as high as that?

**Mr CASH** - There are many reasons. Some of our infrastructure is very ordinary, some of our practices are very ordinary and some of our cultural issues are very ordinary.

**CHAIR** - Are these inherited issues?

**Mr CASH** - At Ben Lomond Water we had a full day with all of our staff in two groups some few weeks ago. I have to say the first thing the collective boards did was say that the first priority was 'no harm'. That was the first thing they said to management in all our organisations - 'We have invested a lot of time, a lot of money and as yet Ben Lomond has not made any progress in the numbers.'

We had a corporate planning session with all of our staff - half in the morning and half in the afternoon - where we workshopped things and 'no harm' is still high on our strategic agenda. We had people in our organisation saying, 'Well, in the industry we are working in people are going to get hurt'. They accept it and it is not acceptable. I now participate in the review of every lost-time injury in our organisation. I did one a little while ago where we had a hose reel on a truck that had broken so the motor was not working so they put it in and out manually and a guy hurt himself doing that. He said, 'Well, the job needed doing - we had to do the job.' It is almost a hero mentality but they go and do it and they shouldn't. We keep telling them that safety is the first priority. So it is all of those reasons and it is a work in progress.

**CHAIR** - The other question I had related to the development applications - the plumbing applications. During the year we received 484 development applications, down from 617 the year before, which resulted in 403 certificates but we also received

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271 building/plumbing applications and 407 the year before. That is a significant drop. Is there any reason for that?

**Mr CASH** - I am not sure that statistically the comparison is fair. I am not sure whether they are actual applications or inquiries. I think some of our guys have been recording them as applications when they were not truly an application so that our statistical things are probably not right.

**CHAIR** - They have come off?

**Mr CASH** - We think there is a reduction but we are not quite sure why that is.

**Mr KNEEBONE** - There was a bit of a backlog at the start as well, Barry, which probably contributed to the first year's numbers.

**CHAIR** - A bit of a spike there?

**Mr CASH** - Yes. We think there were some developments that people were holding out on that were not really in council while waiting for us to start.

**Mr KNEEBONE** - We had councils actually asking people to hold off on their applications until such time as we were formed.

**CHAIR** - Thank you.

**Mr MORRIS** - Yes, there was a time there where a council would have been half way through an application while you were formed, so it could have got really messy.

**Mr KNEEBONE** - Taking Barry's point, the budgets for this financial year were prepared some six or nine months into our operation. I had the added complication of no CFO at the time so we did not do so well on our budgeting to be quite frank - we had a couple of quite large misses. In terms of the results, we ended up with a couple of million dollars less in revenue than we anticipated. We controlled the expenses to reflect that but it was mainly contributed to by a depreciation number being overstated, so net profit was about where we thought it would be in the corporate plan and a fair bit above the previous year. Water usage was the main contributor to that, so we have an exposure in two of our council areas to full volumetric pricing - Devonport and Wynyard. We also saw a drop off in irrigation sales with the sale of the Wesley Vale assets to TIDB at the time. We had a wet summer that saw the water usage charges go down. We had a couple of one-offs for revenue, and that included the recovery of the misappropriation funds - the fraud - so there is \$1 million that came back in there.

**Mr MORRIS** - What is the dollar value of irrigation water you have the potential to sell, roughly?

**Mr KNEEBONE** - We see it as declining. I don't know the figure off the top of my head.

**Mr MORRIS** - Is it something you're pursuing?

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**Mr KNEEBONE** - No. It's an area for the Tasmanian Irrigation Development Board. We have irrigators that take treated water off our mains and we have some that take untreated water between the source and the treatment plant. It is not a large proportion and I think we have enough to do to sort out the water and sewerage in the urban areas without concentrating on irrigation.

**CHAIR** - Andrew, there were a couple of questions on expenses. I am presuming that in regard to the salaries and on-costs it will be a similar answer to Ben Lomond?

**Mr KNEEBONE** - Yes, the same answer as Ben Lomond. Bear in mind that we had a redistribution of costs between Onstream and us in terms of our customer service staff who were previously contracted through Onstream. They came on as additional numbers. There were about half-a-dozen of those. I think all the board costs in the previous year were -

**Ms PILLANS** - No. The secretariat costs maybe, but not the boards' specific costs.

**CHAIR** - Just on that, there was a 25 per cent jump in the base salaries but not as significant across the board once you wound in the other components. I put a tick next to corporate governance and that was an increase from \$265 000 to almost \$700 000 in the year and that seemed excessive.

**Mr KNEEBONE** - I might take that one on notice and get back to you. My CFO will have a look at that and we'll come back to it.

**CHAIR** - Rates, land tax and property costs - there was well in excess of a 100 per cent increase in that area. The other one I was interested in was consultancies, which savagely decreased. That might be to do with the cost of the start-up.

**Mr KNEEBONE** - It was to do with start-up. We had the valuation, the same as the other two corporations, but we also have a fair reliance on consultancies because we did not have a very strong engineering base to complete the compliance implementation plan - things like the drinking water quality plan and the emergency management plan. We engaged consultants in the first year to assist us but we then ramped back. Most of those consultancy costs were carryovers from the previous year; they should have been put in to the previous year. There were not a lot of consultancies undertaken last year.

