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THE PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART ON THURSDAY 24 SEPTEMBER 2026.

INQUIRY INTO THE FINANCIAL AND OPERATIONAL PERFORMANCE OF TASWATER

TasWater

The Committee met at 9:30 am.

CHAIR (Ms Forrest) - Thank you to all the TasWater representatives we've got appearing before the Public Accounts Committee inquiry into the financial and operational performance of TasWater. We know you've provided evidence previously in sort of an interim inquiry process to understand the development and application of the new services and pricing plan. This is a follow-up from that, and there's been some, I'm sure you're aware, media coverage around some of the concerns around the costs, et cetera.

Everything you say before this Committee is covered by parliamentary privilege. That may not apply if you speak outside the meeting. It is a public hearing; it's being broadcast and streamed. So, if there's anything you wish to share of a confidential nature, you can make that request, and the Committee will then consider that. Do you have any questions before we commence?

WITNESSES - No.

CHAIR - If not, I'll ask whoever's going to be speaking to take the statutory declaration and then perhaps introduce yourselves and your role, and then make some opening comments if you wish.

Mr KEVIN JOHN YOUNG, CHAIR, **Mr GEORGE THEO**, CHIEF EXECUTIVE OFFICER, **Ms KATE VICTORIA CRAWFORD**, GENERAL COUNSEL AND COMPANY SECRETARY, **Mr MATTHEW DERBYSHIRE**, GENERAL MANAGER SUSTAINABLE INFRASTRUCTURE SERVICES, **Mr KANE DANIEL INGHAM**, CHIEF FINANCIAL OFFICER, and **Mr CALLAN JAMES PASKE**, GENERAL MANAGER CUSTOMER AND COMMUNITY, TASWATER, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED

Mr YOUNG - Chair, I might make an opening statement as the chair of TasWater. Chair and Members of the Committee, thank you for the opportunity to appear today. TasWater welcomes the Committee's scrutiny. We recognise the legitimate public interest in how Tasmania's water and sewerage services are funded, governed and delivered, as well as the impact decisions have on households, businesses, community organisations and the state's housing ambitions. We also recognise the concern caused by recent changes to some customer bills.

While the average annual increase approved by the Regulator under the Price and Servicing Plan is 5.7 per cent, the effect is not the same for every customer. Changes to the sewerage charging structure have resulted in higher increases for some, particularly some non-residential customers, while at the same time delivering lower increases for many

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customers as well. We understand these increases are, in some cases, significant and may be difficult to manage, and we'd be very happy to talk about that more as part of the discussion today. TasWater does not dismiss these concerns. We are currently listening, working directly with affected customers and engaging constructively with the government, the Regulator and our council owners. At the same time, the decisions before TasWater cannot be considered separately from the condition of TasWater's water and sewerage infrastructure or the scale of investment required.

Over the next four years, TasWater is expected to deliver \$1.2 billion in capital investment. This investment is fundamental infrastructure. It includes pipes, pump stations, dams, water and sewage treatment plants that serve communities today and provide the capacity needed for new homes and economic development.

It's important to note that TasWater prices are independently regulated through a transparent, independent process by an economic Regulator in Tasmania. Our proposed fifth price and servicing plan was subject to extensive consultation and detailed assessment by the Tasmanian Economic Regulator. In fact, the Regulator himself described the level of engagement on the consultation he undertook as unprecedented in volume.

We're all aware that the Regulator ultimately approved a lower level of expenditure and a lower price path than TasWater proposed, while also requiring substantial operating and capital efficiencies. I think, interestingly, the Regulator set operational and capital efficiencies of \$128 million to be saved, and TasWater has said we are up for this and we're going to go for it. So, that's locked into prices at the moment that we have to achieve those efficiencies.

The Board has a dividend policy and will continue to make dividend determinations in line with the legislative framework, which requires TasWater to deliver sustainable returns to its member councils, while also ensuring adequate provisions for capital requirements and operational expenditure. TasWater must balance affordability, financial sustainability, environmental responsibilities, service reliability and the infrastructure needed for Tasmania's growth. These are not simple choices and we do not claim to have every answer. I think the Regulator cuts some \$500 million in capital and the Board is finding, we have to find the balance between all of those competing interests to achieve the best outcome.

What we can assure the Committee is that TasWater is committed to transparency, constructive engagement and providing the information needed to support this inquiry. We welcome the Committee's questions. I may ask our CEO to make a brief statement.

Mr THEO - Thank you, Kevin. If I could just take a couple of minutes. As CEO, my responsibility is to ensure TasWater delivers safe and reliable water and sewerage services today, while building infrastructure Tasmania will need in the decades ahead. I also understand that behind every discussion about pricing is a household budget, a community organisation, a business or a development trying to manage its costs. Our Price and Service Plan 5 proposal sought to manage these impacts carefully. In fact, we looked at many tariff options and modelled customer impacts for the best part of two years that led to our proposal. I'd just like to remind the Committee that TasWater's proposal would have delivered a real reduction of up to \$53 for low water-use residential customers in Year 1 and 63 per cent of non-residential and business customers would have seen their bills reduced in the first year as well.

CHAIR - Is that just their water component?

Mr THEO – No, the bill. Total bill, total bill. So, the reality is that the Regulator's determination increased the bill to over 88 per cent of our customers. Our move to a greater variable component of the customer bills was not approved, and fixed charges still remain a very large proportion of the bill. That's just a statement of fact.

The broader principle of our proposal remains important. We must balance investment with affordability, and we do get that. At the same time, delaying necessary investment does not make costs disappear. It shifts them into the future, often at a higher price. Our responsibility is to avoid creating a larger problem for customers, communities and future decision-makers.

The price and service plan introduced on 1 July [2026] of this year was designed to produce a more consistent and transparent approach across Tasmania. However, the changes have not affected all customers evenly. Some non-residential customers have experienced increases well above the average price rise, and we recognise the concern this has caused. I want to be really clear: the pricing outcomes we have implemented and some of the significant impacts our customers are feeling are not what we proposed. They have been determined by the Regulator.

It is, of course, important to note there are also non-residential customers who have seen a decrease in their bills. We, as in TasWater, proactively contacted about 1300 customers we expected would face an increase of 10 per cent or more before their first bill was issued. Since then, our teams have continued to work directly with affected customers to explain their charges, check their account and connection information, and discuss the options available to them to reduce the size of their bill. We will continue listening and looking for practical ways to assist customers while meeting the requirements decided by the Economic Regulator.

As the Chair mentioned a moment ago, we plan to deliver \$1.2 billion of capital investment over four years. It's not enough, and we have continued to make this point as the level of investment decided by the Regulator is not in the long-term best interest of customers. I would also like to remind the Committee that the determination requires TasWater to find \$54 million in operating savings over the next four years, and \$74 million in capital efficiencies, which have already been baked into customer bills. This is a substantial challenge that is one we readily accept. It is not a new request of TasWater. In PSP4, we delivered on our OpEx¹ efficiency target, which was set at \$31 million in savings.

The Committee has asked about the decision to end the longstanding remission on fixed service charges for newly subdivided lots. We will further explain the history and the rationale for that decision today. Importantly, the change is not retrospective. Eligible lots created before 1 October [2026] will retain the existing remission.

Despite the challenges we face, our priorities remain clear: maintaining safe and reliable services; improving water security; protecting the environment; renewing ageing and underperforming infrastructure; and, importantly, creating capacity for growth across Tasmania. And just in closing, we will continue to advocate for greater investment, pursue external funding opportunities and work in partnership with the industry to ensure infrastructure does not become a barrier to Tasmania's future prosperity. We are ready to assist the Committee with its questions today. Thank you for taking the time to listen.

¹ Operating Expenditure

CHAIR - Thanks. I know there's a lot of questions. I'll just start off with one or two. It seems - and I've heard this from consumers, and I'm sure the members have, that when they've raised these matters, it just looks like we're saying, 'Well, the Regulator's decided so we're stuck' and, you know, it's all the Regulator's fault, which doesn't help the individual customer. It gets their backs up a bit to just blame somebody else. We understand the reality of the situation but that's a bit of feedback that comes back. I think, George, it was you who spoke about the 1,300 customers that were contacted that were going to have a 10 per cent increase or more. Can you give us a breakdown of the types of those customers: how many were residential, how many non-residential, that sort of thing?

Mr THEO - I'll throw over to Callan to provide a bit more detail but, essentially, those customers that had a 10 per cent increase or more were predominantly in the non-residential space. They varied anywhere from sporting clubs, sporting fields, through to industry and mixture of different customer cohorts in between. I might ask Callan to talk to that breakdown, if you have it?

Mr PASKE - Thank you, George. Without having all of the specific details, as George pointed out, largely non-residential customers within that 1,300 cohort, above the 90 per cent of that number. The impact on those customers was anywhere between \$1,000 and in some cases, as members of the Committee -

CHAIR - So, a thousand-dollar increase?

Mr PASKE - A thousand-dollar increase up to tens of thousands of dollars' impact, depending on the size of the business, the size of the water meter. As George pointed out, a big component of that is the fixed charge and the change in methodology. As with any tariff change, there are some that pay less and some that pay more as you change the way you charge. We've moved from the equivalent tenement methodology, which was problematic for a number of people. It was the subject of an inquiry. We were told to change that methodology, and we moved to this methodology, which is used across the rest of the country by many water utilities.

Of course, that's had an impact on, as we say, these non-residential customers that have got a water meter of 50 mm, 100 mm. As a result, the change there has driven a significant increase in the fixed service charge that they pay. For those customers, there are a number, as mentioned by the Chair and George, that are sporting grounds that haven't got a discharge factor. They don't actually put much water back into the sewer: they're irrigating. In our proposal to the Regulator, we put forward that those customer cohorts, even when they had the 100 mm connection, that they should be deemed as a 20 mm connection because of the fact that they're not putting a significant load on the sewer. He rejected that proposal.

CHAIR - The Regulator?

Mr PASKE - The Regulator rejected that proposal. That change -

CHAIR - Do you understand the grounds for that, because this is one of the things that's been raised? We can ask the Regulator, I know, but it seems like sporting clubs are the ones who are running on the smell of an oily rag, often volunteers, with very limited resources. They might use quite a bit of water irrigating their playing surfaces, et cetera, but they don't discharge much.

