

THE HOUSE OF ASSEMBLY SELECT COMMITTEE INTO THE TASMANIAN WATER AND SEWERAGE CORPORATIONS MET IN HENTY HOUSE, LAUNCESTON, ON FRIDAY, 4 MARCH 2011.

Mr MILES HAMPTON, CHAIR, AND **Ms CAROLYN PILLANS**, CORPORATE SECRETARY, BEN LOMOND WATER CORPORATION, WERE CALLED AND RE-EXAMINED. **Mr BARRY CASH**, CEO, BEN LOMOND WATER CORPORATION, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR (Mr Gutwein) - Welcome. As we discussed, what we might do is spend the first hour on Ben Lomond and then have a discussion about Onstream in the last half hour of the time allotted. Would you like to make some opening remarks, Mr Hampton?

Mr HAMPTON - I am pleased to be here representing Ben Lomond Water. As you are aware, I'm joined by our CEO, Barry Cash and corporate secretary, Carolyn Pillans. The board of Ben Lomond Water has made a written submission in conjunction with the boards of the other corporations. This morning I will elaborate on that submission but, in doing so, I will not go over the detail in relation to governance. They are covered in detail in the south and summarised on the north-west coast. I will not go over the issue of pricing generally.

Mr HIDDING - Is it the view of Ben Lomond Water that your comments on governance made when you gave evidence for Southern and Cradle, are the same for them?

Mr HAMPTON - The same position on governance and the same remarks on pricing generally.

I will commence with the financial performance of Ben Lomond Water. In our first year we recorded an after-tax profit of \$5.2 million, which was significantly above budget. However, our good fortune was largely as a result of depreciation in well-below budget following an impairment of asset values necessitated by an independent review of future cash flows. Distributions to owners for the year to 30 June 2010 were \$4.8 million, well above the priority distribution level of \$2.5 million. Treasury has recently confirmed that Launceston City Council will now also be entitled to a priority dividend of \$2.2 million per year, half of which will be payable this year and the full amount on next year. Ben Lomond Water has a strong balance sheet, with a debt-to-equity ratio of approximately 4 per cent.

CHAIR - On that issue with Launceston, has that meant that other councils have lost what they would have normally been expecting?

Mr HAMPTON - The priority distribution amount is therefore increased, so it was \$2.5 million and this current year it will become \$3.6 million and the following year it will be \$4.7 million. The other councils that are entitled to priority distributions will not miss out, providing we pay in excess of that level. Clearly, in the event that we continue to pay significantly above the priority distribution, then councils that are not entitled to a priority distribution will not receive one until Launceston has received their priority in full.

Mr CASH - Perhaps an explanation of that is that for last year we paid \$4.8 million in total distributions, \$2.3 million of that was general distribution, so all councils received a share of that. But if we made that same distribution next year, \$4.8 million, there would be a priority distribution of \$4.7 million, so we would only be distributing \$100 000 as a general distribution. So those ones outside the priority distribution list would get virtually nothing, whereas last year they received a reasonable amount.

Mr HAMPTON - That flowed from the submission from the Launceston City Council to Treasury. We have a strong balance sheet, debt to equity of 4 per cent, interest cover of 8.6 times. We have estimated that prior to the establishment of Ben Lomond Water, some councils in our region - I hate to use the word - rebalanced their revenues, reducing Ben Lomond Water income by our estimate in excess of \$4 million.

Mr MORRIS - You were able to provide us with a document relating to the north-west coast -

Mr HIDDING - If you had been here on time you would have received one!

Mr CASH - No, they have one, we just handed one over a minute ago.

Mr HIDDING - It in a slightly different format but Mr Cash will lead us through it.

Mr CASH - Do you want me to talk to it a little bit?

Mr MORRIS - Yes, please.

Mr CASH - If you look at the front page which is about Launceston, particularly Launceston's domestic sewerage rate, their domestic sewerage charge was a flat rate in 2007-08 of \$340 per connection. In 2008-09, it dropped down to \$244. So it is a \$96 per connection reduction which across 30 000 connections is a lot of money. Similarly, the second page shows West Tamar's and their water charge dropped from \$242 down to \$195 and their sewerage fixed charge dropped from \$300 down to \$231.

The last page plots some graphical representation of that. Both of them have some AAV components as well.

CHAIR - We had a chat with the West Coast Council yesterday afternoon on this issue and we discussed rebalancing with the council. They made the point that one of the reasons that they rebalanced was that their swimming pool or pools -

Mr HIDDING - Two swimming pools.

CHAIR - needed to be taken out of the their water and sewerage calculations and they were managed by that division and that was the reason for their rebalancing. Has that occurred in any of these cases at all?

Mr CASH - I am not aware of any reasoning like that. In fact, when Launceston did their rebalancing they initiated a new general rate charge, which I think was \$100 or thereabouts, which was just a flat rate charge on every property within their area. They reduced their sewerage charge by \$96 and put a new flat rate charge in their general rate.

Mr HIDDING - Just for the record, could I ask you what your background is?

Mr CASH - I am an engineer.

Mr HIDDING - You have been based here though in Launceston for some time?

Mr CASH - Yes, I was the chief executive of Esk Water.

Mr HIDDING - The next question is a question that you will probably be in a position to answer because of your history in the area. Why do you think that Launceston did that with the reduction?

Mr CASH - I would only be surmising.

Mr HIDDING - That is a fair answer. We have some people here from Launceston so I guess we can ask them that. But you were in the business. You were here in Launceston. It is not that big a community that you do not know what is going on. Why would you think that a major city council would in fact change their rates like that?

Mr CASH - If I were cynical I would suggest it was a rebalancing so that it gave them significantly increased rate revenue after water and sewerage was taken away.

Mr HIDDING - That would be a cynical view.

Mr CASH - The ability to do this is because the priority dividends were calculated on the performance of the business up until the end of 2007-08.

Mr HIDDING - Was this not over a three-year period or something?

Mr CASH - Yes, it was but it did not include 2008-09.

Mr MORRIS - Therefore the opportunity existed to not influence the priority dividend but to actually reduce the revenue from that component which would have then, had it been calculated in, meant that the business would not have been making the money.

Mr CASH - Exactly, and you can see from the graphs that if we added 3 per cent to the charges of a couple of typical houses in both West Tamar and Launceston the whole of our customer base in those two municipalities are paying less in real terms today than they were in 2007-08.

Mr HIDDING - Could a cynical person take the view that a council that had in fact made money, sustainable earnings, a profit, on the business that you took over, in fact arranged their situations so that you could not make the profit from the business?

Mr HAMPTON - A cynical person could take that view.

Mr HIDDING - If the West Tamar Council in fact - and they would have done because it was based on a three-year period - made \$1.916 million per year out of their businesses, do you still make \$1.916 million out of those cost centres in your business?

Mr CASH - We do not separate the cost centres sufficiently to make that assessment but clearly the revenue we are receiving from those parts of our businesses is less than it would have been had that rebalancing not happened.

Mr HIDDING - But you need to pay the dividends as though you were making it?

Mr CASH - Yes.

Mr HIDDING - Under the settings of the IPO and the rest of your business settings you are required to pay a dividend on a profit that you are notionally no longer making or cannot make because they changed the numbers?

Mr HAMPTON - If we make a dividend payment then your answer is correct, but regarding the decision as to the quantum and whether it gets up to the quantum, there is no legal requirement to make a dividend payment. We do have to pay the loan guarantee fees and we do have to pay the income tax equivalents and they go to the priority people first in their priority order.

Mr HIDDING - Would that explain in the West Tamar Council's annual report for the year ended 30 June 2010 that their revenue from the water corporation was in fact \$1.9 million?

Mr CASH - They were the principal recipient of our priority payments in our first year.

Mr HIDDING - That was not investment revenue; that was actually priority payment in the first year?

Mr CASH - You could argue that is investment revenue; it is a dividend from an investment in the corporation. We only have to pay dividends and tax equivalents if we make a profit. If we do not make a profit we do not pay either of those.

Mr HIDDING - Do you make a profit from the businesses that they brought into the business, because having changed the numbers you are underperforming on revenue?

Mr MORRIS - On expected revenue.

Mr CASH - We do not get our costs down to that sort of degree.

Mr HAMPTON - All other things being equal it would be hard not to conclude that we are not making as much money out of the supply of sewerage and water services in their region as they were making.

Mr HIDDING - It would have to be, it is under-recovery.

Mr HAMPTON - We are not getting the same revenue.

CHAIR - Would it be fair, then, as a Launceston ratepayer to explain what has occurred as that in the 2008-09 year my general rate went up, my water and sewerage rate went down? But as a result of the fact that you have a requirement for a capex program and

other responsibilities in respect of your business and you have already indicated that we can look at a 10 per cent compounding per annum increase in water and sewerage charges over the next 10 years to get us anywhere near full cost recovery, whilst that is going on I am already paying a padded Launceston general rate because they rebalanced their books and, therefore, as a ratepayer, I am in effect being touched up twice. Would that be a reasonable summation of what has occurred?

Mr HAMPTON - I guess it depends on what happens to the Launceston City Council rates over the ensuing 10-year period.

CHAIR - If we were not to see a decline in the Launceston rate over that period, or a relative decline, perhaps offset by a priority dividend, then I could right royally believe that -

Mr HAMPTON - I think you could conclude that.

CHAIR - as a rate payer I had been touched up?

Mr HAMPTON - I might not use those words, sir, but I think we understand what you are saying. I have nothing further to say on our financial performance other than to say that, yes, we missed out on some revenue that we ought to have had which would have made our glide path a lot easier because, as you are aware, the prices that were being charged were our starting point and we were not able to adjust them beyond an agreed percentage for the first three years.

Mr MORRIS - And you are still in that situation.

Mr HAMPTON - But that all being said, Ben Lomond Water is in a strong financial position. It was not saddled with a high level of debt and it has the capacity to undertake the works program that it wants to undertake over the period of time that has been flagged or maybe a little bit longer. The company is well situated, other than the potential issue around what kind of return on the assets is required. That is a discussion we have had in another place.

Mr BEST - On that issue of debt, I think you mentioned yesterday that the debt-to-asset ratio was 10 per cent?

Mr HAMPTON - In the case of Cradle, the starting number was 24 per cent. In the case of Southern Water it was 10 and in the case of Ben Lomond it was 4 per cent.

Mr BEST - Obviously that has the best asset-to-debt ratio of any of the three. Why is that in such a good starting position?

Mr HAMPTON - While on the one hand we might be critical of our councils for rebalancing of revenues, at least they chose not to or were not in a position that they were able to transfer debt to us, but at least they have left the company in a sound financial position in terms of its balance sheet.

Mr CASH - The bulk water authority had no debt whatsoever and had surplus cash, so that helped as well.

Mr BEST - It must envy your position, then.

Mr MORRIS - If, hypothetically, the Government were to take an approach of being very light-handed in terms of its directives to you regarding pricing, and simply was perhaps through the regulator to provide you with a cap on total revenues in any given year, would you be able to sort out the transition in pricing that reasonably avoided price shocks, still maintained some return to the council that you determined was appropriate and completed the capital works programs within a timely manner that is required to bring assets up to standard?

Mr HAMPTON - I think in the case of this company there is no doubt that we could.

Mr MORRIS - Thank you.

Mr HAMPTON - Turning to the operating performance, the issues are much the same as they are at the other corporations but I would like to restate them because I think they are important. Ben Lomond Water has inherited what in many instances are underperforming and poorly maintained sewerage infrastructure. Treatment plants are at below 50 per cent compliance with current licences. As we discussed yesterday, some of them are quite old; a backlog of desludging of sewage lagoons; sewage pumping stations prone to overflow due to design or lack of backup power; high levels of inflow and infiltration exacerbating the volumes of wastewater to be transported and treated. Ben Lomond Water has 16 towns subjected to permanent 'boil water' notices and up to a further 10 that on occasions have temporary 'boil water' alerts. I will come back later in the presentation this morning to talk about 'boil water' alerts, if I may.

One thing is certain, we have a lot of work to do. We have commenced with a strong capital works program in the last financial year, in which we spent \$15.7 million. We had aimed to spend more but it is difficult to wind up a significant capital works program, and we have experienced that across the three corporations. To go from where you were to double it in a very short period of time is challenging because you have a lot of work to do to make sure that you have the right solution and that you properly tender it and that you have people to supervise it.

Mr MORRIS - And the permits for the work.

Mr HAMPTON - All of that. We knew that. We are disappointed, however, that we haven't been able to achieve even our own targets but it's reflective of a whole set of circumstances. We are confident that we will get on top of it and get the rollout happening as fast as we would like.

We currently have projects underway that will deliver treated water to Scamander, Cressy, Campbell Town and Ross and have design work underway to also provide treated water to Lilydale, Westbury and Hagley.

I might now turn to a particular issue germane to Ben Lomond Water and that is the combined drainage scheme that exists in Launceston. The CBD and inner suburbs of Launceston are serviced by a combined drainage scheme, which is now owned and operated by Ben Lomond Water. This means that sewage and stormwater are collected in the same pipe network. This brings with it its own set of challenges, including under

normal rainfall conditions the wastewater treatment plant treats both sewage and stormwater, requiring greater design capacity. This is a positive as for the majority of the time the stormwater is treated before flowing out into the estuary, but during high-intensity rainfall events highly-diluted sewage overflows to the estuary simply because the plant doesn't have the capacity to handle the volume. Whilst the sewage is highly diluted and further diluted by the higher-than-normal river flows, it is not an ideal situation. However, that is the operational challenge. Probably the greatest challenge for us is the lack of income from the stormwater component of this scheme. We have the problem but we don't have the revenue. The sewerage income that we inherited from the Launceston City Council does not differentiate between customers inside and outside the combined drainage zone, which is an inequity that must be removed. Unfortunately this is further complicated by the fact that the council reduced the domestic sewage charge by nearly 30 per cent immediately prior to our commencing operation.

We have been engaged in a number of discussions on this matter in recent times with council officials and we are hoping to find a way forward but it is a significant issue in terms of money and the operational effects.

CHAIR - What is the way forward that you would hope to arrive at?

Mr HAMPTON - Ultimately we would hope to be getting an appropriate revenue and that is a direct transfer, if you like, from council revenues to ourselves. In the fullness of time we would hope not to be blending but that's a more significant, challenging and costly project.

CHAIR - What sort of revenues are we talking about?

Mr CASH - We have not done a lot of work on that. We had a consultant do a bit of work a year or so ago and they did a very rough estimate. They think the operating cost is in the order of \$3 million and if you have a commercial return on the assets, keeping in mind that regarding the assets that collect this combined drainage, the large part of that asset is due to the stormwater component. There are pipes through the city that you can walk through and if they were only cleared for the sewerage, it would be very small. So the stormwater flow grossly outweighs the sewer flow. So if we take a return on assets, their very rough guesstimate, almost, was somewhere between \$5 million and \$6 million.

Mr MORRIS - Does that mean that if you were to separate them, essentially you would need to put a parallel pipe for the sewerage, but much smaller, and then give the existing pipe network back to the council, minus sewerage connections?

Mr CASH - The first thing is certainly correct, you would need to duplicate the pipe network. As to whether the corporation continued to own the stormwater part or transfer to council is a moot point.

Mr MORRIS - They still have responsibility for that, even though they cannot do anything about that responsibility because sewerage is going to take primacy over stormwater at the moment.

Mr CASH - We have had no indications from EPA that there is an expectation that there would be separation.

Mr MORRIS - Right.

Mr HIDDING - It is a massive job.

Mr MORRIS - Yes, I know.

Mr HIDDING - It is an unresolved issue, isn't it?

Mr CASH - I understand large parts of London have the same arrangement; it is not uncommon.

Mr HIDDING - Yes. It is one of those things that needs to be addressed over a period of time on an opportunity basis.

Mr HAMPTON - You either have a treatment plant that is designed to cope with the high rainfall events or you have a pipe network that is separated.

Mr CASH - It is more than just a treatment plant. Our pipe network from the CBD to the treatment plant certainly is not adequate to transfer that amount of stormwater either.

Mr BEST - That is what I was going to ask you about, the escape.

Mr HIDDING - You have the escape hatches in terms of the big rainfalls.

Mr CASH - All of the pump stations along the North Esk River have overflows.

Mr BEST - How much larger is it than a normal sewerage pipe? Are the pipes oversized?

Mr CASH - Grossly oversized. Some of the main sewers down Margaret Street you can walk through, I understand; I have not been there. We have not designed a sewerage scheme but you can imagine that you would not have a sewer pipe more than half a metre in diameter.

Mr HAMPTON - We come to developer charges. We did not talk about them in the south because they are largely in place and just continue. We talked about them on the north-west coast because in an official sense they are not there at all. To varying degrees, councils might have achieved the same outcome in a different way or a slightly similar outcome but we have a major issue there. We had the same issue here but to a lesser extent. We have no choice but to apply cost recovery to all our charges, and by definition that includes developer charges. Most councils in our region charge developer charges but the quantum varies considerably. So the charges were there but the quantum varied considerably. In essence, if we had a cost of servicing new urban development in excess of the current and expected costs of servicing existing customers, then the additional costs are recovered from new entrants in the form of an up-front contribution.

Mr HIDDING - We heard yesterday, I think from you, Mr Hampton, that the model that the structure was based on was a New South Wales version of developer charges.

Mr HAMPTON - That Treasury have approved for Tasmania and is the same model being applied in the three regions in Tasmania.

Mr HIDDING - That is right. Who submitted that to Treasury? Was that you?

Mr HAMPTON - I cannot answer that question, I do not know.

Mr CASH - Collectively, the corporations. We will have, hopefully shortly, pricing regulations that we expect to make provision for that methodology.

Mr HIDDING - Yes, and I do believe it was the corporations that suggested to Treasury the use of that model and no doubt Treasury accepted that with some glee as it was quite a deal more expensive than the Victorian model, as I understand.

Mr CASH - The Victorian model is the model. It is an arbitrary flat rate selected by a government and there is no calculation as to a proper price.

Mr HIDDING - On the question of proper price, let us get this on the record: it sounds to people that if somebody wants to do development of 27 lots and the development charge is worked out on a formula and there is a developer charge of, say, \$100 000, it does, from the language that is normally used, sound as though the \$100 000 is used to provide services for that development. Of course that is not true; in most cases that is a recoupment of things paid many years ago when they put in the services. As you pointed out yesterday with the income for Cradle Mountain Water, there was about \$1 million in development charges, so the \$100 000 does not go to provide services for that development, does it? It is essentially a developer's tax rather than a development's contribution to a project.

Mr HAMPTON - I would describe it in a different way - and Barry may choose different words - but it is a fee for using up capacity that is already in place that will not be available for other people.

Mr HIDDING - So you take the \$1 million from the developers up the coast and put it into general revenue - you might spend it on clean water for Queenstown when it was actually taken from a land development at Port Sorell?

Mr CASH - But if we need to upgrade a sewage treatment plant at Port Sorell in five years' time we will fund it from wherever.

Mr HIDDING - So it is a general revenue issue. When it came up yesterday it sounded as though it was worked out on a development and spent on a development but it is not, it goes into general revenue.

Mr BEST - I do not think that was ever how it was placed. It was put about, as Mr Hampton said -

Mr MORRIS - We certainly did have an allegation from the witness that he got nothing for his developer charges - you did not give him a particular pipe and he could not handle the capacity that he bought within the water and sewage treatment plant, which is why he felt

he got nothing. But he obviously has exclusive rights for ever and a day for his development or for the people who buy from his development to access that.

Mr BEST - Just on that, if there was nothing there, say, and there was some distance to hook up to water and sewerage, would he pay that full amount?

Mr CASH - There are three components in this and this discussion has really only been about one of them. A developer will do subdivisional development and he will provide and pay for the in-subdivision water and sewerage reticulation, so that is the first component and developers are used to that. The second component is if that development is out of sequence, meaning that it is remote from the existing infrastructure, we would expect that developer to provide the interconnecting reticulation. We are discussing with one developer a development that is many kilometres away from existing infrastructure and we would expect him to provide that infill. Our third component is the developer charge for effectively buying a share of the upstream.

CHAIR - Can we explore that a little bit? In the past where councils perhaps have more of a specific economic development requirement in regards to their focus, who would have paid for that infill? I think it is obvious where there is already existing infrastructure the developers, as you rightly say, are used to putting pipes in the ground in regard to their own development, but what would have occurred in the past?

Mr CASH - I think it is likely to have been varied as the developer charges charged by individual councils varied, but I am aware of pipe works to remote subdivisions that were done at around the time we were formed where the council did the work and funded it but made an arrangement when the subdivisions took place that it would be paid back because the money now has to come to us.