As to the rates and land tax, we missed some budgets on those but it also comes to the reallocation between line items. We had not a very sophisticated allocation so it is the same thing as Barry said in terms of words; we were just separately identifying them in this financial year and started to increase our allocation. They would have previously gone to something called 'service management' and not be separately identified.

In going back to salaries and on-costs we also did ramp up our engineering capability or we tried to so we had a fairly significant increase in particularly project managers in capital delivery which contributed to that. We also had our enterprise agreement hit and it took effect in December. We had a couple of unexpected transition costs associated with that to get through some of the anomalous situations that we inherited. We essentially had to pay out leave and those sorts of things to get everybody back into a set

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standard. We also had a redundancy or a termination payment that got paid out in that year as well which contributed to those costs.

**CHAIR** - Can you give an answer on governance costs?

**Mr ROCKE** - Between the first year and the second year?

**CHAIR** - Yes.

**Mr ROCKE** - In the second year we started to pick up costs for OTTER and that was about \$350 000-odd which were not in the first year so it was a fairly big step up - and licence fees, too.

**Ms PILLANS** - About \$2 million, I think.

**Mr PAINE** - Yes, ours was \$1 million.

**Mr KNEEBONE** - We had a one-off in terms of rates and land tax. We had a one-off catch-up from a stamp duty payment that should have been paid on the Wesley Vale assets by our predecessor organisations which was found to have not been paid, so we had another \$200 000 there.

**CHAIR** - The piper came calling?

**Mr KNEEBONE** - Yes.

**CHAIR** - Thank you.

**Mr KNEEBONE** - But overall on the expenses side, even though as you can see from here, depreciation was originally to be \$13.7 million and ended up about \$12.4 million, we were able to bring the total expenses in at under budget.

Regarding our level of distribution to owners, we distributed \$2.5 million this year which on a cash basis was what we promised them and this year we distributed \$467 000 worth of dividends from the previous year but on the basis of the 2011 financial year there has been no distribution of dividends as such to our owners. They got the cash equivalent in total distribution terms made up of guarantee fees and tax and the final distributions from the previous year but we didn't distribute any dividends at all this year.

For your reference, \$2.5 million for this year, our priority level is \$4.9 million so we have to distribute in excess of \$4.9 million before a couple of our councils get anything.

**Mr HAMPTON** - And, Andrew, we have had quite a bit of conversation with our owners on the level of distribution but because we have delivered what we said we would deliver even though we are in a position to pay more given the balance sheet, we took the view that we wouldn't pay more.

**CHAIR** - That is one of the things that I was a little bit surprised at, the reluctance to have a one corporation model appearing to come from the north-west coast more broadly when

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the one corporation model probably provides them with a greater opportunity to see a return sooner. Would that be reasonable?

**Mr HAMPTON** - I think your analysis is correct but they are taking a position that seems at odds with their own self-interest financially or their customers' self-interest.

**Mr KNEEBONE** - There is the same effective graph for customer call type as Barry. Predominantly accounts and billing dominate our call centre. We have not done so badly in 2009-10 in terms of our call centre performance but it is still not near the 90 per cent within 30 seconds. This year's running a bit lower. We are still seeing significant volumes of calls but they are coming in on a much flatter projectory. As you can see here, the red line is 2010-11 and with 2009-10 you can see that spike in September-October when the bills first hit and that is when people suddenly realised they were getting a separate bill rather than having them incorporated in their rates account.

We are approaching national high levels for water main breaks and I do not see anything in the current data to say that the year-to-date trend won't go towards what that red one was showing.

We have a different issue; it is not so much sewer chokes for us. I am not sure I believe some of this data but this is what the data is telling me. We do not seem to have as much in the way of sewer chokes; what we specialise in are sewer overflows.

**Mr HIDDING** - Everyone has to specialise in something.

**Mr KNEEBONE** - Yes. We have several issues. We have pump stations that were undersized, ill-designed or poorly maintained and I think like all of my other colleagues, we have a fairly high level of inflow and infiltration coming from either illegal or old style - if I can be more polite than that - plumbing connections or illegal stuff or in fact where there is no stormwater. We have pump stations and if we get 50 millimetres of rain, they automatically overflow.

**Mr MORRIS** - Do you have a program for dealing with the infiltration?

**Mr KNEEBONE** - The infiltration is a vexed issue. We deal with it but we do not have the legislative head of power to fix it.

**Mr MORRIS** - Right. Do you need it?

**Mr KNEEBONE** - There is a debate around that. It depends whether you want us to become councils or not.

**Mr MORRIS** - Right, or do we just give you responsibility for stormwater as well?

**Mr KNEEBONE** - No, the plumbing control enforcement agency - we are not an enforcement agency - for the State is being deemed to be council and it was quite an explicit discussion apparently. I was not here but Doug Doherty some of you might know was my strategy manager - he is now my chief operating officer - and he was part of that group that looked at it originally and it is quite an explicit decision to leave it within the hands of council. It is a matter that we are liaising about. We certainly have a

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vested interest in finding where there are illegal connections and we have a program to do that. All of this leads through to designing and building wastewater treatment plants, pump stations and the like. We certainly have a program to identify where the issues are and what we then have to do is work with council to come up with appropriate solutions.

