

WATER AND SEWERAGE INDUSTRY (COMMUNITY SERVICE OBLIGATION) BILL 2009

SECOND READING SPEECH

Mr Speaker

The *Water and Sewerage Industry (Community Service Obligation) Bill 2009* represents the final key element of the regulatory framework for the Tasmanian water and sewerage industry. This is a critical element because it will provide for the concessional arrangements that will attach to the new water and sewerage pricing regime.

These wide ranging structural and regulatory reforms are now almost fully implemented - and will be all but complete when the new organisations commence operations on 1 July this year. They will improve the delivery of water and sewerage services across Tasmania and benefit the Tasmanian economy in many ways and will drive enhanced environmental and public health outcomes.

Mr Speaker, Honourable Members are now all aware that this high profile reform will deliver a structural framework that has provided for the creation of three local government owned regional Corporations to supply water and sewerage services that are currently provided by local government and the bulk water authorities. The creation of a fourth business will provide common services to the three Corporations to facilitate the achievement of scale economies across a number of areas of operations of the business.

Mr Speaker, Tasmania's first class regulatory arrangements provide for independent prices oversight and performance reporting assessment by the newly created water and sewerage Regulator; a stringent licensing framework that encapsulates all regulatory obligations; and transparent and accountable customer service standards. In addition to the robust and expansive powers of the Regulator, whose job it will be to protect customers from the monopoly opportunities created by the new regional arrangements, an Ombudsman has been created specifically for the sector.

Since the enactment of the *Water and Sewerage Industry Act 2008* and the *Water and Sewerage Corporations Act 2008*, significant work has

been undertaken to progress the structural reforms and to ensure that the regulatory regime will support these arrangements. This work will ensure that the sector will be in the best position possible with the full transfer of assets, liabilities and employees to the water and sewerage Corporations on 1 July 2009.

Mr Speaker, the work undertaken to date includes the completion of an extensive and complex due diligence process, which has informed the preparation of draft Transfer Notices concerning the assets, liabilities and employees to be transferred.

The Corporations have appointed boards and chief executive officers and they are significantly advanced in progressing key work streams to ensure full operational commencement on 1 July 2009. This has included a number of senior appointments well in advance of the 1 July 2009 commencement date.

In addition, a draft Interim Price Order has been released for public comment. Under the Interim Price Order total revenues for water and sewerage services will begin to transition towards financial sustainability for the Corporations. This will be at a level that is necessary to fund the much needed water and sewerage infrastructure over the next 10 years and at the same time approach a fully commercial return on the business activities and assets of the Corporations.

Mr Speaker, these reforms could not have been achieved without the tireless efforts of a number of state and local government officers, the bulk water authorities and key stakeholders. I also want to formally acknowledge the hard work and dedication of a number of councils and bulk water authorities in publicly advocating the reforms. Without these commitments, the reform could not have advanced at the rate it has, nor had the broad community acceptance that has been gained.

In conjunction with the development of the regulatory arrangements, a community service obligation framework has also been progressed. The objective of these arrangements is to ensure that low-income customers are cushioned from the impact of the price rises and are given an appropriate level of support towards the ongoing charges they will now face from the Corporations, rather than from councils, which has been the case until now.

Mr Speaker, at the time the governing legislation for the sector was before Parliament, the Government committed to ensuring that financial assistance would be provided to low-income groups in the community so as to ensure that any price impacts are minimised and that this

assistance would be similar to the assistance provided to sectors of the community through their electricity charges.

Mr Speaker, it has also always been openly intended, as is the case with concessions and rebates provided by State-owned businesses, that local government, as owners of the new corporations, will fund the subsidy to those of their customers who face hardship. This was made clear during the Second Reading Speech of the *Water and Sewerage Industry Act 2008* in April last year and debated in Parliament at the time. It has also been made clear repeatedly to local government representatives. Councils stepped-up to all of the benefits and obligations of corporation ownership when they agreed to the model and arrangements that are now being put into place.