In a past life I was involved in the West Tamar water scheme when it was owned by the Rivers and Water Supply Commission prior to Esk Water. That's what the commission would have done, it would have expected the developer to pay. It varied, as did the developer charges, across councils. One of the problems in the past in our region, where developer charges varied, five of our councils had developer charges, one other council used their planning scheme to specifically identify subdivisions that would have to make a contribution, so we might say six, but they varied from \$800 to \$7 600. If you have developers looking at where they were going to develop in a coastal town, one coastal town has an advantage because they're being subsidised against another coastal town. What we're trying to do is have the same methodology across our region and, because the three corporations are using the same methodology, it is across the State.

Mr HAMPTON - Finishing off on developer charges, the point of raising it today was the inequity between councils' application and developer charges which we have inherited and moving to a standard approach creates some angst amongst the people who are paying lesser charges. As indicated yesterday in relation to the coast, the same issue applies here in respect of trade waste charges where it is quite clear that some trade waste charges are not fully cost-reflective; in fact some of them are significantly away from being cost-reflective. So the same issue will happen there as we move to cost-reflective pricing.

Mr HIDDING - So you're dealing with a transition of culture, aren't you?

Mr HAMPTON - Yes.

Mr HIDDING - We heard yesterday that a number of the developers thinking of developing on the coast or dealing with local designers were highly offended that developer charges were even in the picture. These mainland developers were probably looking at developing on the coast because there were no developer charges. It was the locals who have the cultural issue with it; they were highly offended at the notion.

Mr HAMPTON - I would like to turn back to 'boil water' alerts. As mentioned in my earlier remarks, a number of townships in our region have either permanent or temporary 'boil water' alerts. As a consequence of widespread publicity around same, we think it is likely that many in the community and many of our stakeholders who have an expectation that we will fix 'boil water' alerts and they will become a thing of the past. We would like to caution against such a blanket view. The cost of installing water treatment plants, even for small townships, is very significant as there is a base cost. For some townships it could well be that you would simply never justify spending the money at today's costs. Technology in this area is advancing, so a small township that you couldn't in any way justify today maybe you will be able to in three or five years' time. So please don't think from my remarks that we are just going to park people and say, 'We'll never try to tackle that' because technology is moving in this space. Equally, it needs to be remembered that maybe some of the communities are happy to continue to have 'boil water' alerts.

CHAIR - I live and work in this electorate, and I think 16 small communities are affected. What discussion have you had with those communities, if any?

Mr HAMPTON - We've inherited some work that has been done in some of those communities. We have been costing solutions for a number of those communities and from that it has become quite clear to us that with the implementation of postage-stamp pricing, everyone in the region paying the same. The others in our customer base will be significantly subsidising the smaller towns. We are exploring, both ourselves and with some councils, what other solutions might be found to either fully remove the 'boil water' alert or at least remove some of the more significant issues around the need to boil water.

Mr HIDDING - Like filtration units?

Mr HAMPTON - Yes.

Mr CASH - It is a difficult area to know how to partially treat.

Mr HIDDING - We need to get this right: what is a township?

Mr CASH - It is anywhere we have inherited the water supply scheme.

Mr HAMPTON - There is a township in this region with 20 dwellings. To fix it will cost between somewhere between \$1.5 million and \$2 million.

Mr HIDDING - The statement has been made about these townships or towns or hamlets or whatever. So it is the existing schemes that you are dealing with? Where there is a township with no scheme -

Mr CASH - We are currently not a player. Where we have inherited infrastructure we have certain responsibilities.

Mr MORRIS - As I understand it, the issues are twofold. One is that the complaints that by and large come from those communities are about dirty water coming out of the tap because they do not know whether there are pathogens in there or not. The complaints that I certainly get are about discoloured water with solids in it, rather than I was sick because I drank the water. The other thing is that most of those towns have a very low-cost water charge as well, so they are not paying very much. We move to postage-stamp pricing and they are going to be paying significantly more and that is going to raise their expectations. So if I am going to be paying the same price as Launceston for my water I am going to expect the same quality. The 'boil water' alert is the big difference. From their perspective they are not interested in the cost of fixing it. That is the message I am getting. The real complaint is about colour, so filtration is obviously the thing. The 'boil water' alert may well stay in place. You may satisfy the community by delivering clean water to them even though you may still have a 'boil water' alert in place.

Mr CASH - As a water professional, I get concerned at those views because dirty water does not hurt you. The unseen microbiological problems can kill you. We had a public meeting in one of our small towns recently where the meeting did not like the things I was saying because I was telling them their water quality was lousy. Not until the Deputy Director of Public Health told them it was the worst in the State did they partially understand that there was a problem because it is the unseen thing that is a real problem.

CHAIR - I do not think they have all bought in as yet.

Mr CASH - I am sure they have not.

Mr BEST - In your report you talk about learnings in the first year and I thought there might have been some interesting things there to talk about. You have listed here, 'Earlier we had experienced 156 sewer overflows' and you mentioned earlier the non-compliance of the sewer works that you have. I think yesterday you gave us an estimation of what it might be above your loss scenario that we had with Cradle Mountain Water. How long are you looking at to get things up to compliance within Ben Lomond?

CHAIR - Was that the point yesterday that they had 24 per cent debt-to-equity ratio and if you were to get all of the sewers up to date you would be 50 per cent and not quite viable?

Mr HAMPTON - Ben Lomond Water is in a much better financial position to tackle the issues in front of it from a balance sheet point of view. We have the same challenges that the other corporations have in respect of the charges to our customers because every \$10 million that we spend on capital expenditure flows through to \$1 million worth of cost in each of our businesses.

CHAIR - Is it fair to say with Ben Lomond Water that EPA compliance is at a better level than it is -

Mr HAMPTON - I don't think it is.

CHAIR - Clearly in the annual reports the graphs that are used in regard to the three corporations, the EPA compliance graph for Ben Lomond Water is head and shoulders above the other corporations.

Mr CASH - We have 26 level-2 base water treatment plants and very few of those comply fully with their licence conditions.

Mr BEST - We heard it would take 10 years for Cradle Mountain, and even at that state you are still up to 50 per cent.

Mr HAMPTON - I think those responsible for the establishment of the corporations had an expectation that 10 years would be the time frame. That's very challenging in the space of -

Mr BEST - We also heard from some of the stakeholders yesterday that they thought you should take a bit longer. What is the scenario with Ben Lomond? How long are you looking at taking?

Mr HAMPTON - The constraint in Ben Lomond is not the constraint around the balance sheet; the constraint is how quickly we push up our prices to our customers.

Mr BEST - What sort of time frame are you looking at at the moment? It sounds as though you haven't confirmed anything yet.

Mr HAMPTON - No, we haven't. Our learnings in the brief period of time we have been going are that we are being challenged by achieving the capex spend that we have been planning. The reality is that we won't spend what has been flagged, if indeed that is the amount. It might be less, it might be more and obviously we would hope it would be less as technologies advance. We won't spend that in the time frame. It's almost inconceivable to see that we can catch up, get in the work force, the planning and all the approvals, but that doesn't mean to say that we won't be trying. It isn't going to be 10 years. That is the short answer to your question.

Mr BEST - Okay; I was interested in the comparison.

Mr CASH - There's a difference between the time taken for different sorts of capital works. We have a board meeting today and we have a business case for a water treatment plant and if we get a decision to proceed with that we would expect to have a water treatment plant running in two years. If we are looking at wastewater treatment in the greater Launceston area, there are currently seven wastewater treatment plants in and around Launceston. We've done a lot of work over the last six months reviewing if that's the way we should be doing it in the future. So before we make any commitment to spend any money upgrading any one of those seven treatment plants we want to decide if that treatment plant has a future or if we should have two big ones or one big one or three. We are doing a lot of work on whether there is an opportunity for rationalisation. Once

we have done that work, we then need to engage with the regulators as to whether they agree. Then we need to engage with the regulators to get all the necessary permits and then go through the design and construction phase. That would take far longer than a two-year time frame to build a water treatment plant.

Mr BEST - 'Many chlorination facilities do not include leak detectors. Remote monitoring chlorine leak detectors have been added, along with remote monitoring of alarms to reduce the risks to staff and the public.' That is pretty serious when you are using chlorine. So you're saying 'many' of the facilities?

Mr HAMPTON - Many, and I am probably remiss in not covering it in my remarks, but I think it was covered in the written submission. The four corporations had a strong focus on safety because, without being unkind, the risks being undertaken by the employees who were transferred to us were simply unacceptable.

Mr BEST - You have here, 'Fluoridation facilities do not include in-line monitoring of dosage and often do not include overdosing fail-safe provisions'. You say, 'Solutions to both problems are being implemented'. Are we not sure how much fluoridation is going out into the -

Mr CASH - We do know, but there are some risks with what happens with fluoridation. Keep in mind that fluoridation was previously owned and funded by the State Government. With fluoridation, each fluoridation facility has to be visited daily and there is a test undertaken of the fluoridation content of the water going out of that facility, so it is tested daily, and there is a mass balance calculation done daily so you measure how much fluoride you have used in the last 24 hours and how much water is going. It was not as callous as it might have sounded but if there was a failure, there could have been overdosing and you would not have known until the next day.

Mr MORRIS - While we are on the subject, can you give us an update on the progress on the Campbell Town water treatment plant, Mr Cash?

Mr CASH - We are hopeful of turning the first sod soon. We now have planning approval. The contract was let nearly 12 months ago. The contractor that we have engaged is working on a plant at Huonville and as soon as the civil contractor he uses is free from that he will be starting. We are hopeful - and I don't want to be held to this - that around Christmas we will have the plant finished but being realistic, it would probably be into next year.

CHAIR - A matter that is impacting on all customers is the billing system and in fact my office has started to receive some complaints in recent times from landlords specifically that would have had the volumetric charge paid for by their tenants over the previous 12 months and they now have concerns that in some cases tenants have left and they have not been able to bill them; in fact I have a couple sitting on my desk at the moment. I would not mind your responding to that but more broadly, billing has been an issue. One thing that has always perplexed me is that we have had on one hand Aurora establish a \$60 million billing system that was initially going to cost some \$15 million and it blew out to \$60 million. They are sending bills to every household on a quarterly basis and I am just wondering firstly what the cost of your billing system has been to implement and

whether or not any consideration was given as to whether that billing system that Aurora had put in place could be used or if they were asked to tender even.

Mr HAMPTON - I might deal with a part and then ask Barry if he could deal with a part. Of course for our first year we did not have a billing system, we had a hotchpotch; in fact for more than our first year. It was a hotchpotch. It was a way of getting bills out with the assistance of councils but we did not have a billing system. We were started without a billing system so it was inevitable that we were going to have some issues in bringing together the billing in this region of eight councils; bringing that together was always going to be challenging. By 30 June this year in a large measure - and I am talking large measure being 100 per cent - we are aiming to be up-to-date in all billing or as reasonably up-to-date as you would expect - in other words, with meters in terms of volumetric charges we are on the normal billing cycle. There is no doubt that in relation to volumetric charges in relation to change of ownership and such like we were well behind and we know that, we recognise that and we know that it will have created some issues for some of our customers.

On the cost of the billing system that we have put in we have a budgeted cost slightly below \$4 million and we expect to be on budget, if not below. We will be a little bit behind time. In projects of this size that is not unusual but when I say a little behind time, the first phase is up and running. It started about six weeks later than we had hoped. The second phase is about to be rolled out and the third phase then shortly afterwards.

CHAIR - You would have a billing system, I am presuming, that would touch every property in Tasmania in fact in the same way that Aurora would bill.

Mr HAMPTON - Correct.

CHAIR - Was there any discussion at all with Aurora? Did they tender and, if so, why haven't we utilised that very expensive billing system?

Mr HAMPTON - That is the question I was hoping my colleague might be able to answer. I think it may have been shared with us as board members but I cannot recall.

Ms PILLANS - My understanding from the Onstream point of view when we procured the system is that Aurora was invited to tender and in fact this question came up at the GBE scrutiny. So the transcripts from there may reference a more fulsome discussion there, but they were invited to tender. My understanding was that when they got through to the first phase, they looked at the requirements which were to cope with over 2 000 pricing tariffs that are in existence at the moment, plus a whole range of new tariffs as we move forward to a two-part pricing and the like. My understanding is that that was a much bigger deal than they had imagined and they either decided not to go to the further tender themselves or in fact their tender was not at the stage where we could consider it going through to stage 2 of that tender. They were part of the process.

CHAIR - Regarding the \$4 million you put in place for a very complex billing system, their \$60 million system could not quite cope with that?

Ms PILLANS - We should say that ours fit our requirements of a water industry and it does not necessarily fit a retail energy industry.

Mr HAMPTON - Just expanding on that, the software application that we have purchased is one that is designed for our sector. It has not had to be modified for our sector. Maybe in another place, the way the business operates, it may need to be modified. Maybe we have been fortunate.

Mr CASH - In fact we have been particularly careful to not play with the software system and have a purpose-designed and built system. We tried as far as it was possible to buy a billing system off the shelf.

Mr MORRIS - Can that billing system provide an individualised bill? Obviously it provides an individualised bill for each household but, for example, if you were trying to transition from an AAV situation at the moment, could you put a different starting point for each household into that billing system? If you were given the fixed price component, effectively, and you made a decision about what that number was going to be, could you start with each household and put that number in?

Mr HAMPTON - I cannot answer that question specifically and maybe Barry can. What I can say is that knowing that we are working on transition paths across the State in the three corporations, clearly the question is how easy is this going to be handled in the new billing system? Billing systems, being billing systems, are largely designed around you doing it, not your transition, and obviously that is an important question to us, to the boards of the three corporations in signing off the transition path that we propose, are the issues associated with the transition path that is being proposed workable or acceptably workable within the billing system? We are in that phase now. Until we largely set the transition path framework, it is such a hypothetical situation and we are right at that point now and it may of course cause us to revisit the transition path because -

Mr MORRIS - Of the capability?

Mr HAMPTON - Yes.

Mr MORRIS - Thank you, that is interesting.

Mr CASH - Each of the three corporation now is doing a lot of work. As Miles said earlier, there are 2 200 tariffs across the State and we want to use one collective billing system and of course, that is further complicated by the price cap which almost made each house have an individual tariff. So we almost have 200 000 tariffs now. We have all those tariffs in the billing system now, ready to go for next year, but that is based on the current IPO. We have been having some discussions this week about whether it is possible to do this transition. We do not know the answer yet and it is integral to the decisions we make about the transition path because we will need to be able to get bills out on whatever transition path we choose.

Mr MORRIS - So it is possible that if the Treasurer, in issuing you orders under the IPO, if the Treasurer does not take into consideration the capability of your billing system they could ask you to do virtually the impossible - accidentally, in a sense?

Mr HAMPTON - They could ask us to do something that increased the likelihood of billing errors and I wonder if I could just talk quickly for a moment on billing errors. We are bringing forward a new billing system. We are bringing it in in a very measured way. We have a lot of confidence in the software. We have a lot of confidence in the planning that has gone into it and we are hoping that system errors, such as the one we had in Clarence, will be behind us and we actually have an expectation that they will be but I would not want to leave the committee with an expectation that all errors are gone. The general expectation is that it could take up to five years to cleanse our database so if there is a misdescription in our database it could take a long time before we would be comfortable - if you are ever comfortable - to say we think the database is as accurate as you would expect it to be today because there are always errors. There are always going to be people who will receive a bill that will have something wrong, hopefully more in the ownership address-type space than the calculation of the bill. It is simply the nature of the system.

CHAIR - Just going back to the first point that I raised, what advice do you have for those landlords that are complaining about receiving volumetric charges some 12 months or 18 months late that are no longer in a position where they can reasonably pass those costs on to the tenants that they had because those tenants are no longer there?

Mr HAMPTON - As boards, I don't think we have considered that. If they wish to be in touch with us we would look at it on a case-by-case basis. It has not been an issue that has been raised with us in a formal sense.

Mr MORRIS - It sounds like it is on its way.

Mr HIDDING - Could I ask a question on assets? Yesterday we were briefed from what happened under the Cradle Mountain Water with a write-down of assets or an impairment of assets that you took to the Auditor-General and that he agreed with. Did the same happen here at Ben Lomond Water?

Mr HAMPTON - Yes, it did.

Mr HIDDING - Earlier you read out your board's view of the quality of the assets that you took over and there are clearly some substantial challenges there. I have to get my own tactical advice here, but in terms of Australian accounting standards what is the difference in an impaired asset on your balance sheet as opposed to a straight write-down?

Mr HAMPTON - I think perhaps the fundamental difference is that if it is impaired and it becomes unimpaired you can write it back up.

Mr BEST - We heard yesterday from the Burnie Council where I think they said Cradle Mountain was \$617 million and when you did the valuation it was \$426 million and they were questioning how could that be the case.

Mr HAMPTON - We engaged a third party at very substantial cost and an awful lot of work was done to make sure that like assets were valued on a like basis. That is the starting point. Then you apply a test as to the earning capacity of those assets and that fundament, and that led to the impairment. So it is a two phase.

Mr BEST - They were saying they thought that -

Mr HIDDING - Mr Hampton indicated yesterday that he enjoys reading these *Hansards* so I am sure he will read them from yesterday as well.

Laughter.

Mr HAMPTON - May I say that you caution against my reading them!

Mr HIDDING - All I did say was that the movie was better! But you need to read them. The comparison of what is a proper asset valuation process from your point of view compared to what the assets were written in it, there was a view expressed yesterday they were essentially book values or a desk-top value. Is that your understanding of how most of the businesses you bought -

Mr HAMPTON - I think the values that came across to us were significant book values but I might stand to be corrected.

Mr CASH - I think the methodology for valuation used by councils varies.

Mr HIDDING - This is important from my point of view, getting back to rebalancing. I am trying to think in accounting linear fashion here. Did those values in any way affect the construction of the priority dividends, the sustainable earnings? In other words, did those desk-top valuations have any affect on the sustainable earnings of those councils? In fact, what I am saying is, if they had an overvalued valuation of their assets, could that have inflated operating numbers to bring about priority payments?

Mr HAMPTON - Let me deal not with priority payments but with ordinary dividends first. The dividends are based on the contribution of net assets on the adjusted values.

Mr HIDDING - Oh, okay.

Mr HAMPTON - So the ongoing pro rata entitlements beyond the priority distributions are based on what we consider to be a fair apportionment of the net assets contributed. I emphasise 'net'.

Mr HIDDING - So you have tidied that up but what about priorities?

Mr HAMPTON - We have tidied that up. In relation to priority payments, my understanding - and Barry may seek to correct me - is that is significantly around sustainable earnings. It is not an asset-related issue.

Mr CASH - Except that asset valuation flows through to depreciation and in your example, if the asset value was inflated, the council would have had an increased depreciation and a lesser profit and a lesser entitlement to priority.

CHAIR - If anything, it is advantaging the councils by writing them down or it is certainly making the case?

Mr CASH - It does not make any difference because the dividends are calculated on the full asset transfer but the write-down is based on future revenue capacity and as we move forward and our revenues grow we would expect that write-down to be reduced. But what that write-down of assets did is reduce our depreciation which, as our chairman said earlier, was one of the significant reasons our profit was greater than it would have been.

CHAIR - We are going to run out of time in regard to not being able to do Onstream justice today, I do not think, with only 20 minutes left to go. We do have another hearing planned for Hobart which I am thinking we might extend an invitation for you to attend that for a short time to have a discussion with us there.

I am very interested in your view, as the Chairman of Ben Lomond Water and also the CEO's view in regard to the value that you see from Onstream to your corporation, bearing in mind the limitations that we have discussed in the south about the legislative provision in regard to purchasing and so on. What value do you see? What services does Onstream currently provide? Are there services that your organisation would have the capacity to, if it were in a competitive environment, take onboard itself? Does it have the capacity to take on some of Onstream's current role and subsume them into Ben Lomond which, as we have heard, is a relatively sound financial proposition at the moment? But with your Ben Lomond hat on, I would like to hear your views on that?

Mr HAMPTON - In fact, Barry and I both wear both hats. We are both on the board of Onstream. I am on the board and Barry is the CEO of Ben Lomond. I will kick off again. If Barry has a contrary view, I am sure he will say what he thinks. My biggest concern is the absence of commercial entry, firstly, because I cannot sit here and say for certain that the asset is on Onstream in the same way that it would be on if you were in a fully commercial basis. Don't get me wrong; that doesn't mean to say that every time Onstream wants to add to its resources it is agreed to. But the long and short of it is that until you have competitive tension you don't really know.

CHAIR - What services do you currently purchase from Onstream - billing, IT?

Mr HAMPTON - Billing is the major one, IT, HR.

Mr HIDDING - Finance?

Mr HAMPTON - Finance to a certain extent, particularly the high-level finance. The Treasury management logically would be done in one place rather than three.

Mr HIDDING - Corporations don't have chief financial officers, do they?