**Mr HIDDING** - While we are at that point I just advise you, Mr Hampton, that there is a potential change to that plumbing authority business with the State having recently legislated for national occupational licensing schemes which provides for a number of inspectorate positions within a department. It is quite likely that council inspectors will become redundant. It is precisely where plumbers want them to be; the plumbers are comfortable with councils providing this service and providing them with the indemnity and there are discussions currently going on with regulations currently disallowed. There are negotiations currently underway which could well change those arrangements and you need to be aware of that.

Why is it that councils have been determined to be the plumbing authority, particularly where drainage schemes go into your facilities but do not belong to councils anymore?

**Mr KNEEBONE** - We do not generally have that, we only have one combined sewerage scheme that I am aware of by design and that is Queenstown. Barry has an extensive combined drainage scheme, but generally the two should never be the same.

**Mr HIDDING** - No, sorry, I did not mean stormwater drainage, I meant much of plumbing work is sewer and stormwater drainage, sewer works. Those sewer works go into your facilities -

**Mr KNEEBONE** - Yes, they do.

**Mr HIDDING** - and you are the only player that is not going to have a regulatory role. It appears that Workplace Standards are going to have inspectors, councils are going to have inspectors, what have you got?

**Mr KNEEBONE** - We have the legislative ability to disconnect them, but it is not going to play out in the community, is it?

**Mr HIDDING** - Well, this is under construction at the moment and it seems a bit odd.

**Mr PAINE** - I think we can issue notices to have rectification done. Again, it is a process that could be reviewed easily and looked at again.

**Mr KNEEBONE** - Our water compliance is pretty good in the north-west. We have one boil water alert town, if you can use the word town advisedly, at Gormanston. We have a couple of areas that need investment. King Island's water scheme needs investment particularly and so does Waratah, but we have programs for those. Our plan is to have Gormanston off the boil water alert list by the end of this financial year. Either withdraw service or fix it up.

**Mr BEST** - How many people account for Gormanston?

**Mr KNEEBONE** - About 20.

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Wastewater treatment and plant compliance remains the issue for us as it does across the State. We have a bit of an anomaly in our figures here. This looks a bit low for our property information statement request for the first year. There is no real reason that that has doubled in the second year. All I can say is we may not have collected all the information in our very first year. We have the same profile as Barry in respect of development applications and in building and planning applications.

**Mr PAINE** - We have a similar operating result to the others, except I guess a couple of notable points that I would like to make. Revenue is substantially higher than we had budgeted for, and in the main when you look at it you will see that it is due to developer contributions. Expense is higher, but we will explain those. We made a number of provisions through the year which helped with that and did some work to clean up our works in progress, and profit came just ahead of budget.

With an analysis of the income, if I can draw you straight down to developer charges you can see there is a \$6.5 million to \$7 million lift in income there.

**Mr HIDDING** - What happened?

**Mr PAINE** - Mainly for two reasons. First, the implementation of the developer charges in a more broad context across the region and secondly, a catch-up on donated assets into our financial system. So over probably a couple of years -

**Mr HIDDING** - What does all that mean, donated assets?

**Mr PAINE** - They are the assets that are generally in subdivision that developers put in and us actually catching up with the backlog of work we had as a carryover from year to year.

**Mr HIDDING** - Are those donated assets expressed as cash, as income?

**Mr PAINE** - No, they are contributed assets, non-cash income.

**Mr GREGORY** - They are expressed as revenue.

**Mr HIDDING** - They are expressed as income?

**Mr HAMPTON** - They are income whether they come as cash or they come as an asset, that is the accounting treatment.

**Mr HIDDING** - Notwithstanding that, there must have been some substantial development unexpected or were they handover of schemes?

**Mr PAINE** - No, along with the rest of them we probably didn't have a good handle on the level of development charges in the income line. It is very lumpy but I don't think it was lumpy in those two years.

**Mr HAMPTON** - Our ability to predict the precise timing of this is in other people's hands.

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**Mr PAINE** - And I guess we took a conservative view at the planning process.

**Mr HIDDING** - What's your budget for next year? You'd have a clearer idea now, wouldn't you, you know what is currently underway?

**Mr PAINE** - Yes, we've had a good start to the year, but it has fallen off in September.

**Mr HAMPTON** - It's \$8 million for next year.

**Mr PAINE** - Most of the expenses are within a reasonable estimate of budget. The other line on this page includes consultancies of \$2.9 million, largely above budget, and that was in the works in progress clean-up that we did, carried over from last financial year and this financial year. We established some rules around capitalisation and what could be capitalised or otherwise and, as a result, a substantial suspend on consultancies. Rates and land tax is \$1 million, corporate governance of \$900 000 - again, an increase due to licence fees; an increase in loss and disposal of vehicles and plant over what we budgeted. They are the main items there.

**CHAIR** - Regarding the growth in salaries and on-costs, what does the EBA allow for?

**Mr PAINE** - It was 5.2 per cent for the first two years and then 4 per cent for the third year. The reason it is 5.2 per cent in the first two years is an equalisation in salaries. We had staff that were performing the same functions - plumbers, for example, who were being paid \$20 000 a year difference.