Mr THEO - We agree with you. If I can give you a practical example and, if I may, Callan: Callan spoke to a couple of customer segments but the customers that we're referring to are caravan parks, swimming pools, sporting clubs, sporting fields, business, commercial fabrication and manufacturing, just to give you a sense of the type of customers that have been impacted.

CHAIR - By this ruling, if you like?

Mr THEO - Yes.

CHAIR - Because manufacturing have different water requirements than a sporting field.

Mr THEO - And they're all slightly different. But if you take the sporting field, for example - and this is what we're dealing with. Again, it's not a matter of blame; we're just dealing with some facts here. A sporting club with a 100 mm water meter is putting over 90 per cent of the water that goes through that water meter onto the grass. Therefore, very little is going to the sewerage. As Callan has explained, our proposal was to deem those customers, for the purposes of charging a fixed sewerage charge, a 20 mm meter. What that actually means is that instead of paying roughly around about \$700 a year, you're currently having to pay \$19,000 a year. So, that's a real example.

CHAIR - Just on this, I can see the logic in what you're saying. You would have discussed this with the Regulator? Tell us how it came that the Regulator formed a different opinion. Didn't you put a good enough case forward?

Mr YOUNG - Can I just give an overview from a Board and a management viewpoint? When we're putting our submission together, one of the things the Board and management do is we say we want to do a customer impact assessment, which is standard in every price submission, so we do understand what the consequences will be. Some customers will win, some – and we want to understand, for the customers that get a significant increase, what that will be. That's part of a standard price process around Australia and in Tasmania. So, we did all that work, which is why we said, 'Look, we would like to have a safeguard put in place'. We did provide modelling of all of the customers to the Regulator.

CHAIR - On the basis that if you deemed them a -

Mr YOUNG - No, we gave them all of the customer information, and we would've been happy to work. But I don't understand why this has not come out.

Mr PASKE - As the Chair points out, as part of our proposal, we've done customer impact modelling and we provided line by line, customer by customer, to the Regulator on our proposal. In terms of his reasoning for rejecting our proposal on that methodology, that matter, other than - obviously, that's potentially a question that he might answer as well - in his determination, he put forward equity as the reasoning for that. He believed that if you had a 100 mm connection, regardless, you should pay that fixed charge.

CHAIR – So, equity - this may be a question for him, but how do you measure equity in this? If I'm a sporting club putting a lot of water onto my playing surface but very little

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discharge; but I'm a household putting – well, I haven't got a big connection, I know. But let's say it's a business that does use a lot of water but also puts a lot out, then how is that equitable?

Ms THOMAS - Well, it's equal: it's not equitable.

CHAIR – Maybe equal is the thing, yeah.

Mr PASKE - Again, I can't talk to his thought process or the officer's thought process. It would be a question for him. But that was what he put forward as part of his determination.

CHAIR - It's treating everyone the same, rather than equitable.

Ms THOMAS - It's equality, not equity.

Mr THEO – Correct. Kane may provide some further detail, but you're correct. Irrespective of the customer type, if you had a particular size meter, you are being treated the same. We understand that that has different implications for different customers. That was one of the reasons, in our proposal to the Regulator, we put these safeguards in place to ensure that the unintended consequences we're now having to deal with - in particular, sporting fields, did not occur. But they did, because our proposal, well, in that component of our proposal, was not supported. But we're dealing with those customers and -

CHAIR - How are you dealing with those customers, because it's really tough?

Mr THEO - It is tough. I'm happy to answer that question. Did you want to close off on that question for the Committee as well?

Mr INGHAM - Yeah. Probably the other thing that's relevant here is the old methodology of pricing, which was based on ETs.² That was effectively an assessment of the load that particular customer types would have on the sewer network, in the sewer system, and we allocate pricing to that. Moving to fixed water charges is something very different. So, there is lots of different examples of particular customers paying more. And as George said, there's examples of where customers are actually paying a lot less as a result of moving to the new charging methodologies.

CHAIR - What sort of customers are paying less?

Mr INGHAM - It's just very varied because of the type of business. But even what's actually at that particular premises and the type of business that it is. We can get some examples for you, if that's helpful.

CHAIR - It would be interesting to know which ones are paying less. Have some of those downsized their connection because they were on a bigger connection than they needed? It seems like, if you're looking at treating people equally, I find it hard to understand which customer class would see their bills reduced.

² Equivalent Tenement - a unit of measurement used by TasWater to calculate the relative load a property places on the sewerage system, based on the average discharge of a single residential dwelling.

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Mr PASKE - In the sewer example, that may be customers that have a smaller connection size than what their equivalent tenement was resulting in a fixed charge. They may see a lower sewage charge because of the meter. They might have a 25, 30, 40 mm but their ET, equivalent tenement load on the sewer was estimated at a higher load. Those are the types of customers in the sewer example that might -

CHAIR – But I'm talking about blocks of residential properties. Is that what you're talking about?

Mr THEO - If you live in an apartment block, and let's say there are 10 apartments in that building, you are paying a lot less now than what you were paying last year. Not only are you paying less: you're paying less than a standalone property that might be next door to the 10-apartment-block property. So, what I'm trying to say is that -

CHAIR - Well, that's not really equal because everyone lives in that house. Whether they live in a two-bedroom unit in the complex or whether they live in the two-bedroom unit right next door, that's not -

Mr THEO - You're paying differently.

Mr INGHAM - There's situations also in that same instance where there's a larger meter that is servicing maybe five or six units, so they're going to be paying a lot more as well. So, that again is an unintended consequence of moving to that model. We actually proposed something different for residential customers which was more consistent with being charged per dwelling, as opposed to meter size, for residential customers. For each customer moving to this new methodology, there are customers that are impacted more than others. We did all that analysis and provided it, with our submission, to the Regulator close to 15, 16 months ago.

CHAIR - How does this model that we're now operating under compare with other Australian jurisdictions?

Mr INGHAM - We did all that work as part of our proposal, and the methodology - as you can imagine, there's lots of different methodologies. The one that we've adopted is - a lot of water utilities are moving away from ETs, which is unsurprising to us because of how difficult that's been. Other water utilities with this methodology include Urban Utilities, which is in Queensland, Sydney Water, Hunter Water. So, it's commonly adopted across some major water businesses in Australia.

Mr THEO - One of the things we proposed also to the Regulator and the government, there is agreement that the economic framework - the Regulatory economic framework, should be reviewed. Our proposal is that it should be reviewed by someone independent because I think it's time for the framework to be reviewed -

CHAIR - So, independent of TasWater, independent of the Economic Regulator?

Mr THEO - Yes.

CHAIR - Who should pay for that? Who should do it?

Mr THEO - Well, we'll probably end up paying for it, TasWater. We seem to pay for everything, so we'll pay for it. But I think it's important that every now and again we look at the rules that apply. Do they still serve in the best interests of the community? What are the improvements we can make to the Regulatory framework? I think it's time we do that review so when it comes time for TasWater to submit their next proposal in three years' time, we're writing a proposal that is based on a set of rules, if you like, that had been reviewed and where improvements could be made, they have been made.

Mr PASKE - A practical example of that, Chair, might be, at the moment within the framework, health, the environment, and dam safety have a seat at the table and are taken into consideration as part of the determination as Regulators. But perhaps growth, from a framework perspective, is not as actively considered. There's no one at the table talking to growth, so the outcome, potentially, from the pricing determination is maybe not balancing up all of those considerations that community might want to see in the final outcome.

Mr INGHAM - The only other thing I'd just add is, we are - how old is TasWater? Thirteen years. The framework hasn't really been touched since then and it's probably about time.

CHAIR - It hasn't been reviewed?

Mr INGHAM - No, not in the way that we're proposing, which is a completely independent stand back and have a complete look at it and see if it's serving its purpose.

Mr THEO - Where Government, TasWater, stakeholders and other interested parties have an opportunity to actually provide some comments to an independent review of the framework, all working towards an outcome that serves Tasmanians better going forward. I think that's what we're looking for as well. As Kane says, I think after 13 years, it's an opportunity to review the framework.

Mr YOUNG - Can I make one quick question? Just a comment, Chair, that you were making: TasWater is saying to customers, 'Look, we can't do anything about it, the Regulator sets prices'. And in some sense the Regulator makes a determination. We put our best submission in. But, for the ones that I have talked to the CEO about, where we go on site, we are trying to give the best advice we can. One of the things that customers can do is say, 'Do you really need this size meter? Can we reduce that down?'

CHAIR - Who pays for that?

Mr YOUNG - Well, normally the customer would pay for that, but the savings they could get could be really significant. So, we're sort of trying to work with customers to say, 'Well, what are the options here? Do you really need this? Are you up for these costs for the future?'

CHAIR - Well, sporting clubs probably do need a big connection to water their fields, so it's a bit hard for them, isn't it?

Mr YOUNG - Do they need that size? That's the - but we're trying to work. And the other thing is, we appreciate for a number of these customers what the impact is and we are having discussions with the Regulator and saying, look, the Regulator would say some of this

is unintended consequences of a very complex determination that was made. So, we're trying to go through the customer impact analysis and have a look at if there's any options we can look for the future. What can we do? So, we are working together with the Regulator.

Ms THOMAS - Thank you. Following on from the comment you just made about working with customers and exploring options with them to perhaps look at reducing their connection size, can you talk us through what that process actually looks like and what costs are involved in reducing that connection?

Mr PASKE - The costs vary depending on the connection size, but the process is, effectively, customers are making representations to us, as they are to yourselves. We're then sitting with them, going and meeting on site and talking about the options. If a downsize option is available to them, they are working with a surveyor or appropriate engineer and then putting in a development application to us to approve for that downsize; for that work to then be undertaken.

CHAIR - The cost is what?

Ms THOMAS - So, yeah, the cost. So, ultimately, what a customer has to do is engage a surveyor or an engineer -

Mr PASKE - Correct.

Ms THOMAS - which, obviously comes at a cost. And I don't know how readily available surveyors or engineers are at this time. That can be a rather daunting process in itself for someone who knows nothing about water connections or surveyors or engineers. How is TasWater assisting customers with that process? The feedback I've had from customers is 'this is all too hard'. TasWater says you can reduce your connection size, but it's not as simple as just reducing a connection size. You've got to engage a surveyor or an engineer, you've got to submit a DA,³ so there's another cost, and then you've got to wait to see if it's approved. And then there's, I imagine, a cost to actually change the infrastructure as well. So, there are multiple steps in this process. Do you accept that it's not a straightforward process and it's quite overwhelming for a customer to consider?