CHAIR - They do now. That was one of the things that has intrigued me. As chairman of this corporation and CEO how do you know that you have the best price for the services?

Mr HAMPTON - Barry, wearing his hat as CEO of Ben Lomond Water, negotiates robustly with the management of Onstream as to the price he pays for the services. It's all documented in the service level agreement and it covers base level services and optional services. There are separate prices for both. Some of the regional corporations use optional services extensively in some areas and others don't.

CHAIR - What would be an optional service?

Mr CASH - Carolyn provides governance services and within that there is a legal advice provision. Some of that legal advice, risk management and legislative management is a base service but further legal advice is an optional service.

Mr HIDDING - How do you charge that - six-minute increments?

Ms PILLANS - It's based on an hourly rate.

Mr CASH - In that particular area we can choose to use that legal advice or an external solicitor.

CHAIR - What would be the largest purchase that you have made from Onstream? What service costs the most?

Mr CASH - Probably billing.

Mr MORRIS - Is that the one where there appears to be a very clear advantage in the current arrangement, that you purchased one-third of a billing system effectively from Ben Lomond rather than a whole billing system? You would have paid \$4 million each for a billing system because it's not restricted by the number of customers?

Mr HAMPTON - Correct.

Mr MORRIS - There has clearly been about an \$8 million advantage to having the billing system purchased as a joint arrangement.

Mr CASH - Another significant component of the centralised service is information technology. A similar case can be made, not in those sorts of quantum of course, but there is one single IT system that each of the four corporations uses. Not only does that save money in the operating sense, but it gives far greater buying power in purchasing that. You only have one contract for buying computers, for example.

CHAIR - Does the structure assist those advantages that have been gained through, for example, joint venture service agreements?

Mr CASH - Yes, of course.

Mr HAMPTON - The structure doesn't matter. That being said, the boards have made it clear and therefore it is this board's view that it would be better if the form were not prescribed. I think that's what we have said in our written submission. In Hobart I made it clear that we are a bit stronger than that in terms that maybe it should not be of a corporate form, so it should not have a separate board and have the issues that go with having a separate board.

Mr MORRIS - Again, a lighter touch?

Mr HAMPTON - Yes.

CHAIR - One of the key reasons we're here is that there has been concern within the community with regard to the price they pay. From the point of view of Ben Lomond, obviously you are in a far better financial position than the other organisations. If you weren't restricted by the IPO, bearing in mind that you certainly don't have the same challenges that we heard yesterday from Cradle Mountain in regard to the servicing of their debt level, would you have the flexibilities to put in place, from a customer point of view, a more reasonable increase on a per annum basis in regard to moving yourself towards full-cost recovery from what you currently labour under with the IPO?

Mr HAMPTON - I think the important expression there is full-cost recovery because full-cost recovery assumes a return and therefore what is the return that you seek.

CHAIR - Without labouring under the IPO, the 7 per cent whack that is required. If your owner councils were prepared to negotiate with you and would take a lower of return or a longer time frame to get to -

Mr HAMPTON - The kind of increases that I flag in the south are the same increases that will be necessary here to achieve the suggested return. It would not be an issue, other than customers having to pay, from the point of view of Ben Lomond Water in terms of its financial position. Its balance sheet can carry the higher debt level because its starting point is so low, but from our customers' point of view - as we have discussed now on three occasions - the effect would be very, very significant. Despite Ben Lomond Water's financial position being stronger, but not because of it, our intention is still to focus on what we can do to keep the cost increases to an absolute minimum. I have made it clear on behalf of the boards that where we think we ought to be exercising push-back on time frames, on rates of returns, on dividends, we are quite comfortable to do so.

Mr CASH - It is also relevant, though, that there is just not a need for increased revenue. With the 2 200 tariffs that exist across the State there is a lot of work to do in tariff reform. That is between parts of our business, between councils, and it is within councils where there is not equitable charging between different classes of customer or different locations so that whenever you have tariff reform there are winners and losers.

Mr HIDDING - What is the average domestic water charge in this area? We heard yesterday at Cradle Mountain Water it was \$790.

Mr HAMPTON - That was the water and sewerage charge.

Mr CASH - I think it is of the same order.

CHAIR - And \$890 in the south, if my memory serves me correctly.

Mr HAMPTON - It is in the \$800s, yes.

Mr HIDDING - The other figure that was provided by Cradle Mountain Water yesterday was the calculated average cost, which included depreciation, interest only and so on for a residential customer. That is essentially where you have to get to.

Mr CASH - We have not done that calculation. It is a particularly difficult in trying to isolate commercial and industrial customers away from residentials and it should be a cost to

them. We have probably got a more complicated CBD arrangement than Cradle Coast might.

Mr HIDDING - The adjustment is compared to Hobart, where they are basically unmetered and we have to bring in two-part water pricing. That essentially has happened in this area so the adjustment between business and residential is not going to be all that dramatic, is it?

Mr CASH - The adjustment is not related so much to the metering component. The adjustment is related to the tariff design and particularly the assessed annual value component.

Mr HIDDING - Are you suggesting that the average may be around the same, around the \$800 mark here? What is the variation of tariffs?

Mr CASH - From \$78 to over \$1 600.

Mr HIDDING - \$78?

Mr CASH - That would be a small town that only has water.

Mr MORRIS - In the case of Launceston, after this year they are still only at \$400 so they are only half of the average. If you combined the 2010-11 for Launceston we come up with \$397.

Mr CASH - If you look at the table on the right-hand side, a typical bill in Launceston is going to be between \$700 and \$900.

Mr MORRIS - Oh right, okay, that was just a fixed charge. So \$400 are fixed charges and then -

Mr CASH - \$658 is one example, up to \$813.

Mr MORRIS - So they are a little below the average but not dramatically.

Mr HIDDING - Are there large areas in your capture area that are on \$300 that are going to go to \$800? I am trying to understand the quantum of the price shock.

CHAIR - How much rebalancing is there?

Mr CASH - Launceston is about 50 per cent of our catchment and our next biggest council is West Tamar. So between those there is probably 70 per cent of our customer base.

Mr HIDDING - You do not have to move them that far, so the price shock challenge in this corporation is not as big as elsewhere?

Mr CASH - There are still some reforms to be done on the tariff design.

CHAIR - I think, Mr Hampton, you mentioned yesterday there was a figure provided in Hobart which was the cross-subsidy from business to residential and it was given at

\$10 million at the hearing but I think you mentioned that it might be closer to \$20 million.

Mr HAMPTON - I think yesterday I clarified and said that we thought it could be closer to \$20 million.

CHAIR - What is the cross-subsidisation?

Mr CASH - We have not tried to quantify that. It is very difficult issue to try to quantify. From our customer data it is somewhat difficult to even isolate which ones are commercials.

Mr HIDDING - It would be substantially different because of the policy settings, would it not?

Mr CASH - Yes.

CHAIR - Is that why you said a minute ago, 'Our CBD in this town was more complicated than Hobart.'?

Mr CASH - No, I think it is more complicated than Cradle Mountain's because they have smaller cities. I think Hobart's would be far worse than here.

Mr MORRIS - Rather than calculate what the problem is, just try to get it out of the system and put your focus on that?

Mr CASH - Yes.

Mr HAMPTON - The common chair asked the common question and two places were able to and the other one explained that it was more difficult in their space. If you recall, yesterday we provided a number of \$3.5 million to \$4 million. On the coast there was the adjustment, maybe \$18 million, \$19 million, and in the south we do not have the number here.

Mr CASH - We could estimate that number.

Mr HAMPTON - But you could not tell us how confident you are about it.

Mr CASH - No.

CHAIR - Would we be able to ask for that estimation, just to get some understanding of the quantum? In regard to the differences between different municipalities, we obviously have in front of us West Tamar and Launceston and it appears, looking at similar properties here, that they are relatively close. Am I right in saying that the West Tamar house would pay \$789 at the moment, at full price, versus \$724 in Launceston? Where do the other seven municipalities that you are responsible for sit?

Mr CASH - I do not have the data at my fingertips but I think it is fair to say that Break O'Day's charges are relatively high, certainly higher than West Tamar's. I know from personal experience.

Mr HIDDING - It all comes down to that doesn't it?

Laughter.

Mr CASH - I suspect that some of the other country council areas are probably lower.

CHAIR - Are there any that are significantly lower that you are aware of?

Mr CASH - I think some of the small towns that only have water are quite low. But the service level is relatively low when they have fully untreated water. We have to be careful comparing the numbers. The service levels are not necessarily the same because some only have one of the two services and then a lot of those have untreated, permanent boiled-water notice water supplies.

Mr MORRIS - Will you able in the future to set different tariffs for different service levels? For example, in a town where you haven't been able yet to put in a new water treatment plant will you be able to have a differential charge whilst still accepting the principle of postage-stamp pricing for the same service? Will you be able to do that in the case of, say, Avoca or Fingal.

Mr HAMPTON - Yes.

Mr MORRIS - That's probably very reassuring, but if they get a new treatment plant then their pricing will come; if they get the same quality water they will get the same price?

Mr HAMPTON - Yes.

CHAIR - Is it possible to be provided with an organisational chart across the four corporations? It's something that we haven't asked for, but if we could have a breakdown in regard to line management and the number of employees. One question came up yesterday, which was a surprising one from the West Coast Council, and I wanted to know whether or not this had occurred here at all. They informed us that they were concerned that they had council employees who had transferred to Cradle Mountain Water who had been paid \$45 000 as a council employee and were now working effectively in the same depot and were now being paid \$60 000 to \$70 000. They said that that was creating some angst for their council staff. Could you explain, firstly, the number of staff you inherited and how many you still have on board and, importantly, what occurred in regard to rates paid?

Mr HAMPTON - Might I speak globally first and then Barry speak about Ben Lomond specifically?

CHAIR - Yes.

Mr HAMPTON - In each of the corporations we have moved to try to have a common platform. It would not surprise you, I think, that in negotiating with our employees and their representatives, largely you look for the highest common denominator. The employer might have a more balanced view but that's simply how it works out, whether you like it or not. We had some hope, for example, that by seeking to do it on a

individual corporation basis at least it would only be the highest common denominator in the region. But as we found, perhaps not unexpectedly, across the regions if there is an anomaly and someone is being paid more or has slightly better arrangements then the employee representatives in the other regions are looking for the same. We sought to try to negotiate a sensible outcome from the point of view of the three corporations but in some cases we were simply stuck with a situation where a number of employees who were doing the same job were being paid a significantly higher rate.

Mr CASH - As our chairman said, each of the corporations has been in the process of negotiating a single end-price agreement to unify conditions because one of the difficult cultural issues in each of the three organisations is that we have people doing the same jobs being paid significantly different pay rates and under different conditions. To date, our staff have been operating under eight different enterprise agreement arrangements. The other two regions have signed and have in place new enterprise agreements. We had a vote this week for our enterprise agreement - and I have been looking at my phone to see if we have a result of our vote because we have industrial action in place if we don't know - but it is true and relevant that when you align eight different enterprise agreements into one there is a bunch of people who get very little out of that realignment and a bunch of people who get a substantial amount and it is an inevitable outcome.

Mr HAMPTON - And whether it be in this sort of semi-government space, government space or in private enterprise it is generally the same outcome. It was a price that was going to be paid as part of the restructuring process.

Mr CASH - In relation to the numbers, we started with 152 FTEs and we currently have 182 FTEs. From memory, due diligence indicated there was around 190 working in the industry in our region previously.

Mr HIDDING - So all three of them have come back up to around about where due diligence showed.

Mr HAMPTON - And largely because we did not get all the skillsets that came across.

Mr CASH - And we are doing more work. We have a much greater capital works program and are living in the regulatory environment.

Mr HIDDING - Is it your assertion that Ben Lomond Water has a far greater capital works program than all the other councils put together?

Mr CASH - No doubt.

Mr HIDDING - There is no question about that?

Mr CASH - No question.

Mr HIDDING - Could I ask Mr Hampton or Ms Pillans to provide for us a similar rebalancing statement for Southern Water?

Ms PILLANS - Yes, it is underway.

Mr HIDDING - It will come to us in due course?

Ms PILLANS - In the next couple of days.

Mr MORRIS - What I am hearing from you is that if you were left to your own devices more so, and if you communicated with your owners directly rather than the indirect mechanisms now, and if the State Treasurer largely got out of the minutiae of the detail and said that at the whole level we'll cap your level of income and other than that we'll let you do the rebalancing, then you would be perfectly capable of sitting down with your owners and coming up with new billing arrangements that gave you the postage-stamp pricing, would allow you to sort out the differentials between customers without too much grief in terms of actually doing the process and that you would manage with your owners the angst that you know is inevitable in the transition?

Mr HAMPTON - Absolutely. If the Treasury, for example, caps the global revenue and we were then charged with managing that, we would take our pricing services plan to our owners and discuss that with them so that when we put it out we had their support for it. No-one might like it but it is really important that your owners are behind you in what you are doing and we would be very comfortable with that.

CHAIR - Thank you very much.

THE WITNESSES WITHDREW.

Mr JOHN MARTIN, GENERAL MANAGER, DORSET COUNCIL, WAS CALLED. MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR - John, welcome and thanks for coming.

Mr MARTIN - Thank you. I have apologies from the mayor, who was not able to make it.

I would mention, in view of some of the previous comments, that we did not change our rating structure before the corporations took over. We thought it was not appropriate to do so in terms of some of the comments that were made earlier. I just make that point so that you know what the story was with Dorset.

CHAIR - I wondered why you were not on the list. That explains it clearly.

Mr MARTIN - We addressed the terms of reference, so I am happy to answer any question there. There were probably three or four issues that we think need to be improved by the corporations with their owner shareholders. One of those is communications and you will probably hear a few comments about that.

The biggest issue that we see, and it is a point we wanted to emphasise, which affects everything to do with water and sewerage reform is the lack of attention that has been given by the water and sewerage corporations to pursuing financial assistance from the Commonwealth. I want to elaborate a little bit further on the comments that I made in the submission. Back in September 2009, Chairman Geoff Willis and I, along with a consulting firm representative, went to Canberra and met with the National Water Commission. We also went to Sydney and met with Mr Michael Deegan, who is the CEO of Infrastructure Australia, in relation to what the potential might be for some financial assistance to water and sewerage reforms in Tasmania. This has been mentioned all the way through the reform processes in the discussion that we had with the State Government and with the implementation joint steering committee chairman, Don Challen, and other members around the table. It has been a local government position right from day one that we did not believe that the water and sewerage reforms would be successful unless there was some financial assistance from some level of government. We did not see that the State was able to afford it and therefore we would have to substantiate a case to the Commonwealth, a special case for Tasmania which was different to anyone else. In that meeting with Mr Deegan in Sydney we were quite enthusiastic with the response we received, especially from the information that was given by the consulting firm that we had engaged. He thought that if there was a special case for Tasmania and it could be substantiated, they would certainly have a look at it.

On return to Tasmania, the draft information that was put forward by the consulting firm was discussed, I believe, by the water and sewerage corporations but it did not go any further.

CHAIR - Why do you think that was the case?

Mr MARTIN - I can only guess. I have been continuing to pursue this ever since and last year, as you are probably well aware, there was a submission put forward, for what it was worth, to the Commonwealth for \$220 million. What we were talking about a year

before that was much more substantial, much more research and development in terms of what it would have been able to produce for the betterment of Tasmania. Whether it was embarrassment or thinking we do not need it or whatever, I do not know the reasons. Local government thought that it was an extremely important issue because, as I have outlined in this submission on page 5, if we do not get some assistance it means major price shock increases for all people in Tasmania who have these services. You will not get the outcomes of water and sewerage reform objectives that were set down in the beginning. You just heard information from the chairman and representatives from Ben Lomond Water that that's clearly going to be the case. There will be lower priority normal dividends to the councils over a longer period of time. There will be consequential increases in council general rates and/or decreased community services because councils won't be getting the dividends they were led to believe they were going to get. All of those things are going to impact negatively on the whole Tasmanian community. In view of the situation about cost of living and those types of things, we think it's a very important issue and one that continues to be of extremely high priority. Unfortunately, almost two years later we are in a much more difficult position because of what is happened with the after effects of the GFC, the floods and all the other things that are happening around Australia, the financial position of the State Government and those types of things.

Mr MORRIS - John, could you provide for the committee a copy of the submission you made to IA?

Mr MARTIN - I can provide the committee with my notes about that. I can also provide to the committee the information that was provided by the consultants and the draft about the direction that they thought we ought to take in developing a type of submission of that nature.

Mr MORRIS - So there was not a formal submission put in relation to that?

Mr MARTIN - No. The consultant said, 'These are the types of things' - six or eight pages - 'that we think you ought to have a look at' - 'you' being the water and sewerage corporations - 'to develop a submission that was put to Infrastructure Australia'. They put a price on it of about \$63 000. For \$60 000 or \$70 000, why that wasn't taken up is just beyond me.

CHAIR - Can you just run through those dates again?

Mr MARTIN - The meeting was in September 2009.

CHAIR - And that was a meeting between yourself, your consultants -

Mr MARTIN - Jeff Lewis and Marsden Jacobs Associates, a Melbourne-based firm.

CHAIR - With Infrastructure Australia?

Mr MARTIN - Yes.

Mr HIDDING - Didn't you also do something on the NWA?

Mr MARTIN - Yes, over two days we met with the National Water Commission but unfortunately the commission didn't have any programs where funding was available. So, whilst they were very appreciative of our visit and thought it was very good, they weren't able to assist us, but IA was a different kettle of fish.

Mr HIDDING - Did IA suggest to you that you should be working through your State Government?

Mr MARTIN - Yes. In discussions I've had with the State Government on this issue, I found that it is very happy to support those types of joint submissions from local and State governments together, because both working together is going to have more influence than one trying to go it alone, but we still needed the imprimatur of the water and sewerage corporations to take it to the next level - in other words, do the work, put the submission together, see the State Government and Treasury and then put the submission to the Commonwealth.

CHAIR - On what basis do you think the water and sewerage corporations didn't progress that? I can hardly see them feeling embarrassed because they've got their hand out for extra cash.

Mr BEST - They thought it too much, didn't they?

Mr BACON - No, that the ask wasn't big enough.

Mr MARTIN - The ask that local government has been talking from day one is \$350 million over 10 years. It's over a long period of time, they're not asking for all this money at once. We fully understand that a huge capital works program is required. It's not more like \$1 billion, it's probably more like \$2 billion.

Mr MORRIS - So it's between 15-30 per cent of the total cost that would come from the Commonwealth.

CHAIR - Why do you think they didn't pursue it vigorously? It would appear to be getting cheap capital with the State or Federal and the Federal Government certainly had a lot of money at the time, so why didn't we pursue that vigorously?

Mr MARTIN - As I said before, I can only imagine that it might not have been seen in a good light by the corporations to have water and sewerage reform with three corporations and now we are going to go cap in hand to the Commonwealth. It may be that they thought it would not be seen well or it may be that they had other priorities at the time or it may be that we had to do further - I don't know. I never got the answer. I had extensive discussions, e-mails and correspondence with the chairman on this matter and Dorset actually put forward, as is shown in the appendices, to the Local Government Association a number of resolutions which have been unanimously passed by the Local Government Association of Tasmania along these lines. We thought, particularly for the amount of money that was involved, that it was a sensible and, more importantly, a very, very important issue to follow up. We might not have been successful but we might have been successful around that time, particularly as there were funding of infrastructure amounts being handed out for good social and economic reasons.

CHAIR - Last year a request was put forward for \$220 million, is that right, to Infrastructure Australia?

Mr MARTIN - Yes. It was put forward through DIER, through Treasury, but it is a request for a handout basically when you have a look at the information. What we were talking about was getting more information, doing some more economic and social analysis that is required for the community, for industries right around Tasmania which would have had, in my view, a much better chance of success.

Mr BEST - Instead of a handout approach, you reckon it should have been linked to something more strategic as to what we could do?

Mr MARTIN - Underneath it all it has some good economic analysis and some good cost benefit ratios.

Mr BEST - It is interesting that we have had some contributions about economic development and where it sits with the corporations and that is an area that has to be sorted out. I was just wondering whether that was something you were thinking about?

Mr MARTIN - One of the objectives of water and sewerage reform is to try to improve the water and sewerage services around the State for the benefit of the tourism industry. There is a lot of work that can be done around that sort of analysis. If you put it in a good submission and take it to the Commonwealth they are more prepared to have a good look at it rather than just going there with a handout mentality.

CHAIR - Could I ask a question about a view on the politics of what occurred. You would well recall Michael Aird as Treasurer in 2007 regularly talking up the \$300 million that was required from Malcolm Turnbull, who I think was the minister at the time. That figure was talked about publicly, it was in public discourse at the time that there was a need for pressure to be placed on Turnbull and then everything seemed to go quiet after the change of government. Did that have anything to do with it? Was the big stick, say, put away?