**Mr MORRIS** - So that's an average across the range of employees?

**Mr PAINE** - Yes.

**Mr MORRIS** - So some will have gained significantly more and some will have gained slightly less.

**Mr PAINE** - Some were frozen, some had nothing.

When you take out capitalisation and the other things and compare it on a like-to-like basis the increase was 6 per cent, which included some additional high-level staffing in that space. We also noted in the increase that we employed 51 extra people in the first year, not all of them from day one, and it was \$2 million allowing for the full year of those people within the second year. That explains those increases. Other than that, everything else was pretty much within estimation ranges.

Based on an accrual basis the priority level for Southern Water is \$14.619 million. As to performance measures and call centre items, you can see two years of call centre data here and the spikes around issuing first accounts in both years.

**Mr MORRIS** - Do you have the same again this year?

**Mr PAINE** - Yes, pretty much the same. The spike in 'abandons' that happened at Clarence with the issuing of the incorrect accounts in December last year -

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**Mr MORRIS** - And March.

**Mr PAINE** - No, March was a fault that we didn't discover for a day or so. It nearly coincided with us implementing a new system. If you look at April, the drop-out rate is very low and moved forward. We added more lines and a new system at the end of March. It is a VoIP system which is working brilliantly.

**Mr BEST** - What you are saying about calls is -

**Mr PAINE** - People who rang and we didn't answer them and they got sick of waiting.

**Mr HAMPTON** - We didn't abandon them, they abandoned us.

*Laughter.*

**Mr BEST** - But you were having trouble with the phone system, is that right?

**Mr PAINE** - We had two problems in March and one was there was a problem with the system and the second was the number of lines coming in which pretty much created a problem and a few weeks later we implemented a new system which was planned in any case.

**Mr BEST** - On top of that as well.

**Mr PAINE** - No, the new system is working well. It fixed things up.

As you can see from this graph, we have picked up, up to 80 per cent. It was 90 per cent in the first couple of months but when we started issuing the accounts it has just dropped back down again. It gives you an indication of the level of calls and other things that we are dealing with there. As the other guys have said, we are trending at the low level of the national benchmark so it is good.

Clearly, billing is the winner, there are no problems there, and fault and emergency is next and absolutely what I would expect to see in any other utility business. The major point of contact is the bill with most customers because mostly the water turns on and the wastewater runs away, all the electricity switches on and off.

Regarding water quality compliance in terms of boil water notices, the trend line is down which is a good thing. We removed Swansea in April 2011. The plan is to have all of those done by 13 July. Fluoride is trending upwards in terms of performance reflecting the investment in infrastructure and systems and methods of work, which is a good thing. Micro compliance, you probably can't see on that graph but it is slightly up and again reflecting investment in the reservoir roofing and the equipment we are putting in for rechlorination and the like.

Wastewater treatment plant compliance is trending downwards and getting better at measurement, getting more reliable measurements and doing the science clearly shows that reflection.

**Mr MORRIS** - Understanding just how bad it is.

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**Mr PAINE** - Yes. Maybe the wet spring last year also leads to dilution of wastewater which might have had an effect here as well so you have to be a bit careful with that graph.

**Mr CASH** - I might mention that we measure this compliance in a different way to the EPA. If you look at the EPA numbers, they don't look as bad as ours do. We say if one parameter fails, the system has failed, whereas they don't measure in quite that way. Nationally there is an alternative method and there is some work going on trying to get consistency of measurement and consistency across the nation.

**Mr MORRIS** - The three corporations here have got consistency?

**Mr PAINE** - Yes, we measure exactly the same.

**CHAIR** - How does it compare nationally?

**Mr CASH** - We would still be higher.

**Mr PAINE** - My experience is nationally that if one parameter fails the plant fails, what I am used to, and if that happens, it is all hands to the wheel wondering what the heck was going on because you were dead scared of getting fined from the EPA.

**Mr KNEEBONE** - The other point, though, is this is compliance against the current licences on those plants. It is not contemporary standard.

**CHAIR** - How bad would the graph look then?

**Mr PAINE** - Can it look any worse? Chokes, a little bit better year on year but probably more to do with the wetter year than anything else and roots not finding their way into sewer systems during dry times, from my experience. Umpteen water interruptions, again a little better than last year but again my view is that it is due to the seasonal effects as we didn't really have a big dry out and then wet up again, so less ground movement and fewer breakages. DAs have fallen off year-on-year but in this space I reckon it is attributable to the backlog, but this year September-October has fallen a bit. I think in a more global sense it is dropping off.

**CHAIR** - Have you a broader comment on lost time injury - it is something I did not ask you about either - right across the corporation?

**Mr KNEEBONE** - Our lost time injury frequency rate is 16, or was last year. For us that is four people injured for the year. We take no heart in that; it is four too many. The characterisation of our injuries, though, is short term, muscle strain, not at the serious end and in fact our WorkCover claims have plummeted and our premiums are quite good. We have a lot of work to do just culturally around people if they get a niggle not continuing to work. It is linked to an ageing workforce in particularly the outdoor workforce and, as Barry said, a hero or a 'make do' mentality - get on and get the job done. As with Barry, I personally debrief every single manager and employee as far as a lost time injury investigation or any incident investigation is concerned, and the approach we have been taking is they have to explain to me how this will never happen again.