Mr PASKE - Yeah, we accept and we deal with, and listen and talk to those customers each on an individual basis. We understand it's not a simple or straightforward process. We try to assist them via our development services team who are answering questions on the phone, via email or, as we said, going out to do site visits, where that's appropriate as well. So, yes, we understand none of that is ideal. We're working with customers on what their options are.

At the same time, we are looking more broadly at what can be done within the bounds that we have around the charging methodology to see what else we can do for these outlier customers, because I think we need to put that in context. We have, you know, 225-odd thousand customers. We are talking about a significantly impacted group of customers. The number is relatively small and each of them matter and are important but, in the context of the total size of our customer base, we're talking about a relatively small cohort. Notwithstanding, they've been significantly impacted and we're trying to work with them on that.

³ Development Application

Ms THOMAS - In terms of the number of customers, out of that 225-odd thousand, how many have been adversely impacted?

Mr PASKE - I think as the Chair and the CEO said, we wrote to some 1,300 customers that were impacted by more than 10 per cent in terms of the increase in the size of their bill. In terms of complaints that we've seen come in since the determination, we're talking about, I think, about 150 in total over the last two months since we've been implementing the pricing methodology and since we communicated what that price impact was going to be. Again, I don't want to sound like we're dismissing those complaints. We're not. Each of them matter, each of them have a personal story and we understand the impact of that. But I think it is worth putting that in context in terms of the total size of the customers.

Ms THOMAS - When you say complaints, does that mean people just inquiring about their bill as well, or is it actual formal complaints?

Mr PASKE - No, those are formal complaints, or recordable complaints as we talk to them. That is complaining about the size of the bill or questioning the methodology under which they've been charged, as well as those that are making representations about the size of their bill but actually are being charged appropriately as per the Regulator. So, that's a total number.

CHAIR - Just to change the connection, it's an up-front cost. A lot of these clubs and that just don't have the financial capacity to foot that up-front cost. What would the average payback period be?

Ms THOMAS - And what would the average cost be?

CHAIR - Yes, you didn't actually get to the average cost: the average cost and the payback period?

Mr THEO - If we're talking about sporting fields in particular -

CHAIR - Let's just look at those as an example.

Mr THEO - It's probably not practical for them to reduce the size of their water meter because they need that volume of water to irrigate the sporting fields.

CHAIR - So they're stuck?

Mr THEO - They're stuck. Now, we're working with the Regulator and we're looking at what we can do for those customers. The reality is, it's the fixed sewerage component of their bill that's causing them the grief because, as I mentioned a moment ago, under our proposal they would have been paying roughly around the \$700 mark for fixed sewerage charges. They're now being charged \$19,000.

CHAIR - Let's look at ones where there is an option to reduce the size of the connection.

Mr THEO - Typically, you would see a payback period within 12 months.

CHAIR - What's the up-front cost estimated to be to replace a meter?

Mr THEO - It could be a few thousand dollars -

CHAIR - Including the process of DA and the surveyor and all the other?

Mr THEO - I can give you an exact breakdown of the cost, but it'd be in the order of a few thousand dollars.

Ms THOMAS - Total?

Mr THEO - Yeah. But the reality is, they'll get that back, probably two or three times that, by the end of the calendar year or the financial, or the 12-month period.

CHAIR - Is there a way that TasWater can assist those customers by perhaps giving them longer to pay their bills or something like that to enable them to meet the up-front cost?

Mr THEO - They're things we can definitely look at. For customers like sporting fields, that's probably a lot easier to make happen. But then you've got other customers that aren't sporting fields that do require a large water meter. And the reason we don't say, 'Yes, you can downsize the size of your water meter' is because they may need a certain size water meter to be able to access enough water for other purposes than domestic use, like firefighting purposes. Therefore, they need to get approvals from the appropriate Regulatory bodies to be able to say that, 'Yes, given your line of business, you can have a smaller sized water meter', and on that basis, we're happy to facilitate that process. For some it's more complex, for others it's not.

Mr YOUNG - George, I'm just thinking of other states where someone might have 100 mm fire service but they have a 20 or 25 mm for their normal use. You wouldn't worry about the fire service because none of that's going down the sewer. But in Tasmania I think we have complications -

CHAIR - Hopefully, it's very rarely being used.

Mr YOUNG - Exactly, spot-on. But I think the complication in Tasmania is that some customers may just have the 100 mm meter and they also use that for their use within the factory or the home.

CHAIR - So, you could put an extra 20 mm connection in, say, when they haven't got one?

Mr YOUNG - Exactly. That would get them in line and then you could say, well, the 100 mm is exempt. They're the sort of things that you look through and say, 'Is there a way you can reconfigure this to actually drop the bill?'.

CHAIR - This is a customer-by-customer approach, isn't it?

Mr THEO - Yes.

Mr YOUNG - It is.

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Mr PASKE - And it speaks to the legacy of different approaches across the State from different councils when they were in charge -

CHAIR - And then three water bodies originally and all the problems?

Mr PASKE - and speak to the legacy arrangements that we need to unwind. And they are customer by customer conversations.

Ms THOMAS - Before we move on, I wasn't clear around the cost because we got a bit confused then, going from residential customer back to sporting club. You mentioned around a few thousand dollars -

Mr THEO - It depends because they're not all the same.

Ms THOMAS - No, but a customer who is going to consider this is going to ask what the maximum, or round about what cost could this be to engage a surveyor, to do a DA, to get a plumber to actually do the work, all of that. If I'm going to consider doing this, I'm going to want to know before I engage a surveyor because that'll be a cost and it could be wasting money if you're not going to go through with it. What's the total cost average going to be?

Mr PASKE - I'm happy to take that one on notice and come back with some detail. I don't want to provide you with numbers that aren't exact. I'm happy to provide that and come back to the Committee on that.

CHAIR - That would be helpful.

Mr WINTER - I don't want to spend too much time on this because obviously it is a very broad issue, but just to follow up on that, we talked a lot about the size of the water connection and the impact that has on prices. Has the TasWater development services team told any commercial customers that downsizing their water connection won't reduce sewerage prices?

Mr THEO - (Inaudible 10.08.31).

Mr WINTER - No issue has been raised in relation to this?

Mr THEO - Do you have an example?

Mr WINTER - Has there been any issues raised around the information that's going back to customers at that executive level?

Mr PASKE - Not that I'm aware of. I'm happy to take an individual example, but the charging methodology would be such that the size of the water meter is what the fixed sewerage charge is charged on. But, of course, we have a large number of customers so I'm happy to look at any individual example you might have.

Mr WINTER - In the opening statement, you talked at length about the Regulator's determination and the impact that's had on those particular prices. Isn't it true that your original proposal was to increase the prices for your entire customer base by significantly more than the Regulator approved?

Mr THEO – Yeah. But I think what you need to be mindful of is we put forward a proposal that also had a component of increasing the variable component of the bill and reducing the fixed component of the bill. The two come together and they have to. That will deliver an overall outcome where, under our proposal, as I mentioned in my opening statement, about 36,000 families would have received a real reduction of \$53 in year one. You can't just look at 5.7 or the 8.8 per cent that we put forward. It's in combination of doing a tariff reform and then applying the increase, the outcome of which was spelt out in our proposal. It is complicated, but it's multiple initiatives that are coming together to deliver the desired outcome.

Mr WINTER – What's not complicated is that your PSP5 proposal was for a significantly larger revenue for TasWater and, therefore, coming from Tasmanian customers. I feel like this morning you've tried to present this as the Regulator causing the price rises.

Mr THEO - Again, under our proposal, even though we said an 8.8 per cent increase under our proposal, which isn't what we got, there was also tariff reform in that, and that seems to be getting lost. The net effect of those two things that we put forward would have reduced residential customer bills for 36,000 customers by \$53, and 63 per cent of non-residential customers would have got a price reduction in year one. The Regulator's determination has increased the bills to 88 per cent of customers across the Board. I'm happy to take you through a detailed presentation, if you like, on the mechanics of how it all works, but you can't treat things in isolation. It is a package of reforms that come together to actually deliver the outcomes.

Mr YOUNG - I understand exactly what you're saying. You're saying it's simple: that we only got 5.7 when we wanted 8.0. We wanted more. But I think the key thing is we wanted to shrink the fixed charge. We want it to be a smaller component. And all the consultation, customers said: 'Give us more control over our bill. Please give us more control.'

CHAIR - This has been an argument that has been going on since TasWater was established.

Mr YOUNG – Exactly. But that argument was not - whereas it's turned out the fixed charge remains really high, and the unintended consequence of that is the discussions we're having today. If the fixed charge was small, we wouldn't be having these discussions.

Mr WINTER - We've sat here - this is the third time for me in the last 12 months -

Mr YOUNG - We're doing this dance.

Mr WINTER - The last time you were here, the comments were that TasWater felt that its customer base actually wanted to pay more and here we are today hearing evidence that, in fact, it's the Regulator that's forced the prices to go up and the Regulator's the bad guy here. I'm just sitting back here wondering where this -

Mr YOUNG - I just want to clarify: in previous times we've been here, we didn't say the whole customer base wanted to pay more. That's obviously affordability. What we said was that we had a Community Committee, 40 representatives of Tasmania, and when we put it forward to them, they said, 'We've got real issues we're facing as a state and we want to get on

top of it, and you need to not just leave this for our children and grandchildren'. That's what the Community Consultative Committee told us.

Mr INGHAM - Sorry, could I just add something? I think there's a bit of nuance here. What we're talking about is customers that have had greater impact on their bills as a result of PSP5. So, we're talking about outliers here that are impacted more than 5.7 per cent, in some cases over 10 per cent. Now, that's different to a conversation about what we were proposing in our proposal, which was an 8.8 per cent increase on average. But it was underpinned by a request to invest \$1.7 billion of capital. I think that they're two different things, in my view.

Mr PASKE - If I could just make one further point. As Kane points out, we've talked about some unintended consequences from the Regulator's final determination. Please don't take that as us not taking responsibility in our understanding that they are ultimately our customers. We have to work with them, we have to work within the bounds and the framework with which we're given, but we understand the real impact we hear from them every day. That's what we're focused on working on.