Mr MARTIN - It has always been local government's position and it has been resolved by local government at their conferences at their meetings by resolutions that \$300 million to \$350 million was required and it has always been put to the State Government in negotiations right from day one with water and sewerage reform. But, unfortunately, it is one of those things that has not in local government's view received enough attention. Treasury, through the implementation joint steering committee, was supportive of a joint approach but that is as far as it has gone, apart from what was put forward late last year.

Mr MORRIS - John, you may or may not be able to answer this as it concerns the history stuff: when Dorset undertook the building of its sewerage and water infrastructure assets that it handed over, it did it basically on a case-by-case basis and I know from my own council we sought on a case-by-case basis funding from either the Federal Government or the State Government to assist with those. Do you know what is roughly the relevant recent history that Dorset had in terms of getting financial assistance either from the Federal Government or the State Government in relation to capital works?

Mr MARTIN - Dorset has just been making representations for improvements to the Bridport sewerage and water schemes because they have reached capacity, both of them -

Mr MORRIS - Yes, I have seen that you have put estimates -

Mr MARTIN - and you will note that they are not in the forward estimates of Ben Lomond Water either for the next three or four years, as is anything else to do with Dorset, unfortunately, and we have eight 'boil water' alert schemes as well.

Mr MORRIS - Yes, that is right.

Mr MARTIN - That is a matter that we are taking up with Ben Lomond Water and you will note lack of communication there even though we did receive a letter in January, so we will be having further discussions. But getting back to your question, we were very confident at the time, as was the case with most councils when you wanted major upgrades to sewerage and water, that the only way to do it was to do it through existing State or Federal programs or do it on a political basis. Being a large part of Bass, we were talking to all political representatives about the work that was required at Dorset, particularly with water and sewerage schemes. Those estimates are provided in the information I have given to you. Just before water and sewerage reform came along we were fairly confident that we were going to be successful in getting some funds.

Mr MORRIS - Federal or State?

Mr MARTIN - From the Federal Government. It would have been probably a three-way joint thing. We would get it from some existing reserve; we'd borrow money and we'd get some money from the Commonwealth. We weren't going to go cap in hand and ask for the whole lot. We would say, 'We can do it to 50-50 or two-thirds and a third or something along those lines'. We were fairly confident at that time that we were going to be successful, but then along came water and sewerage reform. We thought that would put everything of that nature on hold so we participated in the water and sewerage reform like everybody else. We are still working towards getting those outcomes.

Mr MORRIS - But what happened previous to that on projects you undertook? Did you get, for example, State Government funds?

Mr MARTIN - Yes, we got both when newer programs came long, such as the Clean Water Program from the Commonwealth. We upgraded the Scottsdale water treatment plant for about \$600 000. I can recall getting money for some of the smaller schemes under the old programs, so whenever there was an opportunity to take advantage of programs that came along that fitted the bill, and there was a need in our community for improvements of that nature, we took all the opportunities that were there.

Mr MORRIS - So there was a tradition of your council being granted money by both State and Federal governments to support your water and sewerage infrastructure capital works upgrades?

Mr MARTIN - Yes, along with council funds.

Mr BEST - So prior to corporations in some ways you were in a better position as a local government to raise your case, or the case may have been easier put or understood or Canberra might have been a bit more sympathetic, whatever the combination is? When the corporation came in, that may have diminished the strength of the argument in some ways because people in Canberra probably saw this corporation and thought, 'Why can't they get on with the act?'. Then, to make it even worse, when they did put their hand up to ask for Federal money they basically said, 'We'd like some money to help us with this', as opposed to any real case as to how we can make it more sustainable and generate more income. Is that the key to the point you're saying?

Mr MARTIN - That's right. Whether it was Dorset or local government across the State, the same message applies: whatever funding we receive we want to make the schemes more sustainable on an ongoing basis so that you don't have to go back in the future. We think that applies across the State now because everything I have heard, read or been involved in right up until this day still points to major financial problems in all the water and sewerage schemes, particularly to meet the reform objectives and to improve the infrastructure that's required. When 27 wastewater treatment plants across the State don't meet the guidelines, and you have 45 'boil water' alert schemes and no meters in Hobart and the southern beaches are still like they were 20 years ago, there is a lot of money required.

Mr MORRIS - So you have five 'boil water' alerts - Branhholm, Derby, Legerwood, Ringarooma and Gladstone - for which you have estimates for the treatment plants?

Mr MARTIN - No, we have eight.

Mr MORRIS - But five of them are here on your list on page 3 of appendix A. You have price estimates for removing those 'boil water' alerts - \$2.5 million, \$2.5 million and \$1.7 million.

Mr MARTIN - Basically we have scoped out some of it. I agree with what Mr Cash said before. When you have a town of 20 people or whatever, then building a \$1.5 million water treatment plant does not really seem the sensible way to go. Some of those water schemes that we have are bore water. They do not have any bacterial problems, so why should they have a water treatment plant; they do not need one. As part of what we were doing when water and sewerage reform came along, we received \$75 000 from the State, which was much appreciated, and put our own \$75 000 towards it and we are in the process of doing a Dorset water and sewerage integrated water management plan which looks at stormwater and water and sewerage right across the municipality in every town. We subsequently finished that off and we gave that to Ben Lomond Water.

Mr MORRIS - Do you still have a copy of that?

Mr MARTIN - Yes. It is a fairly substantial document done by Hunter Water.

Mr MORRIS - Can you provide us with a copy?

Mr MARTIN - We are happy to do that. That makes some general recommendations about what should and should not happen and further investigations are required. The problem that Tasmania has is that it is in the regulations, in the legislation, that you have to

provide water of a certain quality with a chlorine residual. That is why everyone keeps talking about water treatment plants, even though, in my view, with some of our water schemes, you do not need them because there is no bacterial content. There are quite a few issues tied up in a lot of this stuff.

CHAIR - Ben Lomond Water are now armed with that strategic plan that the council developed. Do you feel that you received sufficient input into the direction of the corporation as it currently stands under the government structures that were established? As a council, do you feel engaged?

Mr MARTIN - No, as we have mentioned in our submission, we have some communication problem. I think even Ben Lomond Water or water and sewerage corporations have mentioned that themselves. The situation we have with working through our owner representatives does not seem to be a satisfactory one, though due credit to our owner representatives who are doing a good job.

Mr MORRIS - Who are your owner representatives and which councils do they come from?

Mr MARTIN - One comes from West Tamar Council. The other two are not in councils. One is an ex-general manager, Paul Ranson, and the other is an ex-mayor from George Town.

CHAIR - Mr Hampton did not go into in as much detail today but certainly yesterday on the coast and when we met in Hobart he put his forward his view as the new chair that, in regard to owner representatives, each council should be represented on a regional board or group arrangement. He is of a mind that common directors or common chairs are not working. In fact he made the point when he appeared in the south that he was wearing his Southern Water hat and then various other hats as he went around the State. He was of the view that each corporation needed to have its own separate board, along the same line as that with the Cradle Coast Authority with their water system once, and here in Launceston. What is your view on that? If it were to change from each council having a rep to a board without common directors responsible for that corporation, would that be an improvement?

Mr MARTIN - Yes, as we have alluded to in our submission. I agree with the comments by the chairman. We met with the chairman on 14 February. We have always been of the opinion that the three regional corporations are big enough and financial enough to look after their own affairs. In five or 10 years time maybe they will all operate on similar lines and it might be different, but at the moment we think they should have their own independent boards, their own independent chair and they should directly liaise with a representative from each council in each of their regions. I think that is what is in the submission that has been outlined by the water and sewerage corporations. We would support those views. I think that reporting back to owner reps from the councils is a far better way than going through somebody else. Then you get direct communication. It will improve the communication lines, which has been a bit of a problem. We understand that they had a lot to do in the first 12 months. They have undertaken a lot and we have made some positive comments in relation to the work that they have had to undertake, even with Onstream. Some of the comments that were made by Christine Mucha - and I presume that Dr Mucha has provided information to the select committee - from a paper that she presented to the Local Government Association back in November

last year, in our view, clearly outline positive performance of Onstream. We tend to go with the evidence that is before us rather than perceptions in relation to those types of things and even the information provided by Ben Lomond Water at the annual general meeting shows substantial performance. There are still plenty of challenges and issues out there, and I have just outlined one or two of them, and they still have regional pricing and stuff like that to undertake but the performance in 12 months is not too bad, in our view.

Mr BEST - We have ascertained about the Federal money. You have made your point but is there any other recommendation that you could make on the back of that point? I think we have the message.

Mr MARTIN - I think that the situation is even worse now than it was before. Ever since water and sewerage reform has been started it has talked about \$1 billion. As I said, from the information and my knowledge of the situation which is quite substantial you are looking at closer to \$1.52 billion to \$2 billion so the financial difficulties to meet the reform objectives are greater than they were before so even though finances are tight with State and Federal funding, we need to put together the justification in a submission for why there is a case to help because it is still going to be the same in five years' time or 10 years' time for that matter. Things might change around so if we have the submission together and the information there, you have the justification there that is different -

Mr HIDDING - The political cycles and all sorts of things.

Mr MARTIN - Political cycles turn around and if there is an election in a couple of years. I just think that it is something that really needs to be pursued for all Tasmanians.

Mr HIDDING - A good point.

CHAIR - Thank you.

THE WITNESS WITHDREW.

Mr MICHAEL TIDEY, DIRECTOR, FINANCE AND CORPORATE SERVICES, LAUNCESTON CITY COUNCIL, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR - Mike, thank you for your time.

Mr TIDEY - I have apologies from the Mayor, the General Manager and Mr Galea, who was the author of the submission, who had precommitments prior to this date becoming available. I am sorry for that.

CHAIR - In the time that we have, would you like to speak to the submission and then we can raise some questions with you?

Mr TIDEY - As I noted, Mr Galea was the author of the submission but I am happy to talk very briefly to three key points that he has canvassed there. Certainly under the first one we acknowledge that it is a major change and being personally involved in some of the transition groups, it was known to be a big ask; some of the dates were ambitious but there were commitments made. There was the change and the post-implementation issues, and I think billing has probably been talked about in different forums. Yes, it was a big change but significant progress has been made in those areas.

In regard to the role of the common service provider, and I heard some of the discussion previously, it is noted that there are a range of areas that are potential common services and that some of those have been taken up into Onstream. I think Mr Cash previously mentioned some changes that have occurred along the way and we are just keen that the greatest benefit is derived from any common outcomes, any economies of scale, and it would be remiss of me if I did not say for Onstream to operate out of Launceston in its most effective form.

The third point, which is probably the key one that Mr Galea wanted to touch on, is about the philosophy of the water authorities, and I am aware that there have been discussions in other places about headworks charges and the like. The specific issues that Mr Galea raises are about the need to balance longer-term outcomes rather than perhaps shorter-term issues or approaches. He cites some examples where a subdivision in the Northern Midlands was suggesting an approach of single pump stations for properties rather than the provision of a service across the whole subdivision and whilst it may have been cheaper in the short-term to have those single operations, there are concerns that they would not be maintained by the property owners and that a better long-term outcome was really an authority-provided service.

It is really just saying that it is early days but with the need to have that commercial test in the decisions that are made, make sure that it is not just a short-term assessment, it is a longer-term assessment of the most effective way to provide that infrastructure.

That was really the nub of the submission. I am happy to take any questions.

Mr MORRIS - Do you think the issue of the philosophy of the water authorities is best addressed by having a closer relationship between the owners and the authorities so that

the authority reflects the collective philosophy of the councils rather than necessarily having its own?

Mr TIDEY - I think that is one solution. I think the other part that is alluded to is whether the brief of the authorities is seen to steer them in perhaps a narrower way and so a broader interpretation of that or, if necessary, a bit broader description to recognise that those overall outcomes might also complement those discussions.

Mr MORRIS - The example used at the end of the submission regarding the gas pipeline is obviously quite significant. How does one make an assessment of when does a trench open, when do you put a gas pipeline in and when do you not? Obviously, if there is more or less an immediate prospect of putting gas through there, the answer should be yes and the corporation should be able to recover the costs associated with that. But should it wear the cost of having to pay for the pipe and then recover it later?

Mr TIDEY - There are always challenges in coordinating those infrastructure rollouts but digging the trench is this cost.

Mr MORRIS - Yes. So a closer relationship between the owners and the corporations certainly will certainly assist.

Mr TIDEY - Yes, and the scope to explore those issues rather than perhaps a narrower focus.

Mr MORRIS - I would like to hear Launceston council's view of the situation in the city here of the combined sewer-stormwater system and how the council views that in the long term. Obviously the assets have gone across to Ben Lomond Water at the moment but if there is an opportunity or if there is a decision to separate them, then the stormwater will come back to the council. How does the council view the situation?

Mr TIDEY - Many years ago there was an investigation done into the cost of separating that infrastructure and the decision and the conclusion reached at that time was that it was not cost-effective. There was advice to suggest that the first flush of a stormwater event is more toxic than a sewerage event and so there was merit in being able to treat that first flush of urban stormwater. So, for both cost and environmental outcome, it was not considered as the approach. That recognised that there was not going to be treatment capacity then to deal with the ongoing flows and so the work that was undertaken was in the Margaret Street pump station and at the Teatree Bend treatment plant to try to deal with those events and manage that first flush particularly.

If there is a view that it is cost-effective to separate, then council would certainly consider that on its merits at the time. Part of the process was to recognise the fairly unique and I think in Tasmania perhaps us and West Coast might have some combined. Overseas it is not as uncommon, I understand. Some say that the combined is really predominantly a sewerage service. It may have some volume issues around stormwater, but it is providing that sewerage service so it was defined as part of the service that went to Ben Lomond Water.

Mr MORRIS - In terms of treatment it's a sewage treatment service predominately but in terms of volume it's a stormwater disposal service predominately. If, for example, there was separation and the stormwater assets were handed back, presumably the existing

treatment plants would be handed back with them and therefore you would be able to deal with the first flush situation.

Mr TIDEY - I don't think that could happen because they are wastewater treatment plants. You can't hand back half of Tea Tree Bend.

Mr MORRIS - No, I understood you would get the whole lot.

Mr TIDEY - But then where would the treatment of sewage go?

Mr MORRIS - A brand-new one, presumably. That's my imagination, anyway.

CHAIR - Subject to getting that large lump of Commonwealth money.

Mr MORRIS - Yes, of course.

Mr HIDDING - Can I take the conversation to the arrangements at the Launceston City Council in 2007-08 and 2008-09. For Mr Tidey's sake I will place on the record that I know you have been at the Launceston City Council since 1985 and you have been a senior executive in Corporate Services that whole time so you do have a historic knowledge of decisions made on rating over the period. To introduce the question to you I need to say that there was a period in which a due-diligence arrangement was done by KPMG for the State Government as to just where councils were on certain things, and certain business models were decided on that due-diligence information. There was after that a period between that and the actual establishment of the new corporations, during which some councils appear to have engaged in what has euphemistically been called by the water corporations 'rebalancing' of some arrangements. A cynical person could take the view that that rebalancing took place in order to manipulate dividends or to affect them materially, whether priority or otherwise. In 2007-08 the domestic sewerage rate for Launceston City Council was \$340. The year before it was \$315, but in 2008-09 it was reduced to \$244 per domestic tenement. In your history at the Launceston City Council have you ever seen a reduction in any sewerage rate from year to year, let alone a reduction of 28 per cent in one year? It went from \$340 to \$244. It's a little unfortunate you are here on your own but you are the one who has been sent along so I need to ask you that question. What was on the mind of the council and the officers who recommended a reduction? Was there ever, in your experience, a reduction of any size in a sewerage rate?

Mr TIDEY - I am very happy to answer because I'm the officer who recommended it. If you go back to two-part water pricing changes, there were quite some challenges in getting the public to accept that there were no longer free allowances for water, that all water was charged, in spite of what the dollars translated to in bills; it was a reaction to that. It took some time to make the charge for volumetric water significant, so I started at 35 cents a kilolitre. Over a number of years, as part of that change, there was a need to look at the balance between fixed and variable charges. Then, as those issues started to move on, we were moving to our own 10-year plan that had the financial sustainability of council out into the future with both water and sewerage still provided as part of that plan.

The model we had changed some of the pricing mix. It had increases in real rates and increases in volumetric charges and that plan had a balanced position over 10 years including the upgrades of water and sewerage that we were planning. We then had the revaluation of the municipality in 2006, which occurred in conjunction with the change in the definition of assessed annual value and which produced a shift from commercial to residential properties, and a residential property boom which was not uniform and which spiked in particular suburban areas. At that time our rating structure for water and sewer, for sewer particularly, was all value-based, all rate-based. For water we had a mix of a fixed charge, a rate-based charge and a variable volumetric charge. One of the decisions that was taken to respond to that increase in rates was to say that we would move to a charge for residential properties for sewerage services and the \$340 that you refer to is the residential charge for sewerage services.

The result of those changes was that our sewerage and water operations, and as part of this 10-year plan, moved into surplus. Related also to this combined issue that you had, we were rating for a combined service. We have never had a separate stormwater-only charge or rate. The non-combined is rated through the general; the combined was rated through the waste water charge for sewer and water. Our process then was to recognise that some of that surplus went into the overall mix of funds that were provided and used in total in a budget sense. They weren't allocated to sewer and water in isolation. The 10-year plan looked at the works that needed to be done in an overall council priority sense and not in an isolated sense of this funds this and this funds that. It was about merits in the long-term program and where the works needed to be done.

Prior to that - and I think at the time Mr Hidding was involved in council - there had been some major upgrades of the Tea Tree Bend treatment plant, so there had been a focus on sewer and water. The Margaret Street detention basin was another major piece of waste water and stormwater infrastructure that occurred - upgrades to the main down Margaret Street. What I am trying to convey is that over time certain things happen. Margaret Street was an \$8 million job and over the tens of millions for Tea Tree Bend, so you don't have the same amount of money every year to all those. You have priorities and you have different phasing and accumulations occurring.

If I come back to now, we had reached a point with the outcome of the revaluation and the distribution and were saying that we needed to have a mix of fixed charges and variable charges. We had a situation where in the base periods used originally in the analysis we weren't making surpluses from sewer and water, whereas we had moved to making surpluses from sewer and water with this combined charge. I recommended to council, and council adopted, that we look at the mix of that fixed charge so that we avoided a shock for the community after the change to water and sewer. We introduced a general charge and the amount of the general charge corresponded to the reduction in the sewerage charge. It also related to our looking at this surplus in sewer and water, saying that part of that is really related to our general activities and not to sewer and water activities, so the result that we handed over to Ben Lomond Water was still an operation in surplus. The fact that we are now going to be in the priority pool recognises that we were handing over a surplus, that the original calculations were done on a base period which was too remote from the changeover date. It should have been done based on the actual figures at the time of changeover. I understand the need to anticipate and for people to have plans, but so that all the councils were assessed at the year on what they were actually handing over, it needed to be moderated again, based on the 2008-09

results, rather than the base period that occurred prior to that. But we would say that we definitely handed over an operation in surplus, but we recognise that we made an adjustment around the roles that we had, post sewer and water, and the need to have a rating structure that had a fixed component and a value-based component.

CHAIR - What happened to the general rate in that year? What percentage increase was applied to that? You said that part of the reason for the adjustment was so that there would not be future price shocks after it had been handed over. My understanding from the earlier modelling that was conducted and then updated by the Economic Regulator was that that demonstrated that Launceston as a municipal area would be requiring over a 104 per cent increase I think it was in the overall quantum that was paid for water and sewerage by Launceston ratepayers to bring them up to full cost recovery. That same document, for example, indicated that there was around a 45 per cent increase that was required for the ratepayers of the West Tamar Council to bring them up to a full cost recovery model. I am wondering how reducing the rate as you did at that time has provided any protection for future price shocks when the Economic Regulator's modelling indicated that Launceston would be one of the council areas that would have the most significant increase. I am very interested to know what happened to the overall revenues of the council in that year and whether or not the general rate was adjusted to take into account that massive reduction in sewerage.

Mr TIDEY - I do not have those numbers straight to hand but I can say that the total rate revenue was not about changing. It was about changing this fixed charge that was previously a sewerage fixed charge into a general fixed charge. So it was about saying that it is the same total and the bill that the ratepayer received still had that same total but it had a lesser sewerage charge. Now it had a general charge.

Mr MORRIS - The effect of that in very, very basic terms was that you stripped out \$100 from each property from the sewerage charge and put it into the general charge which meant that after the separation the income for Ben Lomond Water would be \$100 less than the initial due diligence expectation because they did not know that you were intending to do this change, and the Launceston City Council maintained in effect \$100 of the money that formerly was paid through the sewerage charge which would have been handed over. That is the effect.