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**Mr CASH** - We had one very serious one where a guy got his hand caught between a backhoe and a truck. He could have lost his hand, but didn't. He was very lucky. If the backhoe had moved another half an inch, it would have chopped his hand off, but in the main a lot of ours are the same - these muscle strains and sprains, and you think, 'Well, how did that happen?' and it is hard to explain.

**Mr KNEEBONE** - Twisting an ankle getting out of a truck and those sorts of things.

**Mr CASH** - One guy put a piece of small-diameter pipe together to the fitting and hurt his shoulder. We have just implemented over the last couple of months an exercise program for the guys. We make them do it every morning and they are supposed to do it throughout the day when they need to get warm. Making them do it is not as easy as it sounds, but they are the sorts of initiatives that we are taking. The big part of our workforce that works out of our main Launceston depot have a safety meeting every morning now and this exercise routine. So it is all plugging away at education and getting rid of the hero stuff, but the proof is going to be in the pudding.

**CHAIR** - Are you running a rewards program or incentives programs?

**Mr HAMPTON** - No, we are not.

**CHAIR** - Cultural change can be very challenging.

**Mr KNEEBONE** - We tried that once and we ended up on the front page of the *Mercury*.

**CHAIR** - For lost time injury?

**Mr KNEEBONE** - It was part of that performance, it was part of the diligence about getting these corporations up and running, and we are steering well clear of that space, thank you very much, Mr Chairman.

*Laughter.*

**CHAIR** - I thought that was a broad-based one; everyone got one, didn't they?

**Mr PAINE** - Yes, but everyone contributes to the LTIFR as well.

**CHAIR** - I am happy to discuss this, but I would have thought that within the teams that you have, if you are able to identify those areas where you are most at risk, and by the sound of it you have a problem across the organisation, some sort of targeted program with teams competing or divisions competing against each other might be a sensible way forward.

**Mr PAINE** - There are dangers of even higher injuries.

**Mr HAMPTON** - We inherited a situation and I base no value judgment about what was there before, but the long and short of it is that a good number of our work spaces, and a work space could well just be a hole in the ground where there is a pump, were unsafe. With the systems and processes - remember, 29 different councils and three bulk water authorities, all different - a significant number of them may well have been regarded as

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safe in the past, but today you would not regard them as safe. If you have those two, you do not have culture, which you touched on, of safety. The former chair led the boards down the path; the number one issue here is no harm and we can use it as a unifier not for corporations but within the corporation and as Barry has quite openly said, in fact he has not seen a significant improvement. It actually takes time to get the culture.

As you are aware, Chair, I sit on the board of Forestry Tasmania. We are currently operating at a LTIFR below 10; it used to be above 100. It has taken something like 20 years of cultural work to get it down to a half acceptable number and most of them are trips and slips. I think the scary thing in our space is, as has been suggested, probably in each corporation there has been at least one incident a year that could have been a life. So the commitment of the corporations is there in every respect. We will not shy off spending money on safety, we will not shy off spending money on training programs, the boards will not shy off on giving the CEOs and executive team a hard time if we do not think enough is happening but it does take time. We will not lose the emphasis; safety is the first report considered by the boards at every board meeting. Before we consider any management report on anything else we discuss safety. Our data on safety is very, very good except the outcomes are not as good as we would like them to be; in fact they are bad but we will get there.

On reflection, you would not expect anything different - 32 different places, 32 different approaches to it. I am very confident that we will get there but it will take time.

**Mr PAINE** - Mr Chairman, to give the committee an idea of the challenge, we undertook near 2 000 statutory training instances in the last financial year. That is manual handling, confined space, asbestos training. We did not have records of anyone doing any of those things in the past so we did a blanket approach to it to make sure that we had some of those things in place.

To have a rewards program that is meaningful we again have to have people who can work within our rewards program space. If you want to individually recognise people or teams for that, we are implementing a program but it takes a lot of training and moderation to make sure that the reward is appropriate. That is being rolled out and we hope to have something ready to roll in the 2012-13 financial year.

So there is lots of work to do. No-one has actually worked, according to our records except for some of the people in the executive team, in a development plan process before they invited Southern Water.

**Mr MORRIS** - Still the reward of not getting injured is not a bad outcome.

**Mr CASH** - As an indication of some of the challenges we had we went through a program of putting little signs on all of our confined spaces. Each of our executives is required to undertake a safety audit of one of our facilities every quarter. Our business performance executive who is an accountant by profession did an audit of one of these sites and it had had fixed in the last two days one of these little signs saying there was confined space. The walkway that that was attached to had a pump well in it with a lead completely corroded away and unsafe so people had to step across it because they could not step on it or they would fall in. It had a pipe across the walkway that you could trip over, step on to the top of the well and fall in. One of our guys had gone there and fitted this sign that

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far away from these absolutely unsafe facilities and it did not register with him that it was unsafe or he should report it.