Mr Speaker, the *Water and Sewerage Industry (Community Service Obligation) Bill 2009* establishes the framework under which the regional Corporations will be required to provide concessions directly to eligible customers from 1 July 2009. I will now describe how these arrangements will work.

The concessions framework is based on defined eligibility criteria and these will be prescribed in regulations as provided for under the Bill. The criteria will include the following classes of customers: those who hold a Health Care Card or Pensioner Concession Card issued by Centrelink; and those who hold a Department of Veterans' Affairs Repatriation Gold Card. This aligns with the current policy underpinning State income support through a broad range of concessions and rebates, including those provided in the electricity sector.

The eligibility criteria for the water and sewerage concession expands on the current eligibility criteria under the pensioner rate remission scheme as it applies regardless of whether a person owns their principal place of residence.

Mr Speaker, the Bill states that all existing water and sewerage customers of councils who are eligible to receive the pensioner rate remission on 30 June 2009 will automatically taken to be eligible for the water and sewerage concession on 1 July 2009. It is estimated that approximately 50 000 households will be eligible under these transitional arrangements.

The number of eligible customers is expected to rise to around 80 000 from 1 July 2010 when the customer, that is the resident, who may not necessarily be the owner, becomes the person receiving the water

and/or sewerage service and receives the bill directly from the Corporations.

Following consultation with the corporations, it was recognised that there needs to be a transition period of a year to enable the corporations to gather all of the relevant billing information to enable the relevant customer – as opposed to the property owner – to become responsible for water and sewerage charges.

All customers who will otherwise be eligible for the concession and who receive bills after the transitional year will need to apply to the Corporations to be added to the Corporations' CSO register. On receiving an application for a concession, the Corporations will be required to assess and notify the applicant within 21 days of the outcome of the application. If assessed as eligible, a customer is entitled to receive the concession from the date the concession is granted by the Corporation. The assistance will be provided directly to the eligible customer in the form of a price discount on their notice of charges. They will not have to pay the full charge and then later apply separately for a rebate.

In addition to a broader education and awareness campaign that will be undertaken by the Government and the Corporations, the Bill requires that the Corporations include a statement in each account sent to its customers advising that concessions are available for eligible customers.

Mr Speaker, the base amount of the concession will be prescribed in regulations that will be enacted under this Bill. This will provide a safety net minimum concession.

The commencement amount for the concession is \$130 per eligible household. This amount will be reduced by half if a customer receives either a water or sewerage service only. To not make this adjustment would be unfair to those households facing charges for both services, as their proportional concession would be substantially less than those who were taking only one service.

The amount of \$130 per year has been derived through thorough analysis of existing concession arrangements for water and sewerage provision in other jurisdictions; the concession arrangements in the electricity sector; and the anticipated price rises that are required to move the sector to a sustainable commercial position. Also, this amount is higher than the notional amount currently provided to water and sewerage customers under the pensioner rate remissions scheme.

Mr Speaker, the concession will apply to the fixed cost component of a customer's water and sewerage bill. Applying the concession to the fixed cost component of bills will avoid the issue of the concession distorting the consumption decisions of households.

Mr Speaker, the Bill provides that councils within a region may increase the concession above the prescribed safety net minimum for their region. This mechanism offers flexibility to councils if it is determined that the concession should be greater for customers within the region. Owner councils within a region will be able to agree a higher concession amount on the basis of a simple majority, on the basis that the concession will be applied uniformly across any particular region.

The concession amount is also to be indexed, with the rate of indexation to be prescribed in regulations. For the out-years of the transition period, this rate of indexation will be consistent with the percentage price increases that are expected to be used for transitioning prices under the Interim Price Order; that being 10 per cent.