Mr TIDEY - Yes. That is it in part. It glosses over the fact that we had also increased the volumetric charge for water and we had increased sewerage rates and water charges generally. What you say is correct but it is not the whole picture of the change or the base that we handed over as revenue from the municipality.

Mr MORRIS - I note that you have a 6.3 per cent increase in the water charge for that year. So, yes, there was an adjustment which meant that in fact they got slightly more than what the due diligence suggested, but only very fractionally.

Mr TIDEY - What I am saying is the due diligence was back in 2006 where we had this plan that we had implemented and sewer and water had gone up in the intervening period, so we were handing over a higher base than that due diligence.

Mr MORRIS - That was 315 on this basis, so rather than put 340 back to 244, we have 315 back to 244.

Mr TIDEY - But in total we handed over an operation in surplus with a plan that was funded and it did not undermine their capacity going forward.

We have had some comments over the years from reviews and comments on our operation. Under the water and sewer, which were the significant businesses, there was a view that we were undercharging and so part of the plan had been to increase that. Did we agree that it had to go to the higher parameter? The modelling you had to do, or the reporting you had to do, talked about - I think the acronym was ARMCANZ - guidelines where they talk about a 2 per cent return or a 7 return. We had not accepted that we have to be at that 7 per cent return. We said the parameter for us had to be an affordable 10 year long-term program, and if that did not require us to go to 7 per cent then we were about managing it in total rather than achieving a rate of return which is now being questioned in the pricing order guidelines; you have to go to 7 per cent. That was the same discussion we had then, and we said the important thing is that it is fully funded over a period of time, not that it reaches that arbitrary guideline. That meant some increases. Would we say that it had to increase 104 per cent? I don't have the figures to debate that, but I would say that clearly our plan was based on affording both the operational and capital upgrades in the medium term, so we would say we had a plan that achieved that outcome.

CHAIR - Can I just ask the question then in regard to the \$100 that was put into, you said, a general charge?

Mr TIDEY - Yes.

CHAIR - Is that the same as being part of the general rate?

Mr TIDEY - Yes. In legislation terms it talks of a general rate that can include a general charge and there are certain parameters around that charge. It can't be more than 20 per cent of your general rate. So you have a rate that is value-based. You have a charge that is on a per tenancy basis.

CHAIR - Okay. So Mr Morris' assertion a moment ago was that effectively what happened was that there was roughly \$100 that was shifted from sewerage into a general rate, and that after the change occurred that \$100 general charge remained with council as part of the general rate, and the corporations received revenues which were effectively \$100 per property lower than what had been assessed in 2006.

Mr TIDEY - No.

Mr MORRIS - No, 2007.

Mr TIDEY - They were \$100 less than applied at the year, which is 2009, handing over, and they were still in total providing a total revenue that was producing a surplus for sewer and water activities.

CHAIR - Accepting that the modelling at the time that was being discussed was based on that 7 per cent weighted average cost of capital, so it was well below that.

Mr TIDEY - I would really need to have the numbers, but what I am flagging is the baseline was 2006, and the modelling might have been done there, whereas we are talking about handing over revenue and rates of revenue at 2009, and those figures were different to the time -

Mr HIDDING - That year that you handed over, though, was the year that you made the reduction, so you knew you were handing over -

Mr TIDEY - We did it the year before, yes.

Mr HIDDING - and your evidence is that you deliberately made the reduction for a number of reasons, and you have explained your logic behind that, but a degree of your recommendation to council was to bring about a certain outcome for water and sewerage users in your municipality. You were in fact seeking to influence the amount paid to the new corporation. After all, it is not your business. Within a few months you weren't going to be running it anymore, and so is it not a bit peculiar, looking from the outside in, that somebody would change it on the death knock?

Mr MORRIS - As did several other councils, it would appear.

Mr TIDEY - I understand those accusations, allegations, but we did it the year before, conscious of that, because the total bill that you received as a Launceston ratepayer was the same bill and it was changing the mix, which is what you are saying, but it was recognising that we had increased those other charges to a point where there was a significant surplus. I think, in terms of financial responsibility to the Launceston ratepayers post-transition, you would say for us to put in a charge of \$100 a tenancy after, when at that stage we weren't part of the priority dividend calculation either, would have meant the total cost to the ratepayers increased significantly. We would have had no choice other than to do that. We've still forgone a year's dividend that we should have, we would say, been entitled to. So the representation that we have post sewerage and water would have been significantly disadvantaged and we're saying that Ben Lomond wasn't disadvantaged by that. It will say that potentially it might have been in a more favourable position, but we would say no, there was a surplus that was handed over so it wasn't disadvantaged.

CHAIR - I can accept some of the reasoning behind this but from a Launceston ratepayer's point of view it appears to me that on one hand my general rate was increased by \$100, a lower revenue stream was passed over to the corporations, which I'm now having increased at an accelerated rate - 10 per cent per annum over three years with potentially a price shock coming - so I'm paying an extra \$100 to the Launceston City Council in through my general rate. My lower costs associated with water and sewerage are being accelerated by at least 10 per cent per annum at the moment so I'm getting hit both ways.

Mr HIDDING - They will get the \$100 back, won't they?

CHAIR - They will, so I'm paying through the nose. This is from a ratepayer's perspective and, as I say, I'm not making allegations, we're simply trying to understand it.

Mr TIDEY - You are trying to understand it.

Do I accept that the 10 per cent increase is because of the \$100 reduction? No, I don't because -

Mr MORRIS - It would have been anyway.

Mr TIDEY - it would have been any way.

Mr BACON - It must be over and above what it would have been anyway, the \$100, because they have to recover that.

CHAIR - I think Scott has a point there because the global increases to the corporation's revenue were based on what they needed to increase their global revenue by to achieve the targets that had been set by the economic regulator. The fact that Launceston passed over a lower revenue stream obviously has an impact on the global revenue and therefore the base starting point is lower than what it potentially might have been, which has then contributed to the size of the increases moving forward that have been required. So it has materially had an effect. We've heard that a number of councils rebalanced and that millions of dollars worth of revenues were not received by the corporations that were expected. Aren't ratepayers getting hit twice?

Mr TIDEY - No Explain to me how it is a different outcome for the ratepayer had it not occurred?

CHAIR - In regards to the ratepayer, it depends on whether or not Launceston City Council could manage on its revenue stream at the time.

Mr TIDEY - No, it couldn't because it wasn't part of the priority dividend pool. The \$100 is \$3 million a year, so it would have been \$3 million a year worse off. The effect would have been that it transferred a revenue stream that would have been distributed across a greater region and then the Launceston ratepayers would have been hit for even more to increase the general rate because they weren't part of the dividend pool, or they didn't have - in your words - the rebalancing occurring prior to.

CHAIR - Is that as a result of the fact that Launceston City Council were cross-subsidising prior to handing over, which necessitated this shift internally?

Mr TIDEY - As I explained before, the fact that there was a surplus and it's applied across all priorities, yes, we were cross-subsidising. The biggest example of that that is talked about is Glenorchy, and they are championed as doing the right thing by cross-subsidising. So we come from a point where it was more at a balance, but all the regulatory guidelines and all the criticism had been that we weren't charging enough. We weren't meeting this higher ARMCANZ parameter.

Mr BACON - If the criticism is that you weren't charging enough, then you reduce the price?

Mr TIDEY - We changed the mix to recognise that there was part of the revenue that related to this combined service, and the stormwater part of that service as well, and that for the whole combination of factors, the new rating structure better reflected the responsibilities and the funding post the change than they did under our previous model. We'd say that

our previous model of pricing was too high for those and it's only when we'd made the change that it better mirrored our responsibilities.

Mr MORRIS - There are two things that flow from that. Now that Launceston Council is going to receive a priority dividend, presumably that will be reflected back into the rates in the next year or so, so I think you're in for a gain on what you have lost. The other thing about the stormwater is that you handed over an asset of combined stormwater and sewerage, and we acknowledge that it was primarily a sewerage system but the stormwater component went with it, and we heard from Mr Cash this morning that you are now in negotiations with Ben Lomond Water about making a contribution towards that stormwater component.

Mr TIDEY - Mr Cash wants to talk to us about that. I wouldn't say that we are in -

Mr MORRIS - But you just said to us then, if I understood it, that at least part of the reason that you rebalanced was that there was stormwater and sewerage - there was a stormwater component of the sewerage charge and that you separated that out in what you did but now Ben Lomond Water moves and treats your stormwater or this component that's within that catchment but, as of yet, they don't get any contribution towards that.

Mr TIDEY - Launceston provides stormwater as a stormwater-only service to a large part of the municipality. There are parts that are combined areas. There has been work done to have separation in some of those areas. The amount transferred isn't about transferring the stormwater revenue from those combined areas over, it was just recognising that there was this mix that historically had been part of our waste water charges, our -

Mr MORRIS - Right, so even though it was called a sewerage charge, it was actually a wastewater charge.

Mr TIDEY - The rating resolution talks about a stormwater and sewerage wastewater removal charge so it recognises the total -

Mr HIDDING - Can I ask a final question then? We hit the jackpot in having you here because -

Laughter.

Mr HIDDING - we went straight to the top. Thank you for that expert input there. I will need to re-read the *Hansard* and have a close look at that. I wonder whether you'd like to have a crack at explaining for your country cousins of the West Tamar who, frankly, didn't turn up at all today, why they also reduced, in exactly the same year, their sewerage charge by 23 per cent but also they went a little further and dropped their water charge by 19 per cent. Would there be an element of trying to forward protect their constituents there?

Mr TIDEY - You don't really expect me to answer that.

Mr HIDDING - I've given you the opportunity.

Mr TIDEY - I can't offer an opinion on what I think.

Mr HIDDING - I needed to get it on the record somehow.

Laughter.

CHAIR - Thank you for your time.

THE WITNESS WITHDREW.

Mr DAVID DOWNIE, DEPUTY MAYOR, AND **Mr ADAM WILSON**, GENERAL MANAGER, NORTHERN MIDLANDS COUNCIL, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Mr Gutwein) - Gentlemen, thank you very much for appearing today. We have read your very comprehensive submission. We would ask you to speak to it. You have roughly 30 minutes, so there is an opportunity for you to put anything you would like to on the table in regard to water and sewerage.

Mr WILSON - Can I just give you a summary of the document?

CHAIR - Yes.

Mr WILSON - Thank you for allowing us to put a submission in. The council has, over the past two years, had a number of issues regarding the corporations and how they have been set up, and how they are providing services to ratepayers within our area, within our region and the State. We see that there are mainly two areas of concern, which are in the administration and governance functions of the corporations. The administration side is in the water account billing. How can an organisation worth \$900 million take 18 months to send out accounts? The feedback from ratepayers within our municipality was quite strong over that 18-month period, because they are struggling, and we have all been struggling. To have accounts outstanding for that period of time, and to have over \$6 million in regional funds not being in the bank and getting interest, and that interest couldn't be put back into the corporation for other benefits, is quite hard on ratepayers that are struggling in our municipality. They are finding it difficult, now that they have received the bills, to pay, and the time lapse to pay those as well.

CHAIR - Adam, can I just ask you a question there? One thing we raised with the chairman this morning: my office is now getting a number of complaints from landlords who have had tenants where they have shifted in the last 18 months and the tenant has had a responsibility to pay the volumetric component. They now no longer are in those premises, and landlords are wondering where they go and what they do. Has that been an issue that has been raised with you guys as well, or is it simply the fact that the bills haven't come out?

Mr WILSON - No, that has been an issue, and also the issue where people have settled properties and believed that all the rates and fees have been paid for, and then they have received six months later a bill for the water and sewerage when they believed those took place at the time of the transfer, which was the normal practice up until 2009. I guess the other issue too is the debt collection side of it, and we are concerned that they are not taking that in a responsible manner and that there is no interest charged on overdue accounts. In talking to some residents, they are saying, 'Why should I pay when I am not going to be charged interest?' Therefore, as shareholders we are losing more money, because the outstanding amounts aren't in the bank.

Mr DOWNIE - I think the point is that it is sending a signal out to people that we are not fair dinkum about running this business in an efficient way. If the bills are going out late, there's an extra organisation, the fourth tier, to send the bills out, another bureaucracy, the whole thing is sending a message to the people that this is not run in an efficient way. I think that is part of the point we're trying to make.

Mr WILSON - And that is part of the point, too, when talking to ratepayers and Rotary, those sorts of things, where I've given talks when I first started, one of the issues was they pay their account and then two days later they ring up to ask for a balance and they can't provide a balance. We're in the twenty-first century, if you're spending \$3.5 million on Onstream providing a service to the corporation in Ben Lomond's case, it's responsible, fair and reasonable if someone rings to ensure that their transaction has been received that they get that information straight away. They may only be small issues but on the administration side it shows that your organisation is failing.

Mr MORRIS – Do you think that the billing system that they purchased now and are getting up and running will allow them in the future, once it is fully operational, to provide that information in a timely manner?

Mr WILSON - In the lead-in time, the first six months, where most of the managers started in January of 2009, we constantly made them aware as we were going through due diligence and providing them with information, that they needed to get the accounts out in July, so they were aware of it. Yes, there were 29 different ways you could bill for water and sewerage. I was lucky enough to have worked on due diligence for Tasman, Brighton, Break O'Day and Flinders councils and yes, they all had different rating systems. I was talking with Danny Sutton at that stage because he was the head down south and with Barry in the north, and they just couldn't see the need and the importance of billing because they were coming from a technical background, and previously with Hobart Water or with Esk Water, they only ever had six to eight customers, so it was very easy to send out an account. But now you've got thousands of people -

Mr MORRIS – Yes, 220 000 collectively.

Mr WILSON - It is difficult, but one of the things for a council, and smaller councils - I'm still the accountant at Flinders Council through a resource sharing package with Northern Midlands - one of the most important things is to get those rates out and to get the money collected within that first month, so that you know that all the money is going to be in by September so that you can budget. Especially when you are talking about projects and significant amounts of money, there could be another capital works project undertaken.

Mr DOWNIE - I know in our council 60 per cent of the rates are paid within the first billing period, 40 days; we earn interest on that, that is a source of income. That is the source of income that the water bodies are losing. It is just a signal of total inefficiency that you are sending to the people.

Mr HIDDING - They would say to you they started with a zero billing. They walked in and they didn't have a billing system.

Mr DOWNIE - Yes, they did. The existing councils were -

Mr MORRIS - Yes, doing it on their behalf. They didn't have it, they still had to use the billing system that sat within the councils.

Mr HIDDING - It is a point well made. They are clearly concentrating on getting bills out, let alone charging interest on them.

Mr WILSON - But there were only five billing systems in the State. There were only five programs.

CHAIR - Why then has it taken so long? What has been the major issue? If there are only five billing systems in the State covering the 29 municipal areas, why then wasn't it as simple as just getting it out? There was a 10 per cent increase on what was under the IPO, so that was standard.

Mr HIDDING - The bills were water, weren't they, not sewerage?

Mr WILSON - At that point in time, yes, it was just 10 per cent, and then there was another pick-up in about November that year. I guess they saw it more as a function, and I believe they are doing a good job in the engineering and technical service, the maintenance side of it and the capital works that they are doing, and that was the biggest focus for the water authorities at that stage. They are achieving that. They're achieving capital works a little bit slower than we'd hoped but billing-wise they didn't seem to see it as being important, I think.

CHAIR - Can I move, in the interests of time, to the issue of governance. The Chairman, Miles Hampton, has presented before us three times. In respect of governance, what he as the new incoming chairman has suggested that needs to occur is that there need to be local independent boards, without there being common directors, and that rather than there being representatives of the owners under the current structure that each council be represented as part of some form of local advisory group directly linked to the local independent board of each corporation. Would that fit with your thinking?

Mr DOWNIE - I think one of the problems that had been there before is a lack of accountability back to the community. If this new governance structure as suggested creates more accountability then that has to be an improvement. At the moment and in the past I think one of the criticisms is that there was no accountability or there was a lack of accountability back to the people who the services are being provided to. That causes problems; some of those problems are inefficiencies and inefficiencies lead to higher costs.

Mr WILSON - I guess it would also give an avenue within the region itself. Through NTD, we have been trying to get Barry Cash along to talk to us so that we could understand his frustrations regarding some of the capital works programs, but also to understand the regional needs. As a region, we are trying to develop our own strategic plan and everything like this and we do need the water and sewerage authority to be on board because without their services we can't supply water and sewerage to the greenfield developments in the outer Launceston area. That's helping the economy as well so -

CHAIR - Did Barry turn up?

Mr WILSON - He's been to one meeting I believe, but I couldn't tell you.

Mr MORRIS - The impression I get is that he is being pulled in this direction and that direction and still having to run the company and there just aren't enough hours in the day. That is just the impression I'm getting. There are lots of demands on the CEOs.

They have multiple board meetings. We know he's on Onstream as well and who knows what the demands are there.

I want to follow through with the infrastructure and, David, this really relates to your individual submission rather than the one we have just seen now. That is - well it's implicit in there - about trying to work out how it is that councils, as a stakeholder, other than just representing communities, actually get to argue the case for infrastructure enhancements within their municipal area and about how it is that you get an understanding of where they sit in the priorities of the region. We have just heard from Dorset that they have eight or ten relatively major projects which they think fit within the priorities, certainly of the billion dollars that was talked about by Aird. But when they talked to Ben Lomond Water, none of them are on the current forward plan so I guess that frustration, with the exception of Campbell Town, must exist at least for Northern Midlands as well. Can you elaborate on what you think needs to be done there to enable you to have the influence and to get the airing that you need?

Mr DOWNIE - At one of the first meetings that we went along to where all the councils met with Ben Lomond Water we had a list of questions; I think we were the only council that actually presented a list of questions in writing to the water board beforehand. But before we asked the questions, the then chairman stood up and said, 'If you wish to raise issues at this meeting, you have to give us three months' notice and there will be no lobbying. Lobbying is not allowed under this regime'. So that cut out any influence that councils had on trying to influence the water board on lobbying to have projects in their community brought forward. I was appalled; I thought that was not how government works. Lobbying is everywhere. We represent the community and we are there to push the viewpoints, which our community requires.

Mr BEST - I suppose the only thing I could say on that - I don't want to cut across you but you are shareholders as well, aren't you?

Mr DOWNIE - Yes, but we have no -

Mr BEST - Do you see what I mean?

Mr DOWNIE - Yes, definitely.

Mr BEST - So I don't know whether there is some entanglement in that you're getting your cut of the pie - I know you're not but technically you could - but then you could also be saying you want all this done and then somebody else can't be asking for the same but they're a shareholder.

Mr DOWNIE - I refer to the submission that I put in. I believe that there are too many costs incurred by these organisations to deliver the infrastructure that's required so that should be removed. In order to deliver the infrastructure that is required in the community, to stop the poo going down the streets or fix the treated water up, you have to reduce the cost. For the economies of scale there needs to be a capital injection and you need to have the returns to councils removed.

Mr BEST - We had a witness in earlier, just before yourself, and they were talking about their experience regarding what they had been applying for in the past. They'd been

successful on a number of occasions in acquiring funds, Federal and State, and they felt that the corporation had somewhat diminished the case to get Federal funds but more so in that the corporation didn't really run any sort of strong economic argument behind applying for the funding. I'm wondering what your views are on that.

Mr DOWNIE - I'd agree totally with what you're saying there. The history of water and sewerage infrastructure is that it is provided by local and other tiers of government. It's perceived that the cost incurred on small communities, or even communities like Launceston and Hobart, and the economic impact of those areas has a far greater impact on the economy of Australia so there should be money going back in to help develop that infrastructure. The water and sewerage bodies that have been created have put a blocker from attracting funds, and you've presented it - you can't argue for those funds if those funds aren't available. We were told when these bodies were being created that there would be a substantial capital injection from the start that would kick the whole thing off. You need \$800 million worth of infrastructure. If you can get \$200 million or \$300 million capital injection from the Federal Government plus the economies of scale, you will get the whole thing working, up and running very quickly. That hasn't happened and so we are looking at spiralling increases in the near future after the three years. I think yesterday you heard that down the north-west coast they're talking about doubling the water fees in seven years or whatever; it has to happen. I don't believe it's right for the people of Tasmania. They shouldn't have to put up with that.

Mr MORRIS - Would Northern Midlands Council be open to having discussions with the other councils about putting a capital injection into Ben Lomond Water? I know that compared to the north-west coast you could push over debt -

Mr DOWNIE - I'm talking about Federal, not local.

Mr MORRIS - Yes, I know. We know what the situation is and the Federal Government methodology is through Infrastructure Australia. The State Government methodology is presumably through direct talks with the State Government and the \$57 million or whatever it is, is some sort of vague injection into corporations in a roundabout way, but are the councils open to a discussion about putting a capital injection into the corporations to help them get on with the capital works program if you have an agreement over a capital works program?