**CHAIR** - I suppose if you had been stepping over it for the last 10 years -

**Mr CASH** - Exactly right.

**Mr KNEEBONE** - We disciplined a guy, in fact we were close to sacking him because he had got into a confined space. He had been getting into that confined space for 15 years unsupervised.

**CHAIR** - I am sure from this side of the table we understand the challenges. I guess it was one of the key things that was highlighted throughout the reports that was of concern.

**Mr PAINE** - Yes, absolutely.

**CHAIR** - So I think it is opportune to have this discussion about it.

**Mr PAINE** - Thirty-seven was the Southern Water figure in month 2 of operation and 15 at the end of the last financial year, so we are heading in the right direction.

**CHAIR** - Chairman, the savings you have announced in your press statement - \$2.3 million - could you explain those?

**Mr HAMPTON** - We've given you a break-up in the slides - salaries, rent, vehicles and FBT.

**Mr KNEEBONE** - Do you want to go back to the first one or do you want to deal with this one?

**Mr HAMPTON** - No, let's talk about the savings. There's a cost in achieving some of these savings, so there have been some redundancies. It will take time to exit the premises. We now moved out of Trafalgar to Southern Water in the south, so that property is now vacant and is being marketed for lease. We are hoping to move out of the Cimitiere Street building before Christmas into the top of the Charles Street building, so that too will be vacant and available for lease. The savings are not insubstantial given the size of the corporation, but in the current financial year when you take into account across the redundancies and the fact that we are almost certainly still going to be paying rent for the year, I think we will be in front but we won't be in front by much. When we move into the next financial year, at this point in time the only ongoing cost will be in relation to rent until we rent out the premises. Given where they are, we are reasonably confident that we will rent them. Whether or not we get the full saving immediately, it will take some time.

**CHAIR** - The only other question I have in regard to Onstream was the legislative provision that services needed to be purchased via the shared services provider. How does that need to be dealt with if the move to one corporation was to occur?

**Mr HAMPTON** - If it moves to one corporation, Onstream as a legal entity doesn't exist. Perhaps I could give you the example going back. We were constrained in the step that

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we had taken. My strong preference would have been to have taken the employees in the south and put them onto the Southern Water payroll and just had the cost-sharing happening, and the same in the north. We took legal advice on that and, while Southern Water could provide shared services to Cradle Mountain Water and Ben Lomond Water for their employees in the south, it could not provide itself its own shared services. The same applied to the billing and IT people who in the north could provide billing and IT to the South and Cradle but not to itself. We had strong advice and evidently there has been a court case interstate involving shared services that clearly said that we had to leave them on the Onstream payroll. Onstream as a legal entity is there and we have gone as far as we think we can go within the constraints that we are obliged to operate in. In other words, everything that is implied in the legislation around our space that Onstream should be doing it is doing. We are doing it in the lowest possible cost way that we can do it, given the constraint of the legality. We were particularly keen to embed the staff working alongside each other - Matt, you have an example in the south. Matt Pigden is CFO for Southern Water and he is also now CFO for Onstream, so he has two groups of people but his fundamental brief is to have them working as efficiently as possible as a group. Matt, last week you shared with the board a minor example of how you're dragging benefits out of that.

**Mr PIGDEN** - As part of my role as CFO I look after the accounts payable function delivered by Onstream. There is an accounts payable team that exists at Southern Water as well. They need to work in pretty closely with each other and in moving out to the one location we have seen some benefits there already, such that the Onstream team fell behind a little bit as a result of the relocation - we lost a couple of days in terms of packing up and then unpacking at the other end, and the Southern Water Accounts Payable Team came across and assisted in getting Onstream back up to date, and what would have maybe taken the Onstream team up to a week to do we delivered in about a day and a half. Just a small example.

**Mr HAMPTON** - Exactly the sort of thing that we thought would happen. When IT and billing move from Cimitiere Street to Charles Street they are not going to be completely separate. They are going to be significantly upstairs; I think the CEO is moving upstairs and other functions of Ben Lomond Water are moving upstairs, and some of the Onstream activity will be conducted downstairs.

**Mr PIGDEN** - In fact slightly more than half will be downstairs.

**Mr HAMPTON** - We are trying to embed it and personally I think we will achieve significantly greater savings that we achieved effectively on day one in the process. We have materially changed the direction of Onstream. We have said at this point in time we are not looking to do things other than service the three regional corporations so some resource we needed to do other things we no longer require. I am very confident that if we then take the move to a single corporation, it is already there.

**CHAIR** - Yes, it is part of the furniture. Mr Morris, did you have a couple of other issues you wanted to ask?

**Mr MORRIS** - Yes, in particular in relation to Southern Water and the capital works. Firstly I noticed with your capital works program there is no mention of anything in Southern Beaches, so can you just outline where your thinking is at in relation to Southern

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Beaches because I know that really this was an instigator in the whole thing. I am still not convinced that it necessarily needs a fully reticulated sewerage system down there. It is one of the options but I know that the Sorell Council is very anxious for you to start work yesterday on I think a fully reticulated sewerage and water system.

**Mr PAINE** - Somewhere in our corporate plan we have a specific mention of sewerage at Southern Beaches and Ellendale in terms of commencing and progressing the work needed to provide services for those activities.