In relation to customers asking for a price increase, I think our point is no one ever wants a price increase, but Tasmanians do understand the need to invest in sewerage and water infrastructure for the future of Tasmania. That's what our engagement showed. We, of course, need to consider affordability within that, and that's our job.

Mr WINTER - As part of your evidence so far, various times you've talked about opening a discussion with the Regulator around PSP5 and the pricing. Are you indicating that you're seeking to have the pricing schedule amended by the Regulator to support these customers?

Mr YOUNG - Yeah, we are the regulated not the Regulator, of course. What we've agreed with the Regulator - I think everyone sees these unintended consequences, we feel for these customers. So, what we've said with the Regulator is, can we do the complete analysis of all the things that you're asking today - what sort of customer, what cohorts, what's the increase, what's the bill size? At the moment, the team is working flat out just to really understand what the consequences are of this Regulatory decision. Then we'll go back and talk to the Regulator because it's not really up to TasWater to say we're going to change the Regulatory decision. We need the Regulator in the room and have a discussion and say, 'What's fair here? How do we best move forward of this?' The answer to all of that will not be, I suspect, that people that are paying less need to pay more to offset people that - there will be, I suspect, reductions in revenue by any solution to this Regulatory outcome and that's what we need to walk through.

Mr THEO - If I could just add to that, if I may. I think the question earlier was how many customers are paying more. If we focus on the non-residential customers, where it's playing out, there's about 2,500 customers across Tasmania - or 2,400, actually, that are paying more than \$500. That reduces as you go through it. There are 642 customers that are paying more than \$5,000.

CHAIR - This is per annum?

Mr THEO - Correct, on the basis of the current determination.

Ms THOMAS - Total bill cost?

Mr INGHAM - Their bill has increased by more than \$5,000 or \$500.

Mr THEO - So, when you look at all of this - and this is the work our chair is saying we're currently doing, and we've actually got a meeting with the Regulator this afternoon, that could be as much as \$16 million worth of lost revenue by TasWater if you were to zero that out, that increase. The implications of collecting \$16 million less - and I'm not saying that's the answer but that's the answer but that's the extreme, is that that's close to \$80 million over four years that we can't collect, and it's \$80 million we can't put into water and sewerage infrastructure, which we all agree is what we must do. So, there are implications and consequences of not being able to generate the revenue that we need. But having said that, and Callum said it a moment ago, we are owning the impact that this is having on customers and we are working through what we can do to alleviate some of the pain that some of our customers are experiencing.

CHAIR - I listen to this, I hear what you're saying. And I look at some of our Government businesses, not that you're one. You've got different owners.

Mr THEO - Yes.

CHAIR - But Government businesses who have what you would consider broadly to be a community service obligation may receive funding to assist with that from the Government. They also don't pay dividends when they're not making a profit. So, I think we circle back to this point, and we have been in the past: how is it that you continue to find money to pay dividends when all those problems you've just outlined, and the real challenge in a Government business sense, I wouldn't expect you to be paying dividends.

Mr YOUNG - That's a big broad question.

CHAIR - It's a really important one.

Mr YOUNG - It's a really important one. Every economic price outcome comes with a rate of return and generally, if we work hard to achieve our efficiency, we make a profit. That's not just TasWater; that's every utility in Tasmania; that's every utility across Australia: it's every utility across every jurisdiction I've worked in, the US, England. So, we will make a profit. At the moment we pay a proportion of that back as dividends because the councils, the dividends that we give them, they use for their customers for things that they believe customers need in the community. We've had this discussion. If we don't pay dividends, the solution is that councils can put their rates up. But it's a zero-sum game. Customers still pay the same amount of money. Now, can we use that dividend -

CHAIR - But I come back. Whose responsibility is it? Is it the Government's responsibility here to step in? This is really critical infrastructure for our state. I was here in parliament when Michael Aird, as the then-minister and Treasurer, tried to make it a State-owned company. That didn't succeed and we ended up with what we've got. In that case, you would see perhaps a different approach to this question.

Mr YOUNG - I think it wouldn't matter who was the owner of TasWater. If you get a Regulatory outcome that has unintended consequences, it doesn't matter who the owner is. We've still got to face this. And that's what we're doing.

CHAIR - But TasNetworks is a fully regulated business. AER tells them what they can and can't do, the same as OTTER tells you what you can and can't do. When they're not making money - and this is going to be a problem with the North West Transmission Developments, they're not going to be making money. In fact, they're probably going to be in a world of pain.

Mr YOUNG - Yeah.

CHAIR - So TasWater is in a world of pain.

Mr YOUNG - And if we don't make a profit, we don't pay a dividend.

CHAIR - But you make a profit by charging customers.

Ms CRAWFORD - Perhaps we can just zoom out and step back for a little bit.

CHAIR - Or not spending on CapEx.

Ms CRAWFORD - Thank you for pointing out we're not a GBE so the normal obligations or options that there are for GBEs don't apply to us. I think as well, it's worth looking back to the establishment of the corporation and the principles that we are, in fact, bound by. The principal objectives of the Corporation outlined in our enabling legislation, which is the *Water and Sewerage Corporation Act*, and they expressed to be of equal importance. I'll just briefly read through these. This is a bit long, but I just want to explain the context in which we're operating. First of all is:

to efficiently provide water and sewerage functions in Tasmania;

Secondly:

to encourage water conservation, the demand management of water and the reuse of water on economic and commercial basis -

CHAIR - Which a fixed charge doesn't help.

Mr YOUNG - True.

Ms CRAWFORD - And finally:

to be a successful business and, to this end, operate its activities in accordance with good commercial practice and deliver sustainable returns to such of its members as are councils -

So, our council shareholders:

and deliver water and sewerage services to customers in the most cost-efficient manner.

PUBLIC

Those are the parameters in which we're operating. We are subject to that current governance arrangement and it does anticipate that we are returning reasonable and sustainable returns to our council shareholders,

Mr YOUNG - And that's under the *Water and Sewerage Act*.

Ms CRAWFORD - Yeah, the *Water and Sewerage Corporation Act*, our enabling legislation.

CHAIR - If I looked at TasNetworks' act, it would probably tell me the same thing. Anyway, I'm sorry, I got diverted. I was going to go to Luke and I probably cut across you.

Mr EDMUNDS - That's all right. Back to when you talked about the 150 complaints, what's the process, how do you deal with those complaints? The Committee's been directly forwarded correspondence from one person who has claimed they've got a 171 per cent increase. How are those people dealt with and responded to? Granted, it's only a couple of days ago that they seem to have sent their correspondence, but they've sent it to all and sundry in government and TasWater. How quickly do you expect to get back to those people with the response? This particular constituent, I think, has got about 10 questions about their business charges. What's the timeframe for when they can get those sort of answers?

Mr PASKE - Thank you. We've got mandated response times as part of our customer code. I think that's within 10 business days for responses. The process is the complaint will come into our customer services team. We've got a specific complaints team that deal with responding. Depending on the complexity of the questions or the complaint, and the level that the complainant is requesting that review, it's either dealt by the complaints team; if it's directed to our CEO, it's dealt by and viewed by George. Depending on the level of complaint and complexity, we have maintained a 100 per cent response rate in terms of within that response timeframe, noting that sometimes there's back and forth multiple times on answers to questions, and then questions to those answers, and the like. And, look, we find the best way, where possible, is, of course, to get on the phone, to get out on site. We know that there's opportunities for us to always improve that process.

Mr THEO - Luke, to your question also, you mentioned 117 per cent was the increase for that particular customer?

Mr EDMUNDS - It was 171 per cent.

Mr THEO - We have a total of 327 customers that have had an increase above 100 per cent and more than \$500. We'll work with all of those customers.

Mr WINTER - Back to the dividends. Since we raised this for your new corporate plan, you've abandoned the 50 per cent increase in dividends for council, which I certainly welcome. The dividend policy, though, itself is one page. Well, it's two pages, technically, if you put the appendix at the end. I'm wondering how the Board actually considers this because there's no mention here around the profitability of the company. There's no mention, really, apart from the process. And, again, the process - correct me if I'm wrong, but it goes back to a proposed set of dividends in the corporate plan, which the councils actually approved themselves. So, we're in this circle of where it ends up being the councils that approve their own dividends, as well as the state government, of course. Has the Board considered, or will the Board consider,

perhaps enhancing its dividend policy so that we could be more satisfied that we're going to have a sensible approach to this?

Mr YOUNG - Let me answer that question by just looking at what's happened in the last 12 months. As part of our price submission, we did a draft corporate plan based on our draft price submission. I think you rightly pointed out at the time that we were proposing dividends of \$30 million.

Mr WINTER – Fifty per cent extra.

Mr YOUNG – Yeah, yeah. Then we came in June [2026], I think, to this Committee and the question was asked: 'How could you justify \$30 million?' What I said to the Committee at that time was, 'Please understand that this is fluid, based on the level of profit that we expect to make'. Because of the draft determination that came out and we hadn't decided yet, I told this Committee that instead of \$30 million, that dividends would drop to - you can look at the transcript, between \$20 and \$24 million. Now, what's actually happened is that for this year it's \$24 million and then we're forecasting \$20 million.

The other point we've made is that that is dependent on actual results. To do that we have to run hard, meet unexpected consequences that occur, climate. We have to hit \$128 million worth of efficiency. We'll be one of the most efficient companies in the whole of Tasmania. If we cannot hit those targets, if things happen, if our financial outcome is worse, then the Board will make the decision to drop dividends accordingly. We want to stay an investment-grade company, and we will do everything we can to stay there and meet our other commitments in capital and operating and efficiencies. It is something that we spend a lot of time looking at to achieve the right balance.

Mr WINTER - Just going back to the question, your dividend policy itself is a very small document and gives you a lot of capacity to amend that. I understand, from your earlier answer, that the dividends have to be sustainable, and I assume that aligns with profitability for you. But the concern I've got here is that it appears that, post-COVID - and to declare that I was one of the COVID mayors when you took the dividends away and I remember the reaction from some of the mayors. But it also seems extraordinary that you've paid back dividends. I don't know any other company or household that's been able to recoup the costs later, to go back and say 'give us the money that we lost during COVID'. It's quite unique. There's nothing in your policy that actually deals with that. I'd like to understand, from the Board's perspective, how it came to that conclusion that it should pay back dividends to councils.