Mr DOWNIE - Northern Midlands Council has always segregated the cost of providing assets from that area so we didn't ever cross-subsidise. I think that in the future - it depends on the opinion of the nine councils that are elected - we would want that to prevail. So we wouldn't want to be putting our other assets -

Mr HIDDING - So your capital expenditure program is quite separate from the operational side?

Mr DOWNIE - Yes. Operations are separate from capital expenditure.

Mr MORRIS - Your water and sewerage was separate from the rest of your operations, from your roads?

Mr DOWNIE - Yes.

CHAIR - We can come back to that point but I'd like to step over into governance again and the corporate structure for a moment. The chairman is openly talking about one representative from each owner council being on an advisory board, local boards. He has also mentioned that Onstream would potentially no longer remain as a corporation and that the purchasing arrangements be conducted in some form of joint venture arrangement between the corporations, but with no prescription, so that competitive tension comes into play in regards to purchasing. What would be your view in regard to that?

Mr DOWNIE – My view would be favourable. I think we would take it back to our council and that our council would look at it very favourably. The major concern is the governance issues, which have led to a lot of other problems and accountability. I think that structure that you are talking about helps solve some of those problems.

CHAIR - In regards to the dividend returning to council, do you think that should be there or not?

Mr DOWNIE - No. That is my view.

CHAIR - Is that the council's view?

Mr DOWNIE - We have spoken about it a number of times.

Mr WILSON - I guess as a shareholder we always would want a dividend back; they are our assets. There is a possibility that some of those dividends could be reinvested into future capital works.

Mr MORRIS - Isn't that a contradiction then to the statement you just made, which was that you don't cross-subsidise from one sector to the other? If you receive a dividend, you've got your water and sewerage sector then subsidising your general rates.

Mr WILSON - It actually would be an investment.

Mr MORRIS - But in effect it's the same thing.

Mr WILSON - Once we got out of water and sewerage, any dividends received from water and sewerage would go back into consolidated revenue because it is a dividend like any other investment that we have. We have \$10 million in the bank and the money that we obtain from that goes back into consolidated revenue, which is what a number of councils do. It would have to be a council decision as to whether we would reinvest.

Mr DOWNIE - Also the point is that it is small bickies in the way our council runs because we are not getting a lot -

Mr HIDDING - Glenorchy would have a different view.

Mr DOWNIE - Because they might be getting millions of dollars. And you have to appreciate that is how the Government was able to put water and sewerage together in the first place because the effects on each council meant that the councils couldn't unify

against it. The aim of water and sewerage reform is to be commended. You have to improve the infrastructure. We had a go and now you are talking about tweaking it, but it all should be looked at in a positive way.

Mr MORRIS - And we are.

Mr HIDDING - That is a good point.

Mr MORRIS - The reason I ask you is that I know that you don't have an overwhelming dependence on that revenue coming back from the corporations.

Mr DOWNIE - We might get \$100 000 or \$200 000 in three or four years' time. Our investments at the moment are making far more than that.

CHAIR - What about the forward capital works program? We had a submission from Dorset Council before lunch, which went to the need for a capital injection. The reforms were predicated upon some public discourse at the time in regards to there being \$300 million, or whatever the figure might have been, from the Federal Government. From where you sit and moving forward, one of the levers that the corporations have to play with in regards to reducing the cost to Tasmanians is obviously how they deal with their capital works program in the length of time. In the absence of a significant capital injection, how would you feel about that 10-year period that has originally been spoken about being 15 years or potentially 20 years?

Mr DOWNIE - I would totally agree. The prime objective should be to keep the cost of water equal to the cost of CPI increases and the system has to evolve to deliver that. That should be the prime objective. It is the same with the cost of power in the State. The cost of hydro should be pegged - the cost increases should be pegged to the CPI and water and sewerage should be the same. That puts accountability and the onus on the organisations to become efficient to deliver that outcome.

I speak from the experience of being involved with the Northern Midlands Council. When it was first formed it was broke and owed \$3.5 million. We made a directive that the rate increases were to be half the CPI increases. From then, 1993 until now, the average rate increases have still been less than CPI and we have now a huge amount of money in the bank and we have delivered a huge amount of projects. Most of the needs in water and sewerage in our municipality - treated water to Longford, Evandale and Perth; Cressy is underway; Campbell Town is underway - they were all deliverable before water and sewerage reform happened. I am speaking from being involved in a government organisation that can deliver those parameters. There is no need for inefficiency in government organisations.

Mr MORRIS - Getting back to your submission, David, you talk about this capital works program that has to happen, and how you say it should be independently assessed. Does it perhaps need some sort of peer objective criteria that are in writing, and then the list of all the capital works programs so that everyone can see where the priorities lie and argue the case as to whether their favourite project should be higher up the list or someone else's should be lower down, other than just a lobbying effort?

Mr DOWNIE - But also it comes back to different communities possibly having different demands.

Mr MORRIS - How do we determine that objectively?

Mr DOWNIE - Isn't it up to individual communities? It is the market. You let the people who can argue their case the best get the results that they require. Otherwise you have everyone on a level playing field, and you end up achieving nothing because you can't deliver all at once or all at the same time. You have to somehow orchestrate a timely manner in which -

Mr MORRIS - So the pushiest ones should get the go?

Mr DOWNIE - Well, how do you do it?

Mr MORRIS - Objective criteria is what I am suggesting might be appropriate.

Mr DOWNIE - One is that you have to go through the size of towns, so you start off with the biggest and then you end up down - how small are the hamlets that get treated water?

Mr MORRIS - It is those that have existing schemes that are the issue, or anyone who hasn't got it now getting a water supply, which is a different matter altogether, and probably outside our scope.

Mr WILSON - Can I just answer something there? We are looking within a northern region at the moment at road transport, and trying to identify the five top road infrastructure projects that the eight councils should be pushing so that we are all talking the same language and trying to obtain funding. That would be no different if the board and the eight representatives who are on the board changed. You would prioritise according to the region, because we are a region and economically we can only survive if the region survives.

Mr MORRIS - And not every council is going to get a gig.

Mr WILSON - That is correct. There are only five gigs. There are 20 on the whole list, but the top five that we are all going to fight for may not be in all the municipalities. They won't be.

Mr MORRIS - They won't be.

Mr WILSON - But they may cross.

Mr MORRIS - So you must have criteria by which you will arrive at those.

Mr WILSON - And we have.

Mr MORRIS - That is not a lobbying effort, is it?

Mr WILSON - No, it is a collaborative effort. We are working together to ensure that it is looking at the whole region, how the whole region fits together and how we will feed off each other, and a number of those would be joint, maybe councils.

Mr BEST - We heard from the corporation who said that things such as microbes in the water that could be particularly nasty or kill people are some of the things that they look at. Just in relation to ways forward, the fourth dot point down, set headwork charges at a rate to ensure future growth across the State. What would you be proposing?

Mr WILSON - Each system is different. Within the State, even though we have three corporations, within each of those corporations there could be 10 or 20 different water schemes. I guess the headworks would be separate on each of those water schemes, but it depended on the municipality at that stage as well. Some municipalities differ -

Mr BEST - So you are suggesting they should be different within a region, because part of the corporation is to standardise, isn't it?

Mr WILSON - Yes, it is.

Mr BEST - You're saying okay, there should be standardisation, but also there should be some arrangement depending upon what it actually is in each little place, so do a separate little deal on headworks.

Mr WILSON - The headworks are on a system that has brown water, for instance. If you took in, say, Whitemark or in our own municipality, if we took in Cressy or Campbell Town, where the water is discoloured, why would the headworks be a lot higher? It is the same there as in Launceston or Hobart or in Burnie. It is a totally different scheme.

Mr BEST - But that has been part of the problem though, hasn't it, in the past where people have done deals and the infrastructure hasn't been able to reach a reasonable level, and then we have people boiling water and all that sort of thing. You will never fix it if you did what you are suggesting. We are always going to have problems.

Mr WILSON - We are building a reservoir for \$10 million.

Mr BEST - I'm all fine with these negotiations on headworks, but I'm just not sure about the one we're -

Mr WILSON - I see it as a scheme not as a region.

Mr BEST - That is your belief and that is fair enough.

CHAIR - Just a question - and we are running out of time, so I will let you make any closing statements that you want in a moment - we had it put to us by the corporation yesterday and it certainly has been put to the members of this committee by a number of developers over time as well, about the headworks charge that the lack of flexibility and the lack of focus, if you like, from the corporations in regards to the economic development that are allowing certain developments to proceed perhaps more favourably, which is what councils have done generally in the past, where they have designated where they would like to see development and they have assisted. The

corporations are specifically restricted in by the legislative framework that they have to operate in, in regards to taking that economic development opportunity into account. It has been suggested that is something that should be looked at very closely so that they can take into account the economic development outcomes of decisions. You would obviously support that?

Mr DOWNIE - Yes. It is very important that Tasmania is allowed to grow and it is probably the only State in Australia that hasn't grown in the last 15 or 20 years. The population is still stagnant and a lot of the other States have a huge growth rate. That is still one of the key indicators and the policy on headworks has to be right so as to encourage more development.

Mr MORRIS - Doesn't it suggest, though, if what you are saying is true - there has been no growth in 20 years - that the policy might be seriously wrong?

Mr DOWNIE - Yes.

Mr MORRIS - Sorry, the past policy of no headwork charges across the north might be completely wrong.

Mr DOWNIE - It might be.

Mr MORRIS - If your assertion that there is no growth, which I question, is correct.

Mr DOWNIE - I think you have to look at - there are probably other factors that have held Tasmania back.

Mr BEST - I am really keen about that point you make about reducing administrative costs and delays, by allowing corporations to tender in the open market or re-sell shares with local government. That is probably not a bad idea, I can see how maybe there could be some savings there between yourselves, but I'm not sure how it would work but maybe that is something worth exploring.

Mr WILSON - I guess if they are looking at - as the Chair stated - removing Onstream, through discussions with the previous general manager at Launceston when I was at Brighton, one of the opportunities there was that Brighton did have a water management scheme, but they didn't have the manpower to do all the calculations and everything. They were looking at working with Frank Dixon that had the manpower and those two councils working together to provide that to Ben Lomond Water. Ben Lomond Water did buy the product of Brighton Council, but then they weren't allowed to use it. I guess resource sharing is about sharing our resources in as many ways as possible. We have an agreement with Ben Lomond Water to share their resources in times of flooding, so we have an MOA.

Mr MORRIS - They are human resources, they don't have any machinery?

Mr WILSON - They are human resources, but it is no different than their machinery or their technology or their engineering services. As general manager, if I'm the accountant for Flinders, I don't mind stepping out and doing that, so what is the difference with Barry

Cash coming to us himself and giving us advice - and the corporation makes money, the region makes money, the State makes money and we are using the resources.

CHAIR - A good point. Is there anything you would like to leave us with in closing statements, bearing in mind we have your submissions and we have them as part of the evidence.

Mr DOWNIE - Just very simply, improvements must be made but the increases in the cost of delivering water and sewerage should not be more than CPI and then that drives accountability and efficiency.

CHAIR - Thank you.

THE WITNESSES WITHDREW.

Mr PAUL RANSON, Mr PETER KEARNEY AND Mr LAURENCE ARCHER,
OWNERS' REPRESENTATIVES, BEN LOMOND WATER CORPORATION, WERE
CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Mr Gutwein) - Thank you very much for your time this afternoon. Is one of you going to act as spokesman?

Mr ARCHER - Paul will be our spokesman.

CHAIR - We would ask you to speak to any part of your submission or to make any points that you would like and then we will follow those up with some questions.

Mr RANSON – Thanks, Peter. Obviously you have had a chance to see our submission. It is not an extensive submission by any means. We wanted to really just focus on our role as owners' representatives and to make some commentary about how effective we saw those and just to talk about what some of the alternatives might be. Probably in prefacing all of this, it has been obviously an evolving process for everybody involved. The regional authorities have been a new arrangement and there have been a fair bit of consultation, discussion and different views about how we actually take those forward to be effective.

In the north - obviously we can really only talk about it from that perspective because that is our level of involvement - we think that overall, if you look at it from a big-picture point of view, the arrangements have been quite effective. There has been a big challenge for the councils having to move from having responsibility essentially for water and sewerage other than those that had already moved down part of the path with the old Esk Water Authority. So there had been a big challenge for them to let go of those operations and then to be able to effectively operate as the shareholders and having the owners' representatives as the interface. We had a role statement that was agreed between the owners' representatives and the shareholders and we think in effect that has progressed quite well. Notwithstanding there have been quite a few operational issues and there are obviously a number of matters of policy that have evolved as things have gone along, essentially we have felt as though we have been able to make reasonable progress with that. The biggest challenge I guess is the inability of the councils to have as much control as historically they would have been used to. That has obviously been a challenge.

Mr MORRIS - Don't they know it.

Mr RANSON - And their ratepayers. I guess the key issue that seems to have been coming through from an owners' representative point of view is the one about whether each council should have its own appointed representative, each council having a right to have someone as an owners' representative to sit around the table. We have made some commentary in our submission suggesting that if you look at it, the challenge that we see with each council having a specific representative is whether they would be able to act in the interests of the region rather than essentially have to act in the interests of their own council. The approach that we as owners representatives have taken and that we agreed with our shareholder councils was that we would respond to the majority view of those owner councils. We wouldn't prosecute on behalf of one council; we would prosecute on

behalf of the majority of the owner councils. That's where we see it has been effective. We have been able to look at it from a regional perspective so that's going to be the challenge when we start to get down to one representative for each council.

CHAIR - If there were eight owners reps around the table but you had a framework that was agreed amongst yourselves that you would, as a group in any deliberations with the board, only prosecute arguments that were agreed around the table in priority order, would that provide you with essentially the same outcome as you have at the moment? I note from your submission that having more people can be a bit like herding cats - not your words but mine. Would there be frameworks that could be put in place where you could manage a larger group of owners reps effectively?

Mr RANSON - I think you could. It's the degree of independence to which the owners reps would also operate. You could clearly create a majority view and you could put that forward and that's effectively what we do now but there is still a component of the role of the owners representatives where you are trying to form a view that is in the best interests of the region.

Mr KEARNEY - I'm not really sure, Peter, that the structure we've got now would be advanced by that process. It seems to me it would perhaps complicate it. The reality of life is that you get eight people, you get together and then someone has to represent that group. It may be -

Mr BACON - One thing that we've heard repeatedly is that there are communication problems between the water authorities and the councils, I suppose. I think they think that if they had their own rep a lot of that would be resolved. Could that be resolved without giving them their own rep?

Mr RANSON - The communication should be occurring at several levels. You have communication at the high level between the board and the owners representatives. Clearly, all that information that we are privy to flows back through to the councils.

Mr MORRIS - Can you explain how that happens? Do you go and meet? Do you split up and three go to particular councils you interface with, or how does it work?

Mr ARCHER - We don't interface with individual councils.

Mr MORRIS - Right.

Mr ARCHER - We will meet with all the council representatives and part of our agreement with them is that it is at least six monthly but we have been doing it at every opportunity after each quarterly report. Sometimes we don't get that opportunity; we send it out and we're doing it via print or e-mails or whatever. Certainly, we are sending out each quarterly report after we meet with the board and receive it for their comments and we will take them back when we meet the board. We are meeting with the councils at that level but we made it a policy right at the start that we were not to go out there and go round individual councils. We meet the representatives of each council, whether it's the mayor and general manager, and normally we try to work in with their NTD meetings here - the Northern Tasmanian Development Board - so that we're not bringing them out to another meeting unnecessarily.

Mr MORRIS - So that's different in each region, is it? The arrangements in each region are developed by their own region.

Mr ARCHER - I believe so.

Mr KEARNEY - We had some issues that people wanted to raise and we had a special meeting at the Town Hall with everyone being present. There was some robust discussion about issues but at the end of the day it was quite clear that where there was unhappiness in some individual situations that unhappiness was not shared more broadly. In that sense, if the unhappiness is just in the case of one or two, our role is not to lobby for one or two. Basically, if they all went away and got together and said, as you were suggesting, that we've got a view that we want you to take forward, then we'd do it.

Mr RANSON - We took a view that it was our role to take back their views if they related to policy. Then there is obviously the role a council has in its own individual right where it can effectively lobby on behalf of its residents for particular projects or activities.

Mr MORRIS - Lobby who?

Mr RANSON - The authority.

Mr MORRIS - Directly.

Mr RANSON - Directly, yes. So if, for example, it is a particular project to extend a water scheme, in our view the councils can have a role to go direct to the water authority and lobby the management or the board, or however the authority wants to handle it.

Mr KEARNEY - Generally the management, because it is an operational thing.

Mr RANSON - Our role would then be more about making sure that the actual authority had a proper process from an asset management point of view for considering particular projects. The council can lobby on behalf of its ratepayers for particular things, we make sure there is a good process and at the end of the day -

Mr KEARNEY - And make sure the processes work.

Mr MORRIS - Yes, because we heard from Dorset that they are frustrated that their projects do not show up on the forward capital works program for Ben Lomond - I think it is four year. I do not know that they were aware that they should lobby directly the management of Ben Lomond Water in order to achieve that or whether it does them any good if they do.

Mr KEARNEY - Yes, they know.

Mr ARCHER - I think every council would like to see its priorities higher up the list.

Mr MORRIS - Of course.

Mr RANSON - Clearly there is a lot of work that should always be happening between the authority and each council at a management level and within the organisation. If I go back to my previous time in local government, there was a lot of work when I was involved with the Meander Valley Council and West Tamar working directly with the Esk Water Authority, working directly one on one with the management. From my observations, and obviously I am not working in the industry directly, I think that is still yet to evolve fully to the group that it should.

Mr BACON - But it will do over time?

Mr KEARNEY - It should do. You cannot get around it; if you do not get the answer that you want then you can be concerned that the communication is not good enough. We have all been down that track.

CHAIR - The Chairman, Miles Hampton, in his address that he provided to us at the beginning of the southern hearing and which he followed up again in the north-west and which today we asked him to not go back over it again, there are a couple of things that he touched on from the governance point of view. He acknowledged as Chairman that a lot of councils appeared to feel disengaged from the current process. He also made the point that as the incoming Chairman he acknowledged the conflicts that existed in regard to the common directors and his role as common chair. He did nothing more than float this, but his view was that perhaps we should be moving to a model that had independent regional boards without common chairs or common directors and then with some form of better interface with the councils, whether an owners representative from each council is the right model or whatever, but some way that the individual councils as owners could feel more a part of the process. What are your views in regard to the governance issues in regard to the common chairman's role and the common directors and having regional independent boards for each corporation?

Mr RANSON - It is not an issue we have considered collectively, but my personal view is that I think there is probably is a value in having the board as independent from each other. I think there is a conflict that each common director shares and I can see in the future that each of these regional authorities may be looking for particular economic development opportunities and how do you actually extricate yourself from that if you have particular policy you want develop around it. I think that is, to me, probably the prime driver to suggest why you might want independent authorities.

Mr MORRIS - So does that suggest that the value that is gained out of that common knowledge across all corporations has, by and large, run its course already?

Mr KEARNEY - I think the setting up of this was an incredibly complicated exercise. I think it was vastly underestimated just how complex it was going to be. That's the first thing. Secondly, I think Jeff did a really good job, and I think those common directors probably were pretty critical at that time because there was a lot of commonality in the things they were doing. A lot of the policies they were putting in place, the occupational health, all that stuff.

CHAIR - If I could make the point, and Mr Hampton made that point, that was then and it served -

Mr KEARNEY - Yes, okay. But I would agree with Paul. I think we are at the point now where - I think a regional corporation for the northern region, the eight councils, probably would go some way towards it, because there would be a higher sense of ownership, and the common director thing is seen as the way in which you maintain a levelling effect across it. The other thing I would say is that we are relatively short on conflict in this region. People may say they are not happy, but the level of angst about that I don't think is as high as it may be in other situations.

Mr HIDDING - Can I just ask you a question on that? The view of the three of you, since we have started this process of listening to councils around the place and reading all of their submissions, there is a degree of organisational schizophrenia here with your owners in that some of them seem to have gone to a lot of trouble to shaft the new corporation before it was even born by the manipulation of certain settings within their councils - sewerage rates, water rates, bits and pieces - in order to try to protect their constituents from something they perceived was going to be a nasty outcome, and also to protect their own general rates with some manipulation on general rates and what have you, and now they are sort of saying they want more dividends and the rest of it, in spite of the fact that it could be argued - and it is in fact argued - by all three corporations that their revenues are under-performing by a long shot because of certain actions by certain councils. Do you think that your member councils actually get this stuff, that they actually own these things?