**Mr MORRIS** - So it is firmly -

**Mr PAINE** - Yes, it is not material in the first few years. You can imagine the amount of science and studies that is needed to develop the sewerage system down there. What we have come to the view of is that it may not necessarily be a single service provision and in the main part water supply could and should go with the transfer networks that may be involved with sewerage.

**Mr MORRIS** - Related to that, the Irrigation Development Board is planning an irrigation pipe down as far as Forcett. Have you come to any arrangement with them in relation to potential supply of water? If so, how much water would you consider purchasing?

**Mr PAINE** - We have had discussions with Tasmania Irrigation, as they are now called, in relation to water at Sorell or beyond. At this stage we have not undertaken any purchasing or otherwise of water because our needs forward at this particular time are not high there. We are also waiting for the impacts of the water metering project to formally assess what they are before we enter into any purchasing, and what impacts the reduced consumption and leakage will have on the capacity of our system to supply in that area.

**Mr MORRIS** - Right.

**Mr PAINE** - In a nutshell we cannot predict what we need because it may very well be supplied through existing systems with proper metering and measuring and leak detection and mitigation.

**Mr MORRIS** - They should not be relying upon any commitment out of you in their design of the system currently?

**Mr PAINE** - Again urban water supply is a fraction of irrigation supply schemes so even if we were to take water, it would be minor, in my view, compared to what the irrigation scheme would be distributing.

**Mr MORRIS** - If there were to be some reticulated water going into Lewisham to Dodges Ferry comparatively beyond the end of the pipeline it might be significant for Tas Irrigation in terms of how far the pipeline goes and maybe the diameter of the last few kilometres of it, but other than that I wouldn't have thought it would have much impact. I was trying to get an understanding from your perspective of where you might go with that. So you're open to there being a different model other than the one the last consultant's report provided to Sorell Council, which was a fully single reticulated sewerage system and entirely silent on reticulated water?

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**Mr PAINE** - Absolutely.

**Mr MORRIS** - Good.

**Mr HAMPTON** - We just want the best solution.

**Mr MORRIS** - Yes, I know.

**Mr PAINE** - There needs to be a driver for something out there. I can reflect that I toured that area with the general manager of Sorell Council and we were lucky enough to be able to pull up and have a cup of tea at the Boatshed at Dodges Ferry and because we were wearing out Southern Water uniforms the biggest comment we got was, 'When are you getting the water supply here?' - nothing about the wastewater systems or other things.

**Mr MORRIS** - Although one of the bigger drivers for wastewater might be the protections of contamination in the water.

What are the likely reductions in consumption from going to full metering? Do you have any handle on how much less water might be used? What is the likely impact on summer water restrictions?

**Mr PAINE** - We've previously submitted to this committee the metering business case, which I can outline identified a reduction in leakage from probably north of 20 per cent to around 10 to 15 per cent over time. That is off-site. On-site leakage similarly, and a reduction in pure demand for water of about 20 per cent. So all up, we could expect significant reductions. In terms of restrictions, my experience is that when I installed two-part pricing in central Queensland in a high-growth area of the Capricorn coast, we did not have restrictions in the rest of my time there and we didn't augment the water supply.

**Mr MORRIS** - So if you coming back by anything up to 40 per cent then restrictions are pretty much a thing of the past, for the foreseeable future?

**Mr PAINE** - Correct.

**Mr HAMPTON** - I have two matters that I think we ought to raise with you because leaving without talking about them would not be fair. The first is in relation to our receivables. At 30 June in our accounts we are showing across the three corporations about \$17 million in 90-days plus, against which we have a bad debt provision in aggregate of about \$2 million, so we have covered more than 10 per cent of it in provision. As we have explained, we did not have a billing system and therefore we didn't have an accounts receivable management system. We have turned that on and we are gradually rolling that out. We are rolling it out in a measured way so that we don't get a flood of phone calls. We have started targeting people who owe us more than \$3 000 and now we are moving into targeting people who owe us \$2 000 or more and then we will work it down gradually. Obviously the number of customers, and therefore the likely impact on the call centres, is in the bottom of end so we will be moving it down at lesser increments. Having hit \$2 000, it will probably be \$1 750 and then \$1 500 - it is going

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to take time and there's going to be noise, but we are having success. First of all, I wanted to openly say \$17 million in arrears beyond 90 days, properly provided for so that if we get a bad debt and we have erred on the generous side. We would not expect that order of bad debt but we have provided for it. We would expect, again, ultimately we will move to a fully automated arrears procedure but now we are still working with a legacy one -

**Mr MORRIS** - Right.

**Mr HAMPTON** - because we have not had the facility to be able to chase. We have engaged a third party to work with us but it only goes to the third party if our efforts at collection - because there is a clearly defined process that we are working on. Clearly it is a focus of the corporations because it is cash that we ought to have and in a sense we are permitting inequities to continue.