From the first fully regulated price determination, commencing on 1 July 2012, the rate of indexation will be in line with the Consumer Price Index for Hobart. This is consistent with other concession arrangements that apply in Tasmania. However, to ensure that escalation remains appropriate and reflects future prices, a review mechanism has been built into the draft regulations that are being developed in parallel with the Bill.

Mr Speaker, the Bill establishes arrangements under which the councils will reimburse the Corporations they own for the cost of the concession. The Bill requires councils in each region to enter into an agreement with the relevant Corporation that specifies, amongst other things, the manner and form in which payments from councils are to be made. The first agreement will be in place by 1 January 2010. Further agreements must be entered into every three years.

Mr Speaker, it has been suggested that the cost of the concession should be taken into account by the Corporations prior to any priority dividend and residual dividend being paid to owner councils. However, this would have the effect of distorting the profit position of the Corporations and would be contrary to the dividend distribution requirements in the *Water and Sewerage Corporations Act 2008*.

The only fair and reasonable way to deal with the allocation of costs to the owner councils is to keep separate the issues of dividend and other returns and to make owner councils responsible for the cost of the

concession each year according to the take-up of the concession within their municipality. To do otherwise will only introduce somewhat arbitrary considerations into how the costs should be shared amongst the owners.

It is also not reasonable to expect that the boards and management of the corporations, whom are charged with the responsibility to run these businesses on a commercial basis, to be accountable for the costs of a social policy decision such as a CSO. The CSO should be passed-through to the owners of the business whose responsibility it is to fund such commitments.

Mr Speaker, to reflect the fact that councils will no longer be levying water and sewerage rates, and that eligible customers will instead receive this support directly through the Corporations, the Bill makes a consequential amendment to the *Local Government (Rates and Charges Remissions) Regulations 2004*.

The amendment reduces the maximum amount that may be remitted under the pensioner rate remissions scheme for those pensioners who will receive a concession under the CSO arrangements from \$366 to \$262 per year. This cap will continue to be indexed in the usual way and these households will continue to get rate remission assistance that is commensurate with their general rate charges from councils.

For those pensioners that currently face general rates in excess of \$800 per year and are not provided with either water or sewerage services, they would be financially worse off as a result of reducing the cap uniformly to \$266. Therefore, the Government has decided to leave the cap at \$366 per annum for these pensioners.

Mr Speaker, I acknowledge, and apologise for the short time frame given to stakeholders, particularly local government, to respond to the draft Bill. Notwithstanding the limited time period for review of the draft legislation, the policy underpinning the legislation is relatively straightforward, as are the mechanics of giving effect to the arrangements. This information has been shared with councils as soon as possible. In this regard a paper describing the rationale for the arrangements was developed during February and March and was made available in March and April through the Implementation Joint Steering Committee, the papers of which are made available to all council General Managers.

One matter of significance that has come to light during the consultation stage of the CSO Bill and the Interim Price Order, however, is that the corporations, which are currently undertaking detailed financial analysis of their likely starting positions, have indicated a reluctance to endorse

the dividend and other income stream estimates to councils that are implied by the Regulator's modelling and estimates provided by Treasury.

There is therefore some uncertainty in the first year or two as to whether some councils will receive sufficient income to cover the cost of the CSO.

In view of this outlook, the Government has offered councils a revenue guarantee to completely remove any uncertainty for a period of five years. Councils that do not wish to take up the Government's revenue guarantee offer can manage any uncertainty independently either through using their internal cash reserves, or by borrowing in the short-term and repaying this debt from their future returns from their Regional Corporation. For those councils preferring the borrowing option, the Treasurer has indicated he will approve and support their borrowing from Tascorp for this purpose.

Mr Speaker, the Water and Sewerage Industry (Community Service Obligation) Bill will ensure that income-disadvantaged Tasmanians will continue to be supported as the water and sewerage sector is reformed for the wellbeing of all Tasmanians.

Mr Speaker, I move the second reading of this Bill and commend the Bill to the House.