Mr KEARNEY - That is a fairly interesting question. Can I talk about West Tamar, because I have schizophrenia here. Interestingly enough, we only have one councillor on this group who was selected by the eight councils and, as I always say, if you are not happy get rid of me. West Tamar basically produced a dividend of \$2 million plus a year, and it had a highly effective water and sewerage system, so if you look at the reports you won't find any deficiencies that have to be patched up. Every sewerage pump station is double-pumped and double-chambered. Every reservoir has a roof over it. It just goes right across the board. In a sense it is a model about how you improve the environmental outcomes, because it has been done -

Mr HIDDING - Is there any chance, however, that that council actually reduced its sewerage rate by 23 per cent and its water rate by 19 per cent, just prior to going in?

Mr KEARNEY - No, I don't think so. I would need to know where that is coming from.

Mr HIDDING - We are not here to scrutinise -

Mr KEARNEY - No, and I have offered - no, I don't think so, and also because the water and the sewerage was not done on an AAV basis. It is done as a set figure, and it had to cover costs. In fact it had to deliver under - the other word that needs to come out in all this discussion is the word 'competition' policy. I know it has been forgotten about, but the West Tamar scheme was rigorously following competition policy guidelines, and that is why there was a return on capital.

Mr MORRIS - That is right, which is now reflected in the priority dividends which you -

Mr KEARNEY - I would have thought competition policy is still a policy.

CHAIR - To provide some context to Mr Hidding's comments, the water and sewerage corporations provided a list across the State. It is not exhaustive yet, we are still waiting on the southern list, but in the corporation's view there are a number of councils that at a very basic level increased their general rate but reduced their water and sewerage rates in the period between 2006 and 2008 when the handover occurred, and that has significantly disadvantaged the corporation, but that's -

Mr HIDDING - After the priority payment thing had been set.

Mr KEARNEY - Certainly the figures for West Tamar go back some distance. I do know that we increased rates at one stage because we didn't have any certainty around the dividends.

Mr HIDDING - We probably shouldn't go there because it is a sandbag to a degree.

Mr KEARNEY - I'm sure the general manager or the mayor or the council would deal with those issues, but they have never been raised.

Mr HIDDING - They were invited today and declined.

Mr RANSON - Coming back to the initial question, the council's belief they actually own the authorities.

Mr HIDDING - Yes, do your councils believe they actually own these things and have any feelings that they actually want these things to perform and return a dividend and the rest of it?

Mr RANSON - I think they do and I think a lot of issue has been more about the frustration in getting certain things to happen. But in saying that, I think the councils have also been quite supportive and realistic about the financial outcomes that Ben Lomond Water has been able to achieve to date. I think there is some scepticism and concern about whether the weighted average cost of capital targets are really realistic and there is also some concern about whether the bigger agenda, which was about delivery of water and sewerage to some very small communities, whether that is really affordable or realistic in the time frames that have been set.

Mr HIDDING - We got a lot of submissions too that suggest that these councils could still be doing it better. At some stage they are going to have to build a bridge and get over it, these councils. They now own a share of a common corporation.

Mr RANSON - I can only talk from my experience going back to Esk Water days and say I think there was a very compelling case to show that the expertise and the building scale in that particular operation were delivering significant benefits to the smaller councils. Let's face it, there are very few large urban councils in Tasmania, so my gut feeling is there will be significant benefit. We are already seeing it. It is always very difficult to necessarily give a tangible number around it.

Mr HIDDING - Just for the record, another thing we've had from all three operating organisations is that the assets that were handed over were essentially in a disgraceful condition and that they are nowhere near -

Mr KEARNEY - Not from West Tamar.

Mr HIDDING - Which is exactly what they all say in their submissions. Other than ours everybody else's was in dreadful condition.

Laughter.

Mr KEARNEY - You go back and look at the corporations' own reports and look at where they have had to make it up. I guess that identifies where there were deficiencies.

CHAIR - Without bringing West Tamar into this, I think it is fair -

Mr KEARNEY - Paul did a really good job in West Tamar.

Mr BEST - It is hard when they say there is not one sewerage plant that complies with their -

CHAIR - The view from the corporations and from Mr Hampton at all of the three meetings has been that in only around 30 to 40 per cent of the time the sewerage systems - water is not such an issue - but sewerage systems actually comply not only with contemporary standards but with the original licence conditions.

Mr HIDDING - That includes the brand-new ones at Burnie. It is bizarre.

CHAIR - They raised that as an issue. One of the things that I am really interested to hear about is from representatives of the owners: how can a better relationship between the councils and the corporations be arrived at? Ultimately, the councils are the owners of these organisations, but there have been very few councils that have sat before us that have acted as an owner of the corporation. In fact all councils have been critical of the corporations which they own.

Mr HIDDING - As though it is someone else.

Mr KEARNEY - I think we've been trying, and it has been part of our policy that they now have to realise that they are just a shareholder and that they no longer have control. There seems to be a difficulty within the transition from having that control of the day-to-day, as well as capital expenditure and what happens where and so on, to just being a shareholder and having the AGM virtually, and the input through us to the board at the higher level. They are having very great difficulty with that. But there should be a lot more, I believe, at the management level, or the CEO-to-CEO level, of what is happening within the organisation and what the needs are out there in the different communities but certainly they haven't moved on. To my way of thinking, I don't think they've moved on properly to being now just a shareholder.

CHAIR - Can I ask another question? One of the issues that was raised yesterday by a consultant who appeared before us on the north-west coast. Again, it's reflected in a number of submissions that we've had. There is a view that a fourth level of government is now being created and that if you are a developer and you now have this extra time and cost involved in going to council, in some cases for your stormwater information then going to the corporations for the sewerage and water information. How can it

become a more seamless operation? Certainly having been involved in some development myself it's something that I've experienced so I know it's not fiction what these developers are talking about. How can a more seamless operation be arrived at from the consumer's point of view and from a developer's point of view?

Mr KEARNEY - I think that was raised at the stage of the setting-up of the corporation; that it was a problem. In other words, that there was not a one-stop-shop process that you could go to because - I can only speak for one council - at that council you could go and the whole package came together. If you're asking how to do it, I'm not actually sure. I would wonder what happens in other local government jurisdictions around Australia where they do have water authorities, of which there are many and they have that role. Presumably they have this problem and presumably some of them have made an attempt to deal with that. I don't know. I think it's probably too early in the system. Corporations are so busy just getting the thing to work but I think that's another stage down the track.

Mr RANSON - It isn't any different though – okay, it's been taken out of the local government's realm but for example, if you go in and you need a heritage permit or you need roads and transport permission, et cetera. Yes, it is somewhere else you have to go to from the developer's point of view but when you look at the whole development process, there is obviously a multitude of different parties who are potentially involved. That's probably where your challenge is.

Mr ARCHER - We have had the issue of headworks raised with us early in the piece – of the headworks charges. All we have done - and we see it as our role - is to talk at the high level with the board to make sure that there are proper processes for assessing the headworks and they're not higgledy-piggledy or different for different people or whatever. We see our role at that governance level to make sure there are proper processes in there; not tell them how to do it but to make sure and tell them that we're getting a lot of inquiries about difficulties and we pass on that the process is still not working properly but we don't normally tell them how to do it. We don't see that as our role but certainly if the process doesn't seem to be working in the community or for the councils, we pass that on. We've made sure - not just in headworks charges but other things - that the processes are there; assessments and all of that. We've had some councils criticising others because they seem to be getting the capital works. All we've done is asked them whether it was assessed properly and we have been assured of that; that these things have been properly assessed by the board and that it's not as some people see it that somebody has been getting favouritism.

Mr MORRIS - Do the boards demonstrate to you how that assessment was undertaken? Do you get any sense of that?

Mr ARCHER - Not into the real detail.

Mr MORRIS - You just have to trust that they're telling you the right thing.

Mr KEARNEY - I guess there would be another stage. We'd raise it with them; they say yes, okay, fine. If it keeps coming back then I guess that's the next stage of accountability.

Mr RANSON - If we take the headworks, that's on their website; there's a transparency policy out there so -

Mr MORRIS - Sorry, I was thinking more of the capital works, the order in which capital works are undertaken.

Mr RANSON - In terms of a corporate plan, that is outlined in the process and the detail that sits around those particular projects - it doesn't get down to the assessment of each of those projects because clearly that would be a lot more information than we probably need for our role but I know that detail would be there. I'd be confident that the detail would be there if we asked for it.

CHAIR - Can I ask - and I am mindful of the time - obviously one of the major challenges that the corporations and consumers in Tasmania in the next 18 months are going to be the waning out of the Government's 5 per cent price cap. Obviously the levers that are available to reduce price shocks are the infrastructure spending moving forward, dividend returns to council or the potential for perhaps further Federal Government investment to provide some cheap capital that could make things an easier option for the corporations. What is your view about how best to manage the price shock that everybody knows is coming once that five per cent is waned out?

Mr RANSON - To me, this is not an issue we have specifically discussed, but I think it probably has to be - at the moment the Government price cap is at 5 per cent. Obviously there is quite a build-up in terms of what the Government's direct subsidy component is.

CHAIR - It will be \$30 million this year.

Mr RANSON - To me it would probably be inappropriate for that to stop overnight. I can see that the Government probably needs to wind it back and can do that over a reasonable time period; whether that is three years or five years, you just need to look at the impact. I think that is one component, one way to address it. Secondly, as I alluded to earlier in the comments probably the weighted average cost-to-capital targets need to be reduced and to determine what the actual appropriate level is. Seven per cent seems to be the number they have talked about and my feeling is that something closer to 4 per cent is probably more realistic.

CHAIR - Could I say that we discussed this with the Chairman and the CEOs as well and 4 per cent seems to be about where they feel comfortable, but obviously that then has a major impact on the people that you represent in regard to dividends.

Mr RANSON - But then on the other hand, a holistic sense on the other side was a certain amount of capacity to raise rates and water charges et cetera, so you would think that you are reducing the requirement for people in terms of what they have to pay. One the other hand that potentially has more capacity for the councils if they needed to supplement that dividend flow through their direct rating systems. That is a choice they would need to make with their community.

Mr KEARNEY - It is fair to say, Peter, in the sense that we're are not the policy makers. So that has been discussed at council levels I know, but on how it is dealt with there is a variety of views.

CHAIR - There are, but if I could say through you as well that the owners' view in this mix, this cocktail that is arrived at at the end of day, is going to be vitally important.

Mr ARCHER - It certainly is and the owners have not relayed to us what their preferred method of fixing the problem is, but the longer the price cap stays there the worse it is going to get when it does come on. I think that needs to be addressed and I suppose one of the things that the shareholders are going to have to maybe accept is less dividends as a matter of course. I shouldn't be raising it when I represent them but, let's face it, there is a huge problem there, a financial problem that is going to hit and already the dividends are not what the shareholders first thought they were going to be. It is a problem that has been created by that price cap and it is going to have to be addressed somehow and the Government of the day has to take some responsibility for it, a major responsibility.

Mr MORRIS - From my perspective, a critical issue was the different pricing that exists now in each municipality, and there is a vast range of pricing not only between classes of customers within each municipality but across each municipality. With the postage stamp pricing mechanism that has been proposed that is all going to be ironed out. The cross-subsidisation that we hear of from commercial to residential is also going to be ironed out. Obviously different councils are going to have different council areas. That is going to have a significantly different impact. Some are near average, some are well above, some are well below. In order to try to achieve that evenness and get the cross-subsidisation out of the system, there is almost inevitably going to be price shocks, let alone the requirement for increased income. Is this a matter that you have talked about and have an opinion on, as you obviously have eight different owners, each probably having a different opinion about this, or have they bought out of that?

Mr KEARNEY - You guys should have drawn up an agenda of a few things to think about for our councils.

Mr RANSON - I think in a lot of cases the northern region was probably better situated than other regions, because a lot of those issues had already been ironed out to some degree. I think the city probably still has a rate component for an AAv? But most of the other areas have probably moved well down the two-part pricing path.

Mr MORRIS - Yes, but still even with two-part pricing there is a significant variation between councils, even in this northern area.

Mr KEARNEY - I think, Mr Morris, you could say that the outcome is likely to be widespread unhappiness. Everyone will see a loss somewhere, whereas there won't be joy over the gain. There will always be unhappiness over the losses.

Mr ARCHER - Even with uniform pricing, people see a cross-subsidisation and there naturally is because the rural and small plants that are going to have to be built are less efficient and so on and do not have the economies of scale. Even with uniform pricing across the region there is going to be cross-subsidy if you want to find it.

Mr KEARNEY - But that is implicit in the argument for bringing the thing together. That was implicit in Esk Water, and the reason for bringing it together was to make the whole process more efficient. That was, I think, quite successful, but this is a harder ask.

CHAIR - Right. In the interests of time we will need to wind it up. Is there anything else that you would like to put forward to the committee or make a final statement.

Mr KEARNEY - No.

CHAIR - Thank you very much for your time.

THE WITNESSES WITHDREW.

Mr ALLAN GARCIA, LOCAL GOVERNMENT ASSOCIATION OF TASMANIA, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR (Mr Gutwein) - Welcome, Mr Garcia. If you would like to speak to your submission.

Mr GARCIA - We will take it as read. The reason the association put in a submission largely was about the fact that is no-one left standing on the government side, though I do know Jason over there, who was involved in the process, given that the project team has been disbanded, we no longer have the Treasurer, I think we have lost two Premiers who might have been involved, and David Llewellyn has gone as well, and I think they were the main army involved. I thought it was important that we actually document the process of negotiation and how we got to where we got to, and I hope you got some semblance out of that. I am not looking at Jason particularly, but I don't think there was any stretching of the truth in any of that. It pretty much was as is, but of course Don Challen or Rob Nichol or somebody else who might have been involved in negotiations aren't around these days to inform you otherwise. I think, importantly, it was necessary to understand how it came about. Largely from the State Government perspective, what we ended up with was pretty much a model around the State process: a GBE outcome, a SOC outcome. The reason we had these three guys here before, under the government scenario there would have only been one of them, and I will talk about why that hasn't worked a bit later on. I think importantly we have found that with the process in place it hasn't worked beautifully. That is not a criticism of these guys who were sitting here prior. It is not a criticism of any of the other ones that were involved, but it simply hasn't worked in terms of that communication that we would otherwise want to achieve. It is really hard after 18 months to say there are all these problems with these corporations, and from listening to the previous conversations, the assets weren't in good nick and the councils are whingeing about their dividends. Let's make no bones about the fact that this was done in quite a hurry. Even though it took about two or three years it was done in quite a hurry. The basis upon which the figures were evaluated were rubbery at best, notwithstanding the fact that we used good consultants and we had a quality project team involved from the government side, the bottom line was: rubbish in, rubbish out. We were relying on inadequate local government systems to feed this stuff. We were making lots of assumptions and lots of speculation about what existed, its condition, the condition assessments just didn't exist in a lot of councils and we were also relying on a pricing structure that was then cabooted by the Government, if you don't mind, so that councils are a bit narky and a bit whingey about the fact that their dividends aren't going to flow, guess what? Of course they have a right to be angry because effectively they were sold a pup on what was going to be the outcome.

Without going into detail about all the things in the submission - and no doubt you would have heard this from the chairman and any councillors that have been here - probably a key area that continues to be problematic is the fact that - and I will speak on behalf of councils - they don't like Onstream. If Onstream was to be successful it probably needed to have started 12 months before the corporations got into gear. Effectively they are the back office, the heart and soul of the back office of the corporations. The billing system, in particular, has been problematic; it's up and running. Fantastic, it's up and running, I might even get my bills on time in Launceston and Hobart. It has been a major issue for councils in terms of cash flow and a range of other issues such as customer satisfaction

and the like. I can't be too critical of Onstream. They have been working their butts off to try to get there, but the reality is that it has been problematic.

The issue that you were talking about just prior to my coming on was this capacity to represent, councils to represent their views to the board. It was felt that through the owners reps we might have been able to achieve that; it has not worked. I would have to be critical of the corporations as well here; I don't think they put in satisfactory processes to deal with the owners. It is no good having a dinner every now and then to chat. You need to be able to have a dialogue where there can be a feed and there can be a rigorous debate. Again, they have been in place for 18 months, maybe these things happen after a period of time, but I will be critical in the sense that I don't really believe that there has been enough effort by the corporations to engage with their owners to get a good feel about those issues. I'm not even commenting on issues such as council x wants project A up ahead of the pack. I think it's a matter of being able to have that sensible dialogue from time to time.

I don't believe that the way that the common directors were put together has actually worked. The common directors themselves will say to you that by having to take one hat off, put another hat on, another hat off and another hat on, they have not come up against conflict, but they have massive workloads. There are three meetings effectively they have to deal with. I think if I was the third order of business on the day and I was the CEO of the third company, let me tell you how crappy I'd be about the fact that most of my issues have probably been dealt with and I'm going to get the second-hand lot at the end of day because lunch is about due or we have to finish the day.

I think from the perspective of the owners they maintain a view, as they did at the beginning of the process, that if there are going to be three regional entities then probably three regional corporations is the right way to go. That doesn't mean you build up and load up the wages, the salaries or the remuneration of the directors. I think quite clearly you could probably get a break even on three separates as against the way you deal with a common director.

Mr MORRIS - So you still keep the pool of payments to directors basically the same.

Mr GARCIA - But you might reduce some numbers. You get rid of a few of the people who are involved in the Onstream activity, you reduce the size of the remuneration for the chair, reduce the size of the remuneration of the common directors and you would find that on a back-of-an-envelope calculation you might even save yourself \$10 000. I don't think you would save yourself a lot of money and in the scheme of things it is not really going to achieve the best financial outcome, but I think in terms of governance you would probably get a far better outcome if you coupled that with an arrangement where - and it is cumbersome. In the south it would be cumbersome having the board meet with 12 council members. Guess what, they used to do it with Hobart Water. I think, certainly, previous people in government were not comfortable with that. I think what has been demonstrated is the lack of association, the lack of ownership. I heard the word 'shareholder' - yes they are, and no they shouldn't be involved in bidding for their particular thing on the basis of community pressure, but they are the owners. I don't know that the Government, as the owner of Hydro or Aurora or the TOTE don't have a fair bit of influence in the way that business ultimately gets run at a strategic level. So I think it is early days and there still are maturity issues around that transition from being

the owner of the infrastructure and the service provision before handing it to someone else and taking the hands off. No-one is saying that every council is perfect in that regard or would be and it will take some time for that maturity to flow but I think the current arrangement through three intermediaries, whether they are all council people or the variety we have here today, probably hasn't delivered what we might have anticipated could happen. These guys get caught in the middle. They are sitting ducks. From that perspective I think each one of them have done their diligent best but I also think that they've been found wanting in terms of the councils actually being able to have that direct communication with the corporations. Probably the final thing is - you were touching on it in the previous evidence - that the price cap has distorted everything. The Government had done the hard yards on the policy, on the reform and at the last moment decided they'd make a policy decision so that we don't bear -

Mr MORRIS - The political pain.

Mr GARCIA - Well, let's leave it - let's just say it's so that customers don't bear that pain in a sort of cost-of-living environment. The reality has been that the wholesale concession across the board was probably the wrong way to go. I got a concession and you all got a concession and I'd venture to say, none of us deserved that concession in the context of concessions normal. If that had have been a targeted concession to those who needed it most then maybe that would have been a better way to go. The upshot of it is that, while corporations have achieved revenue neutrality, the pain comes in year 4 because they are 15 per cent behind; the regulator has a stipulation that he can measure all their needs and all their requirements but he also has to take into account any price shock. So he can't make up the 15 per cent overnight, and I don't think that's on the cards anyway, so what it does do is place pressure - you know all this because you would have been told - on the corporations in terms of revenue targets, expectations of shareholders, et cetera. Why do those shareholders have that expectation? Because they were promised a certain deliverable, on the basis of the best information available which was, as I suggested at the start, rubbery in the beginning. So, pretty much, that's my submission. You'd probably rather ask me questions anyway.

CHAIR – Certainly, I have a couple of questions just leading back on to that 5 per cent issue. Everybody acknowledges it's going to be an issue. I was surprised when in our previous discussion with the three owners' representatives that it hadn't been something that was front and centre of the owners discussing at the moment, because we know it's coming, it's been part of public discourse now for 15 months since it was first announced that it was going to be an issue. What do you think the owners should do about it and should there be - who provides the leadership to the ownership groups, to the councils, to sit down as owners and talk through what some of these issues are? It comes back again to this issue of whether the council owners are truly engaged as owners or not because at the end of the day, there are only certain levers that can be pulled. One of them is going to have a potentially negative impact on your own members' returns.