**Mr MORRIS** - What is the main reason for this? Do people have an explanation as to why?

**Mr HAMPTON** - I suspect it is because we have not bothered to chase them.

**Mr MORRIS** - Right, okay.

**Mr HAMPTON** - Some would dispute it and then you have a conversation - I think, Mike, we have had this at three board meetings over the last 10 days - some people dispute it and sometimes they are right but mostly they are wrong and they just need an explanation. Most people do not want to have something against them from a credit point of view and will ultimately pay.

**Mr MORRIS** - But not paying the bills is one way of getting your attention, isn't it?

**Mr HAMPTON** - Yes.

The second area that I wanted to touch on was the matter of our dividends and developer charges and contributions, partly because I know that the Auditor-General is going to touch on it and therefore it would be remiss of us not to mention it while we are here.

In the south of the State we have distributed to our owners - a very significant part of the total distributable amount is coming from contributions. We are obliged to account for them as income, we are obliged to pay tax on them, we pay tax on income and our owners take the view well you have the income. So in the south of the State profit, tax and loan guarantee fees are about \$20 million. We have distributed \$15 million to our owners but we have \$12 million come in by grants and developer charges. So you could take the view and the Auditor-General has raised the question is it appropriate that the dividend level should be as high as it is? It is not as material a problem in the other two corporations - Ben Lomond Water, \$2.3 million versus \$10 million; Cradle Mountain Water, \$1 million versus \$4 million. He would only be raising the issue in the south because it is where it is particularly material.

The board's preference would have been not to be paying dividends out of those amounts. We are stuck with paying tax but not paying dividends however we would fall so far below the priority distributions that all hell would break loose. We expect that in

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the fullness of time whether it be one corporation or three corporations all three will move to not paying dividends on those and we will be able to do it. We think the accounting is wrong but we are obliged to do it the way that we are. The discretion, I guess, that can be turned to us, well you are deciding to pay the dividend, and we are. In the south we have a mandated priority distribution of \$14.6 million and we unashamedly are seeking to achieve that.

I personally have a problem with the accounting. I had a problem with the accounting at Hobart Water when we received augmentation moneys from councils that was paying effectively developer contributions to us and then we would pay tax on it so 30 per cent of it goes and then we would pay half - no, in that case we were paying 70 per cent of our profits out. We basically gave back to our owners 100 per cent of what we had been given and then we had to fund it, and that is exactly the argument the Auditor-General has raised and he is quite right to raise it. It is not a major issue in the north and the north-west, it is a significant issue in the south but of course as our revenue ramps up from the very low base that it is, it will become a lesser amount but in any event the boards of the three corporations preferred position is to, if you like, deduct that from our income in determining what dividends will be going forward.

**CHAIR** - What is your owners' view? Are they sympathetic in any way?

**Mr HAMPTON** - Our owners' expectation is that we will do our best to achieve the priority distribution no less and it would not be unfair to say that the south are absolutely adamant about that and when we went to them earlier this year with a corporate plan that suggested anything different shall I say that the discussion became - it was always polite - more heated, animated. There was a very clear message given to us. If we felt that we were making a decision that was corporation destroying, we wouldn't have done it.

**CHAIR** - No, and that is obviously the decision you have made.

**Mr HAMPTON** - We have made the decision because we believe that we can transition through this over time and we will transition through it over time but I felt it was not fair to go away and not mention that because I know that the Auditor-General, even though he has signed our accounts, is nonetheless going to be raising it in his report to Parliament.

**CHAIR** - Thank you for raising that.

In finishing, I thank you as chairman, the CEOs, the CFOs and the general managers for being with us. In closing I want to give you the opportunity to answer two very simple questions, one in respect of moving to a single model corporation and if I could put it as bluntly as this, will moving to a single model corporation be a good thing for customers?

**Mr HAMPTON** - I think there are two aspects to that: will it make things cheaper for them? That is partly determined by our owners and partly determined by the Regulator. The Regulator doesn't come significantly into space until our revenues are above the target rates of return so until we get to that, it will be significantly determined by our owners and my reading of our owners' view is that they do want to see us try to keep the price increases as low as possible and the savings are significant.

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I do have a view, however, that a move to a single corporation will enable a number of other better things to happen. We will be able to move faster. Because we are being encouraged on major issues to be very similar and the boards have been trying to do that in terms of our approach there is a collaborative, consultative process that involves lots of discussions and lots of time. I will give you a simple example and a simple example is where in the regions different councils have extended discounts to various charitable groups in the community. The approach is different almost council by council and region by region it is different. The north-west coast is far more generous to its charitable institutions as a proportion. Can we defend a different approach around the State? Is it defensible? How do we transition it? The conversation started with the individual corporations with their owners between the corporations. I mention that and not with any value judgment about supporting communities but wherever we land, I suspect we will take three times as long to get there as we would have done if in fact we were one corporation.

I think we will make decisions faster and therefore move on and focus on the things that contribute value. I also think that being a larger corporation we will attract some expertise that we might not otherwise attract and in the process we may bring some solution opportunities to the problems that we have that we might not otherwise see and I think all of those lead to benefits from the point of view of our customers.

**CHAIR** - Thank you for that. If there is nothing else to add, we thank you all for spending the morning with us this morning and we will be looking to bring down our final report at the earliest opportunity. Thank you very much for your attendance and at the previous committee hearing as well.

**THE WITNESSES WITHDREW.**