Ms CRAWFORD - In relation to the COVID dividends, that was an arrangement that was made but it was always subject, of course, to the considerations and tests that it made at the time. A really important thing about our dividend targets set out in the corporate plan is they are only targets, based on forecasts. Under our legislation, including under the *Corporations Act*, they're in fact determined quarterly by the Board based on the prevailing circumstances and financial health and performance of the company, and other relevant factors that are considered at the time. In each case with the special dividend payments, or the catch-up payments from COVID, they were considered in that context and came at the end of the financial year.

Mr WINTER - Specifically what context were they considered in? What were the things that were being considered?

Mr INGHAM - For each year in dividends?

Mr WINTER – Mhm.

Mr INGHAM - Profitability, cash flow, debt, like Kevin mentioned before, our ability to remain investment-grade, which obviously means we can continue to borrow.

Mr WINTER - The bit that it feels like you're missing, the evidence that you actually put in your PSP5 submission, was that your infrastructure was falling apart, you're non-compliant with the environmental regulations. The problem I have - and I think Tasmanians are looking at this, is we've got a situation where you're telling us that the infrastructure that TasWater has inherited is of such poor quality you needed to ask for a substantial revenue increase. But at the same time, in line with this dividend policy that fits on an A4 page, you're proposing to give money to your owners, or an additional 50 per cent dividend. I just don't understand how you came to that conclusion.

Mr YOUNG - Well, what we do is we put forward exactly what we believe is right in terms of infrastructure for Tasmania and operating costs. We put forward -

Mr WINTER - In particular, why are those infrastructure concerns not included when you make your dividend determination?

Mr YOUNG - We put forward \$1,700 million worth of capital and the Regulator said, 'You need to spend all of this. But with affordability, we're only going to do it with \$1,200 million and you need to cut \$500 million.' I think I've said we pay a dividend that councils use to do projects within their community, and if we say, 'No, we're not going to use that dividend to give to councils', councils can put their rates up. But from an affordability viewpoint, it's a zero-sum game. They still pay the same amount of money. For us, we rely on the Regulatory process, for the Regulator to say: 'This is what I believe is the amount you should be spending on capital', and caps it at that.

Ms CRAWFORD - What we do have to just go back to in relation to why do we pay dividends, is we are bound by that overarching governance structure. It is a requirement of our legislation and one of our priorities that we have to balance. Others is returnable -

Mr WINTER - I'm not arguing against dividends. I just can't understand the logic of increasing the dividends by 50 per cent during what you effectively outlined as an infrastructure crisis in your PSP5.

Mr YOUNG - And we didn't increase them by 50 per cent.

Mr WINTER - It was in your corporate plan. It was approved.

Mr THEO - That was the proposal.

Mr YOUNG - Which didn't get up.

Mr WINTER - It was approved through your corporate planning process. You outlined over a five-year period a 50 per cent increase in dividends.

Mr THEO - Look, it reflected a draft proposal, right? We made that very clear.

Mr WINTER - But an approved corporate plan.

Mr THEO - No, the corporate plan is beyond one line item on dividends but -

Mr WINTER - Was the corporate plan approved?

Mr THEO - Yes, but we -

Mr WINTER - Did the corporate plan have a 50 per cent increase in dividends?

Mr YOUNG - Yes, based on a draft proposal.

Mr THEO - But it was qualified, so we'd need to read the entire document. The conversation was qualified to say, 'This is based on our proposal'. Now, depending on what comes through the final determination, it won't be that, and the Chair made that comment this time last year. So, we moved on from that. That's not what we're paying.

CHAIR - Has the corporate plan been updated to reflect that?

Mr THEO - Yes. Can I just say - and Kate spoke about our legal obligations, you need to ask the question, who's actually getting this money in dividends? We have some very small councils. Some of them are getting \$120,000 a year, \$200,000 a year, \$400,000 a year in total dividends. To those councils - and I'm not speaking on their behalf, but I know to those councils, that's important.

Mr WINTER - As I said, I'm not asking about getting dividends at all: I'm asking about the 50 per cent increase. But if you're okay, Chair, I'd like to move on because we don't have a lot of time.

CHAIR - Yeah. I've got a couple, too.

Mr WINTER - The corporate plan. I'd like the Committee and people to understand the corporate planning process. In preparation for this, I've read through the statement of expectations, the constitution and the bill. But could someone explain to the Committee the corporate planning process from when you contact the councils with your draft corporate plan right to the end when they vote on it?

Ms CRAWFORD - The process is set out in our Shareholders' Letter of Expectations, which is supported by the constitution. It involves a process of a draft that goes out on 30 April, and there's an opportunity then for our shareholders to provide feedback on the corporate plan. Then the Board will make a decision, based on that feedback, whether or not there is any update to that plan. It is distributed again to shareholders in advance of our annual general meeting planning. The shareholders will have the opportunity to raise any concerns further at the general meeting, we can respond to questions and it's up to the shareholders to approve that corporate plan. There is a staged process in the event that it is not approved. I can go through that with you.

PUBLIC

Mr WINTER - No, that's fine. In terms of what happened this year, how many of your owners provided feedback?

Ms CRAWFORD - In this year, this was a very unique year in that we received the final determination on the same day that our draft corporate plan was due, so -

Mr WINTER - That's very tough for a person in your role.

Ms CRAWFORD - We were required to issue the plan by the end of April, and that is also the day that we received the determination. So, this year we had to advise the shareholders we would take a little bit longer to put the revised financials on the basis of the determination. I have those dates for you. We issued on 4 June [2026] an updated corporate plan to our shareholders and included the financials. We then had an extended period of feedback to make sure that our shareholders could thoroughly engage with those new numbers. We did receive substantial feedback in that case. The feedback at that time reflected a number of matters, including the reduction in dividends. That was largely driven by the timing issue. As we appreciated and we acknowledged with our own shareholders, it was very challenging at that point in June [2026]. To a large extent, budgets had been set and councils' rates had been struck, and obviously there was a different expectation around forecast dividends at that time.

Mr WINTER - Specifically, were the councils concerned about the loss of the 50 per cent increase in their dividends?

Ms CRAWFORD - Yes. It was a significant change at a time that was quite challenging for them to adjust their budgets.

Mr WINTER - I'm only speculating here, but having been a mayor, they had budgeted in their budgets for a 50 per cent increase in their dividends and they found out that they weren't going to get it. Is that correct?

Ms CRAWFORD - We don't know of all the councils, but we certainly received submissions that alluded to that timing issue being problematic.

Mr WINTER - Some of them did. What about from the Crown? Did they provide feedback to this year's corporate plan?

Ms CRAWFORD - I would like to just check that, please, to refresh my memory.

CHAIR - Can I just clarify if the corporate plan, following the feedback, has now been finalised or is it still?

Witness - It's been finalised and approved with the lower dividend.

CHAIR - It has? So, the current one is approved by the owners and Board?

Mr THEO - Yes. And the corporate plan is revisited every 12 months.

Mr WINTER - Did any of the councils indicate that, without the increase in dividends, they would increase their rates by more?

PUBLIC

Mr PASKE - I think that part of the challenge with the timing was, as many on the Committee would know, many councils had already struck their rates, they'd set their budgets. So, largely the feedback on the change in dividend forecast was timing related. They didn't indicate that they would have to change. They just indicated that the timing was not great for them in relation to the setting a budget, the striking of rates, and that drove -

CHAIR - And they probably had to pull back some expenditure themselves?

Mr PASKE - That's right.

Mr YOUNG - Or increase rates in future years to catch up. In great hindsight, when I look back at that, we did put a draft corporate plan out based on our draft submission. We could have put more information underneath that said: 'Look, I've probably been involved in 13 price submissions and there's not one price submission that we ever got what we asked for. That never happens.' And we should have said: 'Look, there's an expectation that we've put it in based on the draft but the final will be less, and there will be significant reductions.'

Mr WINTER - Then we get to your annual general meeting where the councils – and I shouldn't say 'councils' because you have an extra owner now as well.

Mr YOUNG - Sure.

Mr WINTER - Your owners vote on the corporate plan. Was that unanimously passed this year?

Mr YOUNG - Yes, I believe it was. It was robust discussion, but I think yes.

Mr WINTER - About the dividend?

Mr YOUNG - No, the plan you're asking about.

Ms CRAWFORD - Yes, it was certainly ultimately approved. However, there was a request to amend the final resolution. That was to approve the corporate plan but also to bring in a review of the dividend policy. That centred again around the timing and the communication should we find ourselves in this -

Mr WINTER - Never stand between a mayor and its dividend.

CHAIR – So, the review of the dividend policy is separate to the review of the Regulatory framework?

Mr THEO - Yes, exactly. That's right, Chair.

Mr WINTER - So, that dividend policy that I'm referencing, that's now under review? Is that correct?

Ms CRAWFORD - That is correct. With these policies, and with our governance suite, we undertake periodic reviews. It was requested that it was a good time to review that policy, and we're currently undertaking that. It's a commitment we made to our shareholders. It is a broad policy and it is subordinate to our legislation, our constitution, our Shareholders' Letter

of Expectations. The Board is currently undertaking that process, and we have an LGAT working group that is providing a first round of consultation and discussion. Then we'll have an opportunity to engage more broadly with our owners' representatives as part of our general meeting and standard governance processes.

Mr YOUNG - I just want to be clear that one thing that will never change in a review of dividend policy is that the Board will set dividends based on some strict financial overviews. That is our role.

Mr WINTER - That's good. You would have some financial problems if you let the mayors do it.

Mr YOUNG - No, it's the Board's responsibility, which is what we did when the final came out. We made tough decisions.

Mr WINTER – Do you have an answer on the question around whether the Crown provided any feedback this year?

Ms CRAWFORD - I understand they did find that. I don't have it in front of me at the moment.

Mr WINTER - Sure. We have the Treasurer coming in later, so if he's watching, I might ask through them as well.

Mr PASKE - I think the main feedback from the Crown was around - we've got some new sustainability reporting requirements, so I think it was around the sustainability report and the structure of the report. They wanted some more information there. But we can answer in more detail.

Mr EDMUNDS - That review, you talked about the feedback was about timing and the like, but that it will also consider the dollars, right? That's also under review?

Mr INGHAM - The dividend policy will spell out in more detail what will be considered as part of the dividend-setting process.