Mr GARCIA - I am not sure the owners were not absolutely over the top of the implications. I am not denigrating their knowledge or having a go here. I think there was sort of an understanding that corporations are getting their money and they're no worse off, away we go. I think there was this issue about: oh, there's going to need to be a hefty price increase or there is going to be a price shock but I don't know that it necessarily was understood that there was understanding that it was going to hit the hip pocket of the

council. So I think it's pretty much a latter-day realisation that, oh dear, what will happen here is that there will be a gap in revenue. As I say, I think it's been latter-day. I think it's probably been more by virtue of the corporations getting themselves prepared for what is coming. In terms of the leadership of the owners, largely the owners deal with themselves on a regional basis. The association's perspective has been that we are involved in the reform process, we are involved in the negotiation but subsequently the way these things have operated it has been almost devolved to the regions. So, how the regions have responded has been much on a regional basis and I think there may be differential realisation between the three regions as to the impacts of this. Who should you ask the question? Well, there is a whole bunch of questions that need to be asked here and I think you were canvassing them in your earlier discussions: how does that shortfall, because we do not know how to get it resolved? Is 7 per cent on these monopoly assets a reasonable rate of return in a commercial environment where maybe you have a longer payback period than you would possibly need.

CHAIR - Part of the interesting feedback that we have been getting from councils is that most councils that we have spoken to have indicated that the 7 per cent whack is not reasonable. They think that is too high, but with that statement that it is too high then what level do you set it at, importantly for those councils that obviously has to have an impact on the pocket. Do you think that they are engaged with that issue?

Mr GARCIA - If you contemplate the pricing by councils of their water and sewerage in the instance when it used to be in council land, there was always a notional 7 per cent return on asset back then. It was a guidance factor by the GPOC. There were not many councils close to the 7 per cent. Glenorchy probably was closer than most. I think West Tamar were fairly close - if my colleague, Mr Kearney, was here he would say - and maybe a couple of others. I think largely you would find that they were probably more down to 2 or 2.5 per cent. When we had the 10 plus 10 plus 10 it was taking account of the fact that we had to get from, in large part, 2, 2.5, 3 to 7 per cent. So the 7 per cent has always been there. From the council's perspective, the issue has always been, do we ever need 7 per cent? What are we going to do with all that money of that 7 per cent, because we are getting enough return to do what we need to do. The question becomes, I suppose in hindsight, was there enough money because had there been a lot more money there may have been greater investment into the assets and the maintenance and management. Now that you have a corporation where that's its only job, all it has to do is look at water and sewerage assets - not all it has to do but it is a big job. But it is focused, it has professional people, it is upskilling and now it is looking at not just running the water and sewerage service and it will be okay, now we are looking at best practice. I think there is a difference and so from the water corporations' perspective, they will say they have inherited a dog, in large part. From the councils' perspective they will say, 'But we weren't aware that we weren't meeting environmental standards'.

Mr MORRIS - We didn't open that one.

Laughter.

Mr GARCIA - You may laugh but the regulatory environment was a duck in itself. The fact of the matter was, these things were not being checked. It was only in the 6 to 12 months before this reform started to go through that the Department of Environment got off its backside and started saying, and I think if you took evidence from Latrobe you would

probably find they found out six months before acceptances that they had this massive great big hole - not a hole in the system - but this hole in terms of where they should have been. They were not aware before.

Mr MORRIS - They had 19 separate licence conditions.

Mr BEST - I do not necessarily agree with that. I was on the council for a number of years and they hired consultants to convince them that they should never do anything.

Mr GARCIA - So you were party to pulling the wool over the eyes.

Mr BEST - No, I voted against it. That is what I am trying to say to you, I voted against it.

Mr GARCIA - I think a lack of a regulatory environment that was absolutely all over this stuff tended to allow, not of itself, some slippage in some of the capital investment that may have otherwise been required.

CHAIR - The other thing we heard yesterday as well and I think there is a fair bit of sense in this, is that with councils not having the same onerous requirements that say a board of directors does, in the past where there had been notices issued perhaps they were not dealt with as quickly as they might have needed to have been, perhaps they were overlooked, but now with the board of directors responsible for these corporations and corporations having certain responsibilities themselves, the EPA-issued notices or from the Department of Health, they are having to be acted upon, whereas in the past there perhaps wasn't that corporate responsibility to take care of the problem.

Mr GARCIA - I think that is valid and I think also that it was a fairly light-handed regulatory environment before. Yes, there was a fine and yes, there was a check and we will come back soon and we'll have a look at that. The new regulatory regime is far more stringent. It is not just the old regulatory regime that now the corporations are subject to, it is far more rigorous and so the board is taking this very seriously because it is not the only compliance measure it has to deal with. In the scope of its assets it is the only compliance regime it has to deal with, this whole regime, whereas councils had building planning, engineering, this, that and the other. The corporations are now very focused on their regulatory requirements because this goes to GPOC and how much they need to spend and what they need to upgrade. A lot of the regulatory environment is informing their need for a spend.

The fact that they are not hitting their targets, they know, so 'Okay, there is a great big hole in the pipe or there is a deficiency, I'm going to feed that into my capital and remedial works, and that is going to go to price ultimately.' They are far more focused on it not because the councils were slack or forgot about it or anything else, but they are running this now as a business and they will price it as a business will. I think there is just far more scrutiny on what is going on than there possibly used to be.

Mr MORRIS - I think the same thing would happen if you took a notional regionalisation of the road networks, for example, whereby the State Government doesn't tell the council that you shall bring all of your roads up to the standard. It only says that you should if you rebuild them build them to the standard. Whereas if they were to say, 'Looking at

the road network in Tasmania, where does that fit in the scheme of things internationally? Below par.'

Mr GARCIA - I think if every council had a subcommittee of council that was responsible for water and sewerage you might have had a whole lot different degree of scrutiny. But water and sewerage probably came up through the year in terms of, 'We need to extend the line or upgrade the sewerage works because we've got subdivision happening or X, Y, Z supermarket needs to come on line so we've got to do something about that,' and it would be included as part of the capital works and the broad strategy, and it would largely be delegated down to the officers to just do the work. Now it's the business. It is the business. So there is much, much more rigour, I would suggest, than perhaps there would have otherwise been.

Mr MORRIS – It's never had such a focus on it either from a work position, or from a public perspective.

CHAIR - Coming back to that question of leadership, do you see that LGAT is the right vehicle to be doing this? Whilst there is certainly a regional focus in regards to the corporations and to the owners representatives, the 5 per cent price cap is obviously a statewide issue. A lot of your member councils need to be disabused of the magic pudding view of these corporations that sooner or later the price is going to have to be paid by somebody. I'm sure they won't want their ratepayers to be picking up a price shock. Is it LGAT's role to pull the 29 together and say, 'These are the challenges before us, how do we deal with this as owners of these corporations?' or is it the regional owners representatives that should be doing it?

Mr GARCIA - I think we always step in when there is a whole-of-state solution or a whole-of-sector solution and I think that is what we're talking about now.

Mr MORRIS - It is.

Mr GARCIA - Ideally the Premier is considering in her diary an appointment with the good president and myself to talk about these types of issues. I think these are very much policy issues rather than simply regional owners bidding for what they might want. There has to be a common response to this. As to who is responsible for some of this in terms of making a decision, while we can all sit here and maybe even violently agree that a 7 per cent return on water and sewerage infrastructure assets is over the odds, I'm not sure that the Premier or the Treasurer necessarily has the ability to change that, or is it GPOC? I'm not sure in the scheme of things what the scaling for that is.

Where the Premier can certainly be involved or partake in the debate is about the five plus five plus five and the impact there. There are some particular concerns in regard to the south of itself, mainly because it is unmetered, as to the double price shock that is possibly coming by virtue of the fact that people are used to using their water on the basis of not so much that they don't have to pay for it, but 'I don't have to pay for it by volume and therefore I will water my garden, I will wash my car three times a week and I will bath my six kids every night' -

Mr MORRIS - Until the Derwent runs dry.

Mr GARCIA - The Derwent will never run dry, some people will tell you. However, the fact of the matter is that with the move to metering there is likely to be an increase for some in that regard, a reduction for others, and then if you couple that with usage there is going to be a significant price shock to them. One thing the Government may want to think about is how you deal with that in transition. You have to have a concession arrangement. I expect after you receive the first bill it might take care of itself. It might, but it might not. The other thing is that the other regions when they have moved to two-part pricing haven't had that same advantage, if you will, of concessions from elsewhere. Given the scale and the scope of this one, maybe some consideration needs to be given to that, because you are going to have significant issues, I expect, in the south because it won't all come at once but it will come on quite significantly.

Mr MORRIS - We are addressing our minds to that very problem. I think favouritism of one region for concessions over another would be fairly unacceptable as well.

Mr BACON - I will be supporting it.

Laughter.

Mr MORRIS - Will you? Right, okay.

Mr GARCIA - As a statewide body we would agree. I suppose what we are doing is we are highlighting a reality. Where councils have probably put on two-part pricing in the past they have probably had the option of transitioning that through, adjusting their consumers to it, their ratepayers. They probably had the opportunity to do some rating and some water stuff, like up here and down there stuff, but when you have everyone coming on and if it is a price per litre then the capacity for the corporations to be able to manage some of that is going to be probably more difficult than perhaps when councils had a broader scope of revenue raising and being able to assist or to alleviate some of that impact.

Mr MORRIS - Can I run a notion past you that I would appreciate your opinion on, and that is if a two-part pricing model was arrived at for those areas that are still on an AAV basis, that use the existing AAV charge for the property as the starting point, that effectively had an individual transition path for each property rather than trying to arrive at a common fixed charge for everyone at the outset and then tried to build up, but taking the AAV-based charge less an approximation for the volumetric charge as the starting point, so each property starts with its model off the AAV, do you think that might be one way of easing the situation?

Mr GARCIA - It may -

Mr MORRIS - If the billing system can cope.

Mr GARCIA - but if I am still a big user it may not help me a great deal. If I am a massive user, if I use five times more than anybody else, then in reality is that going to matter, because I am still going to have -

Mr MORRIS - At least you will know that you have used five times more than anyone else when you go and look at your meter, won't you.

Mr GARCIA - I am going to have a great big fat bill based on something, whether it is AAV or something else. I am not familiar with how the transitioning goes from 'today I don't have a meter; tomorrow I have a meter'. The notion is that it is cost-reflective charging, so AAV should have no role whatsoever. There should be a cost associated with what that fixed charge is in terms of the pipe, and there should be a volumetric charge based on that.

Mr MORRIS - But that is the end point.

Mr BEST - Just if I can help you out there. We had meetings in Devonport when I was on the council there, and there was a prepaid amount. People were pretty much okay with that, and then when it went to full user-pays it was amazing how many people got really quite upset by it.

Mr MORRIS - Yes, but that is the clear end-point that we know we have to get to. It is how we get to it. It is whether we have to start with the same fixed charge for every residential property or whether every residential property can start from the point where they are now and have their own transition path.

Mr BEST - We can have an excess, that is what I was trying to say to you.

Mr MORRIS - I understand that, but it is the fixed component that I'm interested in here.

Mr GARCIA - If you ask my opinion, the answer is I don't know. I don't know and I think it probably would be quite bastardised. There is no reason why you wouldn't move to a common price through that process, but what I'm not sure about is how reflective that AAV factor is. You are saying, let's use some element of the AAV in the fixed cost; is that what you are suggesting?

Mr MORRIS - No, the starting point for the transition is the existing AAV price.

CHAIR - If you had an AAV bill of \$1 000, rather than next month's starting at \$250 fixed price plus volumetric, you start at \$1 000 and you wind that back as you gradually cross over to -

Mr GARCIA - As a person who lives alone who uses very little water, would you benefit me then when I want to go to meter and save \$500 a year on that basis, or are you going to say - so there will be winners and losers here - so am I going to be penalised under that process by virtue of the fact that I'm a non-user of water? I still shower every day, by the way.

Mr BEST - Yes, you will. That is the problem and that is where the argument comes in, and that is where you end up coming down to -

Mr GARCIA - I think the process discourages the outcome you are trying to achieve. A person who is a minimal user will not get advantage out of a user-charging regime necessarily.

Mr MORRIS - As fast as they might expect.

Mr GARCIA - As fast as they might expect while heavy users will get that benefit.

Mr MORRIS - And not have it wound out as fast.

Mr GARCIA - If you are looking at a good policy outcome or a good policy platform, I'm not sure that rewarding people in that way is necessarily the best policy outcome you could produce.

Mr MORRIS - This argument is about minimising price shocks, up and/or down, even though people can cope with ones that go down better than up.

CHAIR - In the interests of time, can I come back to another question? The question I have is in regards to Onstream. In your submission you say that it should be tested whether or not it is worthwhile keeping, effectively. Has LGAT formed a view as yet or not?

Mr GARCIA - I'm relating the experience of my members about their satisfaction or otherwise with it. In a beautiful world you would assume that a corporation that had common elements that didn't require an operational delivery, you would expect that that would be of advantage to the bottom line of those other three organisations. You would expect that in a perfect world. It would appear that this particular model hasn't yet delivered that. Is it too early? I don't know the answer. Is it correct? I don't know the answer personally.

My members suggest that it is not working as well as they would like to see it working and there is supposed hearsay from the corporations as well, from those inside the corporations, that it doesn't work as well as it should. I think the chairman has a view that perhaps an Onstream that is a large Onstream may not be the answer, but a smaller Onstream that is more focused and delivers only those functions that it is not appropriate or not cost-effective for the corporations themselves to deliver, may be a better one. Billing is a classic example. You are not going to set up three billing systems I don't expect. So the real question is, before Onstream is totally abandoned, I think the analysis of the effectiveness probably really does need scrutiny and I'm really not sure who is best placed to do that. Certainly the intent was to have a very efficient, effective, lean machine that supported these other three entities without getting in the way of their operational needs. They were strategic in part and back-office in main, but whether or not that has been achieved, whether it's had sufficient enough time to be achieved I'm not sure. But from the owner's perspective they see it as being a replication, a duplication of activities that possibly the corporations are better placed to deliver.

It is always difficult. If I pose to you, 'Why doesn't the State Government have a back office for all its payroll?', you will say to me, 'What's the answer? Why haven't successive -

Mr MORRIS - We're talking about it as the answer.

Mr GARCIA - My question is: each of you in part have been successive governments, whether you've been in government or you've been a minister, you've been part of the Government that has been in government and I've never seen the State Government tackle it. So you say, 'Here is a wonderful model for three corporations'.

Mr MORRIS - You show me the documents.

Mr GARCIA - You know what I am saying. In a perfect world those things should be beautiful and they should work. It would make a lot of sense to me to actually have a single entity such as that in government. It's a services corporation or services entity. That we've tried to make to three; the probable question would be: is there enough critical mass to feed that organisation?

CHAIR - Are there any other questions before we wind up?

Mr MORRIS - Yes, I have one other, which is in relation to the question I asked previously regarding Northern Midlands. That is, firstly, in your submission you talk about the Federal Government perhaps assisting with funds and the need for that. Historically the State Government having supplied funds and in this case we've got the five plus five plus five which is State Government assistance, although I don't know whether it's quite getting to the corporations but in a roundabout way it is. What do you think the roles are for the respective levels of government, including local government, to provide capital injections into the corporations for capital works predominantly? What are the opportunities or what do you think should be the obligations?

Mr GARCIA - I tried to say in the submission that there was a longstanding obligation on the part of the State and it had been historic across, not just this State, but other jurisdictions that State governments provided assistance - and it went to the postage stamp stuff, that those who live in the city should not have it better than those who live in the country or those who live in rural areas. There should be an expectation that you can enjoy a reasonable standard of living and that you shouldn't have to pay thousands and thousands and thousands of dollars for that. Assistance with the supply of funding for water systems or sewerage systems was a traditional role that State government played. I think, in my submission, I cite a New South Wales circumstance where they had a sundry grants process. That just sort of went by the wayside.

Mr MORRIS - It certainly did, didn't it!

Mr GARCIA - It went by the wayside when the Federal Government weighed in with the NRM funding. Under NRM, to save the environment, you could go and bid for water projects.

Mr HIDDING - NWAs.

Mr GARCIA - Yes. What happened then was as a result of that, the State said, 'Oh, actually someone else is paying for that - we can back out'. But the issue was that the State funding which previously existed was probably much larger than - indeed it was much larger than what existed under the Federal system - and you were bidding on certain things; it wasn't as broad as it used to be. That's probably gone now so we can't - I want to make that point that one of the other issues as to why there were certain deficiencies in local government is that the capacity of the ratepayer to pay was probably difficult anyway. In the current environment, is there a role? What we've foreshadowed in our process was that we always thought that some of the spend in capital works probably needed a bit of a lift-up rather than just from ratepayers themselves. There have been

many national infrastructure schemes and we figured that if it was a water scheme - we're seeing desalination everywhere and that hasn't been an answer. We're saying that Tasmania is different. We don't need desalination; we've got stuff running down the Derwent and going out to sea. So we were saying that we probably need to be treated differently. We have other infrastructure demands. I think that we would still envisage a capacity for some injection of funds at a Federal level in the same way that it's putting funds into Melbourne and Sydney and Brisbane, notwithstanding the population issues there.

At a State level, I don't know. Sorry, I should stick with Federal. The Federal Government has a National Water Initiative and we would anticipate that the corporations probably should still have access to that whenever they can. Ten million dollars has come out of that in water meter assistance and that's a good thing. We'd like to see another \$40 million. We understand that is not likely to happen but I think there's always going to be a role at the Federal level to assist in big-ticket infrastructure.

Mr MORRIS - We can keep asking.

Mr GARCIA - At the State level the likely role is - I should talk to the government members; are we still waiting for your economic development strategy? I think we are.

Mr HIDDING - No, it is out there. No, I am sorry.

Mr BACON - Yes, still waiting.

Mr HIDDING - I was thinking infrastructure.

Mr GARCIA - It's a marvellous thing this economic development strategy when it lands.

Mr MORRIS - It will tell us the answer.

Mr GARCIA - It will give us the answer. You can only have a solid economic development strategy if you have infrastructure to support it. We have just had the appointment of the new infrastructure chief today. I am going to be on that infrastructure council. If you are going to have economic development you are going to have the necessary infrastructure in place, and if you are driving it at a State level then maybe from the State perspective where things are underdone and you want to promote industrial development maybe you have to put your hand into your pocket to make some of that happen. Maybe it is a role of the corporations. Maybe it is a role of the enterprise itself, but smoothing the wheels to make economic development happen is a role for the State Government. I am not saying they should be a direct funder of infrastructure, but in supporting economic development - not subdivisions; I am talking about industry in the State that is going to have growth and employment - maybe there is a role there. I do not know whether there should be a bucket of funds but there are a lot of options in that space. From local government? We are the owners. We are the capital of last resort. If these things go under it is, at the end of the day, local government who is in a position to bail it out and if local government goes under we will rely on the State. No?

Mr MORRIS - You are a creature of the State Government.

Mr GARCIA - I think we are.

Mr HIDDING - Unless of course you achieve your own constitutional recognition, in which case you can swim all on your own.

Mr GARCIA - I do not believe that is the case in the context of us seeking that constitutional recognition but I think there is possibly a role there for everybody. Local government can act in exactly the same way as State Government around this economic development stuff. If a local government area sees the value in putting funds into something, as it did when it was a council, to actually support economic development that is not in accord with the strategy then there may be a role for local government in putting its hand in its pocket. It should not be there always but if it sees an absolute necessity -

Mr BEST - We are all Tasmanians, after all.

Mr GARCIA - That is right.

Mr MORRIS - We have a regional planning strategy system happening as well - a whole big reform process. We have water and sewerage reform happening on a regional basis. Is there a connection between the two?

Mr GARCIA - Yes, there is of course.

Mr MORRIS - What is it?

Mr GARCIA - Ideally what we would have liked to see out of the regional strategy, indeed we would have liked to see it as a statewide strategy, is some sort of settlement strategy. If you think about how the infrastructure fits the planning, the planning should drive the infrastructure. The connection should be that once we have sorted out what our land use planning, the infrastructure should respond to that and not the other way around. There is an absolute connection. How well has it been connected in the process? I have not been involved in the regional planning per se. My member councils are doing that. I am assuming that they have incorporated the water corporations into that process. I am assuming; I can only be thoughtful and think that major infrastructure players such as Aurora, water corporations, roads corporations, have all been considered in the context of those regional strategies. I can only make that assumption. If you are asking my opinion, my opinion would be major utilities and infrastructure providers should have been taken into account in the development of those regional land use strategies and I expect they have been in either brief or large part.

Mr MORRIS - Including the water and sewerage corporations.

Mr GARCIA - Including the water and sewerage corporations, and that those water and sewerage corporations should be familiar to the extent that they understand there are settlement strategies and there are areas of increased activity that they are gearing some of their forward thinking towards.

Mr MORRIS - I will ask them. Thank you very much, Allan.

CHAIR - Thank you very much for your time today.

THE WITNESS WITHDREW.