Ms CRAWFORD - Again, it's an important distinction that the corporate plan, again this is a nomination of target dividends and then the Board has absolute discretion under the legislation to then determine the dividend policy and determine the dividends on a quarterly basis. Really this is about reviewing a policy as part of our good governance approaches. We regularly review our governance suite. But also, where we can provide greater clarity around those matters, it's an opportunity to do that in this next review.

Mr WINTER - Like what you talked about.

Mr PASKE - I think what we've also committed to with shareholder councils is that timing piece, the way to deal with that. We have a half-yearly briefing with them every February. We've committed to providing some greater guidance on that as they go into their budget setting in the first half of the year before they strike their rates.

PUBLIC

Mr YOUNG - We'll do better forecasting, we'll do conservative assessment and we'll say, 'Look, this is our belief at this time'. So, we give them early advice for their budgets.

CHAIR - Moving on to another area, one of our terms of reference is whether TasWater's financial and operational settings are appropriately balanced against the state's housing supply priorities under the National Housing Accord. You did speak briefly to the changes from October, but can you respond to that?

Mr THEO - Sure. The chair made the point that our proposal had \$1.7 billion worth of infrastructure investment. Of that \$1.7 billion, off the top of my head about \$98 million was for growth-enabling infrastructure. The Regulator cut that back to \$1.2 billion, i.e. \$500 million less. The implication of that decision means that where TasWater intended to invest \$98.2 million, it's now reduced to \$35.5 million. We want to invest more in growth-enabling infrastructure, not less. But in order for us to invest more, that goes back to the conversation we've been having all along, and that is we need to be able to generate the revenue to service the loans that we need to take out to invest in public infrastructure. If we can't generate the revenue, we can't service the loans. The reality, and the consequence of having the revenue streams that we do have, means that we can't support growth as much as we would prefer to. That's just the reality.

Mr PASKE - I think some important distinctions as well. It's not a headworks charge that we're talking about. Headworks charges have been in place. They've increased as part of the Regulator determination, but they're separate to what we're talking about here. This has been an existing charge that has always been in place. There has been a remission on it, or a holiday for developers, but it is only once the lot or the title is sealed and available for sale. It's a charge that then is levied, just as any other customer who pays within serviced land for a property that benefits from being able to connect to our services. It's \$900 per lot per year but, importantly, it's available to be able to be sold at that point; it's not part of a carrying cost before the title is sealed.

Ms THOMAS - Thank you. Going on to a different topic, at the last hearing I asked some questions about key management personnel remuneration and general employee salary increases over the last five years. I appreciate the information that was provided back in response on 13 July outlining the increases over the last five years. The table that was provided on page 8 of the response talks about the general award increases for employees over the last five years being: 2.5 per cent, 3 per cent, 3 per cent, 5.1 per cent and 5 per cent. The response calculates that as an average of 4.03 per cent but, to my maths, it's actually an average of 3.72 per cent. I'm wondering if you can clarify what the actual average increase is, if you have a look at the response and come back.

Mr YOUNG - We would be happy to take that on, have a look and see if there is an error there or not, or there are other factors.

Ms THOMAS - Thank you. The information provided shows that the increase for senior executive salaries over that same time period equates to an average of 4.31 per cent over the last five years. Is there any consideration given to how that compares for senior executive salaries compared to general employees?

Mr YOUNG - Of course. I've been chair now for a couple of years. What's involved in senior executive salaries and the CEO is that we do get benchmarking undertaken of the general

wage increases across Australia and we do set ourselves that we'll pay a 50 percentile on the average. We look at how that's moving before we evaluate the roles of the executive and the CEO, we get information back on the benchmarking and we make a call. It's based on performance so it may be that some members of the exec team get paid a little bit more than our budget and some get paid less. But we will always aim to be in line with the budget and we do give consideration to what the general increase is. They're not always going to be in sync. Our current EBA⁴ is a four-year EBA we've agreed, and the first year of that will be 4 or 5 per cent.

Mr THEO - No, the first year of the current EBA was about 3.5 -

Mr YOUNG - and then -

Mr PASKE – The first year was 5 per cent.

Mr YOUNG - That's what I thought, too. In that case where there's been agreement that there'll be that increase, then we will not be paying that for the executive team. We'll go back to our benchmarking and we'll set what we think is right, even if it is less than what the EBA agreed.

Ms THOMAS - And what if it's more?

Mr YOUNG - What if it's more? Then we'll look at the average over the time period and we'll see how that compares, and we won't be too far out of sync with that. That's our current approach and we're going through that at the present time.

Ms THOMAS - We talked about the CEO's remuneration as well and you provided information back in relation to that, talking about the successive increases of 12 per cent and 8.9 per cent over two years. There was a compounded increase of approximately 22 per cent in the CEO's salary over those successive two years, compared to 10 per cent for general employees over the same period. In fact, general employees received just a 20 per cent increase over the five years. I say 'just', but in comparison to the 22 per cent received by the CEO over that same period. I note that you talk about benchmarking information and independent market advice and things like that. I also note in the information provided that the CEO remains approximately 3 per cent below the national average in terms of comparable roles. But does the benchmarking comparison account for TasWater's ownership, the customer base, the performance of the organisation, employee numbers, the Regulatory environment and the Tasmanian labour market? Or is it based principally on comparison to organisations operating nationally in larger markets, effectively?

Mr YOUNG - It would look principally at the benchmarking of similar jobs across Australia. It would target - the proposal at the moment is we target 50 per cent so we're on the average. I wasn't chair when you were talking about those significant increases but, looking back on that, I think there was actually an adjustment because the benchmarking company also evaluates the role of the CEO and increased what they saw as the size of the position of the CEO. That led to some increases at that time. But that would be true where we do work evaluations of people within the company where their roles change over time, and we say, 'Yes,

⁴ Enterprise Bargaining Agreement

we see this as a higher-level position than what you are currently paid', and that would be adjusted for people throughout the organisation as well. Those same rules apply.

Ms THOMAS - Organisational performance is obviously considered as well. Does the Board weight benchmarking as a more important determination measure than organisational performance? How are those things weighted?

Mr YOUNG - We would look more at the benchmarking and the 50 percentile because at some time in the future, George will not be in this company and we would go to the market and we would try and advertise for the best possible person that we can get to take on the significant role of CEO of the business, and we want the remuneration to be attractive to really good people. Having said that, it would be based on a 50 percentile; it would be an average of what we see people are being paid. We're thinking we want the best people that we can that can be leaders of the business. It is an extremely difficult role.

Ms THOMAS - We want the best people we can to be Premier of the State, too, but it doesn't pay anywhere near that amount. But anyway, \$650,000.

Mr YOUNG - And that's true right across Australia.

Ms THOMAS - Yeah, that's right. Exactly. It's a broader conversation.

Mr YOUNG - I think when I was the CEO of Sydney Water, I was twice as much as the Premier.

Mr WINTER - He won't even take his pay rise.

Ms THOMAS - Are you sure about that?

Mr EDMUNDS - Just the other Cabinet ministers.

Mr WINTER - On the asset register, as part of the draft determination the Economic Regulator found:

As part of the investigation, the Economic Regulator identified a number of errors and inconsistencies in TasWater's calculations, including \$365 million in errors in TasWater's regulated asset base, largely due to TasWater not properly disposing of assets from its regulated asset base when they are replaced or decommissioned. The Economic Regulator's corrections removed more than 50,000 assets that were no longer in use. In total, the Economic Regulator's corrections reduced TasWater's proposed notional allowable revenue by \$2.1 billion.

It also goes on to talk about an Excel spreadsheet, and the Regulator actually gave this Committee evidence that, in the past, they hadn't even been able to access this Excel spreadsheet. Can you talk to the use of an Excel spreadsheet for an asset register like that and how, I hope, it's getting resolved?

Witness - Can I jump in? Our asset register is actually held in Maximo. The Economic Regulator doesn't have Maximo, so we download it into a spreadsheet for their access.

Mr WINTER - Right. Thank you. But if you could talk a little bit about the issue.

Mr INGHAM - I think they identified a number of issues with the register that we had. Some of them we accepted and we adjusted our response back from the draft. A lot of what was proposed we didn't agree with, which ultimately the Regulator didn't accept. There was the assertion that there was a lot of assets that we were no longer using.

Mr WINTER - 50,000.

Mr INGHAM - Yeah. And that was mainly due to the fact that the effective life of the asset had been passed. There was an assumption there from the Regulator that we weren't using the asset any further but we were, and we are.

Mr WINTER - Is that a problem, though, that on the register you've got assets that say they're at the end of life but you're actually still using?

Mr INGHAM - Well, it's actually an issue with the way that the Regulator determines depreciation in the process, which, again, would be a really great thing to have a look at as part of the review. There was a lot of revenue -

CHAIR - So, a fully depreciated asset is deemed to be no longer used, is that right?

Mr PASKE - Yes, but it's still in the ground and it's still providing services.

Mr INGHAM - From the Regulator's perspective, it is. But what hadn't happened was depreciation. We hadn't been able to recover effectively the full cost of those assets through prices.

Mr THEO - In other words, they hadn't been fully depreciated.

Mr INGHAM - Correct.

Mr WINTER - It's not true to say that you're running your entire asset register on an Excel spreadsheet?

Mr INGHAM - No.

Mr WINTER - That's good to hear.

Mr YOUNG - The Regulator doesn't have the sophisticated software and we said, 'We'll give you an Excel spreadsheet'.

Mr WINTER - It's just a matter of the Regulator not being able to access your same system. Okay.

Mr THEO - That comment related to them not being able to open the Excel spreadsheet in PSP4, not now.

Mr INGHAM - That's right.

Mr WINTER - They did make that clear, but they said they couldn't open it at all in the previous one. This time they could open it, but it made it sound like - I at least took from it, perhaps other members didn't, that you're actually operating your asset register on Excel spreadsheet.

Mr INGHAM - No, fair clarification.

Mr WINTER – That's good. I had more but it's a totally different topic.

CHAIR - Do you have other ones or not?

Ms THOMAS - I've just got one relatively brief one, circling back to something that we started with. In terms of the technical assessments and being required to downsize, I think you mentioned that maybe there have been 150 customers contacted. I might have heard misheard that.

Mr PASKE - There were 1,300 that were impacted by more than 10 per cent. In terms of complaints or people that had contacted us, yeah, around about 150.

Ms THOMAS - Given the complexities that we talked about in terms of the steps you have to take and the cost, has TasWater considered, or will it consider, providing the initial technical assessment for those customers if they request it and introducing some sort of streamlined pathway where it has been created?

Witness - There is one pathway that's a non-cost solution, which is to look at the discharge factor. That doesn't require a change of meter, but if the customer calls us and says, 'We believe our discharge factor to the sewer should be lower', we can do that and it doesn't require a hydraulic engineer, it doesn't require a change of meter.

Ms THOMAS - Is that being offered to customers, because the communication I've received from a customer, they weren't offered that option? There was only the option to reduce the size of their connection. Is that being offered routinely?

Mr THEO – There's a range of factors that need to be considered. If the discharge factor that is applied for a particular customer isn't an accurate reflection of that customer type, then a review of the discharge, there is a process and we can review the discharge factor. What we're finding, however, is it's not the discharge factor that is causing the issue. It's the earlier conversation we had around the fixed sewerage charges.

Can TasWater water provide the technical advice to these customers? We're not legally the technical advisers behind what a customer can and can't do for the purposes of size of water meter to fulfil the business needs. For example, they may need fire services. We can't say to a customer 'You can downsize your meter' because it may breach the regulations with respect to maintaining a fire service. But what we can do is help customers navigate through the process and provide them with support and indicative costs, to your point earlier, as to what that would involve. So, they can actually do a very quick desktop exercise to say, 'Well, if I go and invest two, three, or four thousand dollars, I'll get that back in the first year of me making that change'. We can help them go through that process, but we can't make those decisions for that customer.

Ms THOMAS - So, you are helping them through that process.

Mr THEO - Yeah. And where we need to make improvements in our process, we will. We're there to stand by them side by side, work through the process with them. We can't do it for them but we are more than happy to walk them through the process.

Ms THOMAS - That certainly wasn't offered in the case that I've seen. I might follow up on that with you directly.

Mr THEO - Please let us know.

CHAIR - Has there ever been an audit of the incorrect discharge factors?

Mr THEO - The discharge factors that we apply is based on customer type. They are consistent with the rest of the country. If you're a residential -

CHAIR - The question is, have you done an audit to make sure that all your customers are on the right discharge factor because what we just heard was some of them aren't?

Mr THEO - Correct, we have. And our bills that went out are accurate in regards to the determination and the applied discharge factors. However, if I'm a customer that has a large backyard and I've got 100 fruit trees in my backyard, I'm not the same as someone who's on a 600-square-metre block and is a residential customer but doesn't water 100 trees in the backyard. So, in that particular instance when the customer brings it to our attention, because as far as we're aware, they're both residential customers, if a customer comes to us and says, 'Hey, I've got a hundred trees in the back yard, which I water every day, so 90 per cent of the water that goes through my water meter is not going into the sewer, I think you should review my discharge factor', we do. There's a process we go through and we make the appropriate adjustment.

CHAIR - So, it's up to the customer to raise that?

Mr THEO - Because we wouldn't know any different. But the discharge factor that's been applied to them as a residential customer is consistent.

CHAIR - Compared to the number of bathrooms, effectively?

Mr THEO - No. That's going back to potentially ETs. The discharge factor for a particular customer cohort is based on the volume of water that goes through the water meter. Typically, a house, irrespective of the number of bathrooms et cetera, the assumption is that 90 per cent of the water that goes through the water meter goes down the sewer, same as an apartment block. My example was to illustrate the point that, even though you're a residential customer, because you've got 100 trees in the back yard which you water, not 90 per cent of that water that goes through the water meter goes down the sewer.

Mr PASKE - But the discharge factor for different customer cohorts is set. Those different customer cohorts can see what discharge factor has been applied to them. In those instances outside of residential where they might say, 'We're not sure we've been allocated correctly here', they call us up and we do that assessment.

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Mr EDMUNDS - I've got some OTTER information here that says TasWater has 197,712 connected residential properties. Is that the correct number?

Witness - For sewerage. For water it's higher; it's more like 225,000.

Mr EDMUNDS - How much, sorry?

Witness - It's more like 225,000 for water and just under 200,000 for sewerage.

Mr PASKE - The number of water connections is 227,469 as of end of last financial year, and the number of sewer connections is 197,829.

Mr EDMUNDS - Okay, great. My data's a bit old by the looks of it.

Mr PASKE - So, there are some customers that get sewer only, some that get water and some that get both.

CHAIR - We need to kind of wrap it up in a minute. With regard to the end of the 24-month remission on fixed charges for new lots, who did you consult, or did you consult anyone on that decision?

Mr PASKE - Yeah, we contacted a number of the peak bodies, as well as developers, to let them know that that was what we were going to undertake in terms of the removal of that charge. As part of that is the determination come through as part of the revenue that we seek to recover to be able to invest in growth which, of course, for developers is an important part of having something to connect to once a house is built.

CHAIR - Did you consult with the owners on this question, and was that agreed by them?

Mr YOUNG - No, it's an operational issue, I think, that went to the (inaudible 11.00.54). I've been in the water industry, I think, 40 years, and worked around Australia and around the world. That holiday that we give only ever occurred in Tasmania. Generally, it's not put into place because it encourages developers to land bank and not sell. We made the call that we'd prefer to use that money for growth, to get growth going in the state. It's an operational decision. It didn't go to the owners because we thought it was the right thing to do.

CHAIR - But you did consult with the key bodies?

Mr YOUNG - Correct, yes.

Ms THOMAS - Can I just ask one clarifying question? We've talked a lot about the Economic Regulator's determination today. I just want to be really clear: the fixed sewer access charge that we've been talking about, was the outcome that was determined, is that different to what TasWater proposed in terms of the fixed sewer access charge?

Mr THEO - For some customers, yes, particularly the sporting fields customers.

Mr YOUNG - We wanted smaller fixed, more variable and we wanted safeguards in place for a number of customers, because we've done a customer impact assessment.

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CHAIR - You would think - and this is as matter for the Regulator, if you've got lower fixed, higher user water charges, that would, if people thought about it, have a positive environmental impact?

Mr THEO - Correct. And that was the point we were making a few months ago and a year ago. Customers are telling us, 'Give us more control over the size of our bill'. Our proposal was to take the bill to being 33 per cent variable. Currently, I think, still about 86, 85 per cent fixed. The Regulator has agreed to increase the variable component of the bill, but it's moving at about 1 per cent a year for the next four years. In 2030, I think the variable component of the bill might be added up around 82-83 per cent, which is nowhere near enough.

Mr YOUNG - Variable component 82 per cent?

Mr THEO - Sorry, the fixed component.

Mr YOUNG - Fixed component. When in the rest of Australia, the variable component would be 50 per cent.

CHAIR - Yeah, which encourages wise water use.

Mr YOUNG - And if we get a super El Niño in this state, we will need to appreciate how precious water is and get more control of it.

CHAIR - Hydro will too. Matt, did you want to make a comment?

Mr DERBYSHIRE - No, I was going to say the same as George.

Mr WINTER - What I was trying to do when I went through your annual reports was identify anecdotally, it appears that you're spending a lot more on PR, communications and advertising than you have in the past. Are you able to tell the Committee how many FTEs now sit within your Brand and Insights department, and how that compares to previous years? Also, what your expenditure is within that department and how it compares to previous years? I'm happy to take it on notice.

Mr PASKE - I'd have to take that on notice in terms of the specifics. The one point I would make is that, as part of our act, we've got an obligation to deliver water conservation messaging to Tasmanians. It's part of our role. As the chair has just pointed out, we've got a super El Niño on the way. Never has it been more important to help educate Tasmanians, who have significantly low water literacy, to save water wherever possible. Our pricing structure doesn't incentivise for that much at the moment, but we've got an education job to do. Our money and our advertising is spent on talking about water conservation at key times of the year, as well as promoting our vulnerable customer program, TasWater Assist, so that people know that if they're struggling to pay their bills, they can come and talk to us and we're here to help.

Mr DERBYSHIRE - Just on that water conservation messaging, though, there is a significant payback in terms of deferring capital upgrades and also leaving water in the environment.

Mr WINTER - How many FTEs are currently in that team?

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Mr PASKE - I'm happy to take that on notice and come back with the detail.

Mr WINTER - Are you able to give us those numbers over the last three years?

CHAIR - We'll write to you.

Mr WINTER - People in the industry tell me, for example, you advertised for a digital marketing manager for a 12-month contract with a salary of up to \$190,000, which people tell me is a very lucrative amount. Have you done any review on that sort of spending as part of your \$100 million worth of savings that you need to find?

Mr PASKE - It's safe to say we're looking at every operational efficiency that we can find but, as members of the Committee would understand, communication with customers and the community is critical. Digital, in particular, is a platform that we need to make sure that we've got available to us to listen to what customers are saying, as well as to communicate two ways. Again, happy to take those questions on notice, but it's never been more important to be part of the community and to be participating in the conversation, and doing our bit to make sure that we're delivering great service for customers, as well as giving them information when they need it and where they need it.

Mr WINTER - Up to \$198,800, though, for a digital marketing manager seems on the high side.

Mr DERBYSHIRE - Those roles are put through a Mercer assessment. We're competing with the market to attract the right people.

Mr WINTER - \$200,000 for digital marketing manager - I'm in the wrong job.

Mr THEO - Well, if you can suggest somebody that can do the job for less money, we'd be happy to hire them.

Ms THOMAS - It'll be another mainlander coming into Tassie.

CHAIR - Probably a retired politician can do that.

Mr THEO - Can I just say, all our roles are evaluated and assessed before they go to market. We've got to attract people to Tasmania and recruit talented people. All our jobs are evaluated, and we'll continue to evaluate jobs every time we go to market.

CHAIR - We will wrap it up. We've just gone a bit over time. Thank you for your time today. We are having further hearings today with other stakeholders. If there are questions that arise that best directed to TasWater, would you be happy to take further questions on notice related to matters raised? It might avoid a further hearing.

Mr THEO - Sure.

CHAIR - That's the threat.

Mr THEO - Time is valuable, so yes.

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CHAIR - Obviously, it's up to you how you respond to those, but if you're happy to do that. And we'll write to you with these other questions we've already identified during the hearing.

Mr THEO - Makes perfect sense. Thank you.

CHAIR - Thanks very much for your time today. Thank you.

The witnesses withdrew.

The Committee suspended until 11:15 am.

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Hon Eric Abetz MP (Treasurer)

CHAIR - Thank you, Treasurer, and your team, for appearing before the Public Accounts Committee inquiry into the financial and operational management of TasWater. We appreciate the government has a relatively small stake in this, but still an important role. As you would be aware, everything you say is covered by parliamentary privilege before the Committee. That may not extend beyond the hearing. It is a public hearing. If you have any confidential matters you wish to discuss with the Committee, you can make that request, otherwise it's all public. I assume you don't have any questions?

I will ask the two other than you, Treasurer, to take the statutory declaration. And then, Treasurer, do you wish to make some opening comments?

Mr ABETZ - Yeah, just some brief comments, please.

CHAIR – Sure. If I could ask you to do the statutory declaration, we'll make a start, thanks.

Mr ABETZ - Thank you for asking them directly because I never remember their titles.

Mr CRAIG TIPPING, DIRECTOR, ECONOMIC POLICY and **Mr DEAN ANTHONY BURGESS**, DEPUTY SECRETARY, ECONOMIC AND FINANCIAL POLICY, DEPARTMENT OF FINANCE AND TREASURY, WERE CALLED, TOOK THE STATUTORY DECLARATION AND WERE EXAMINED.

Mr ABETZ - Thank you, Chair, and thanks for the opportunity to make some clarifying statements because there has been, within the public domain, some misleading statements about government's role, et cetera. But first of all, we have an economic Regulator established under separate legislation, and they're designed to regulate industries where competition is limited. That includes TasWater. Their goal is to protect the long-term interests of Tasmanian consumers by ensuring services are fairly priced, high-quality and dependable. They also investigate complaints about the government businesses.

Turning to TasWater, under the TasWater constitution, there is what is deemed a Crown representative. The Crown representative is not the Treasurer or the minister. It is specifically named up as the Secretary of the department, or the Secretary's delegate.

CHAIR - Of Department of Treasury and Finance?

Mr ABETZ - Yes, yes, of Treasury. As a result, I, as Minister or Treasurer, don't get to see the corporate plan, for example, before it is approved. The corporate plan goes to the various shareholders. As you said, Chair, we have a very small share, 10 per cent, described by one person as a primary holding. Ten per cent is interestingly described as 'primary'. I would have thought it's, and it's smaller than Launceston City Council, for example, as a shareholding. But anyway, that aside, the corporate plan is socialised amongst the shareholders, which is the Secretary of the department. And I've got the specific dates for the recent -

CHAIR - Can I just clarify whether it's the Secretary who sits in that position? Or is there a delegate?

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Mr ABETZ – No, a delegate.

CHAIR - Who's the delegate?

Mr BURGESS - Yes, her name's Jenny Cosgrove.

Ms THOMAS - Is it a person or a position?

Mr BURGESS - It's a person.

Mr ABETZ - Yes, delegated by the Secretary. It is within the gift of the Secretary to determine who he appoints as his delegate.

Mr WINTER - You appointed the Secretary, though, and then the Secretary. Or is it -

Mr ABETZ - Well, let's blame the Governor and the Premier because the Governor appoints the Treasurer.

Mr WINTER - It was a serious question. You've appointed the Secretary and then the Secretary has forwarded that delegation on. Is that how it's worked?

Mr ABETZ - No, under the TasWater constitution, it is the Secretary of the department.

CHAIR – So, it's a constitutional appointment?

Mr ABETZ - Yes, it is the Secretary of the department or his delegate, in this case Jenny Cosgrove.

CHAIR - It's a shame in some respects you didn't bring Jenny Cosgrove with you, knowing that. I assume she works for Treasury.

Mr ABETZ - Yes, a Treasury official. So, in very rough terms, the draft corporate plan came to Treasury and the other shareholders. A week later it was approved and then about a week after that I got a copy of it, not to approve but to note. The accusations or suggestions that I had voted for things were either wilfully misleading or based on ignorance. I will allow the purveyor of that misinformation to choose how they would seek to describe that.

CHAIR - Would Ms Cosgrove have a voting right?

Mr ABETZ - The actual details, the two officials to my left may be best to answer that. But yes, she has a voting right, but we have a right in relation - when I say 'we', the department has a right on the appointment of directors and the corporate plan.

Mr BURGESS - They're the only two matters where the Crown's owner's rep has a voting right.

Mr ABETZ - Of course, the corporate plan does not include specific prices and things of that nature. For example as well, the 24-month holiday for land developers for individual blocks of land, that wasn't in the corporate plan. Nor would you anticipate those sorts of things to be in the corporate plan. That is a management decision for TasWater to make and -

CHAIR - TasWater told us they didn't consult with their owners about that either.

Mr ABETZ - Yes, yes.

CHAIR - It is an operational matter from their perspective.

Mr ABETZ – Yes. And, therefore, allegations and suggestions that I somehow voted for this and what was in a media release, thankfully TasWater have now debunked that as well, as I do now. That was a management decision for TasWater to make, right, wrong or indifferent. We have an Economic Regulator, an umpire, who is required to make a decision in relation to matters that the Economic Regulator determines to be prudent and efficient and deliverable. That is what the independent umpire determines in these matters. Like everybody, we all have our own opinion as to umpires, and often when umpires get attacked from all quarters, they may have made the right decision -

CHAIR - Not if you're a Hawthorn supporter in last week's game. But anyway.

Mr ABETZ - That is one of those aspects. If I may quickly go through that I should stop delegating responsibility for approving TasWater's plans to bureaucrats, which was asserted, well, I don't have that authority under the constitution. It doesn't name me up. It names up the Secretary. Of course, if I were to try to monster or tell the Secretary or his delegate how to vote, I know what would be occurring and what the allegations would be then. Then we were told that the fact is both these damaging policies were formally approved by the Tasmanian Liberal government during the corporate planning process. False. In relation to the prices, that, once again, is something for management to determine: it's not a vote of the Liberal government. Then we go through a number of falsehoods, which I'm more than happy to flesh out further should it be required. But happy to take questions.

Mr EDMUNDS - Thank you, Treasurer. The State Government, though, is an owner of this business, an owner amongst a group of others. So, how, based off - and thank you for your opening comments, but I am interested because you talk about you can't tell the Secretary what to do, but then there's scathing media commentary from government of a decision that they're part of the process on. So, I'm interested, in light of your comments and others that are being made, as a State Government and a parliament - a government being in control, how do we get on top of these decisions? Because, if they're decisions that Government disagrees with and they're still being made, despite Government being at the table, what levers do we need to pull, as a collective almost in this building, to get on top of that? Because to sort of go, 'Oh, well, we can't interfere, we can just comment on it', I don't think reconciles with people as their understanding of State Government actually being an owner of this business.

Mr ABETZ - Well, the Labor Government, with great foresight, I think in 2009, established the Economic Regulator, and the Economic Regulator determines these matters. As I understand it, as part of what TasWater put forward at one stage, they did say it was subject to the Economic Regulator's determination. The Economic Regulator, as I indicated previously, has to act on the basis of what he believes to be prudent, efficient and deliverable for the organisation. If we don't want the independent umpire making the decision, that will be a major decision for the parliament to determine. And then we would have to ask, who do we want to make that price determination?

Mr EDMUNDS - But we're talking about the step before that, aren't we? In terms of what's put together and then submitted to them, isn't that where the state government and the owners in general actually do have some power? I guess putting aside as much as we can the politics of this, what is actually at our disposal as parliamentarians when we have a government seat at the table with these owners' groups before it gets to the Regulator that sees something that they're going to complain about through media and with the public megaphone to say, 'This is out of touch and this is not good enough', despite the fact that they're part of the decision-making process? What do we need to do at that stage before it even gets off to OTTER to ensure that, in the best interest of Tasmanians, who are being smashed by costs of living, that we can actually do something practical to keep a lid on these decisions when we're allegedly at the table as an owner?

Mr BURGESS - If I may, Treasurer, I think it's important to differentiate processes here. There's a corporate planning process and there's a price and service regulation process. Yes, we have some input into the corporate planning process, but there is no visibility of the detailed prices, services and costs at that stage. Once it goes into the independent process, then there's a very transparent and consultative process that it goes through where any party, including parliamentarians and the government itself, can participate.

CHAIR - But did the Government participate in the last price and services review?

Mr BURGESS - My memory is that the Government did provide a submission on the draft report.

Mr ABETZ - Yep.

CHAIR - Do you want to provide a copy of that to the Committee?

Mr BURGESS - Oh yeah, sure. It's on the Regulator's website.

Mr ABETZ - Yeah.

Mr WINTER - I just want to take you back, Treasurer, to 2018, when the changes that facilitated a 10 per cent stake, which is the second highest stake in TasWater, came to be where -

Mr ABETZ - So, you admit that what's in your media release is false: that we have a greater shareholding than any individual council.

Mr WINTER - The word I used was 'primary'. Is that right?

Mr ABETZ - No. Any individual council. You can't even recall -

Mr WINTER - More power, I think I said. You read it out and I'll tell you what the -

Mr ABETZ -

The Crown holds a significantly greater influence over the corporation's strategic direction and planning framework than any individual council.

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Mr WINTER - I'm glad you mentioned that because that's kind of the point of my question.

Mr ABETZ - Because it gives you the opportunity to correct the record.

Mr WINTER - Which council has more power?

Mr ABETZ - Launceston. I've already mentioned it.

Mr WINTER - No, under the constitution it actually requires a positive vote from the Crown in order for a corporate plan to be carried. Is that correct?

Mr BURGESS - That's my understanding, yes.

Mr WINTER - So, does that not mean that you have more power and influence than any of the councils?

Mr ABETZ - Well, when you're a minority shareholder of 10 per cent compared to 13 per cent -

Mr WINTER - You're the only owner that has this power. They need your vote. Any other council can vote against it and the corporate plan can still pass.

Mr ABETZ - That is for the corporate plan.

CHAIR - It's what he is talking about: the corporate plan.

Mr ABETZ - Yes. Well, it depends what you mean by corporations and strategic direction because what we're talking about is the pricing, and that is, what is the concern of the corporate plan, as Mr Burgess has indicated, doesn't go into the pricing.

Mr WINTER - So, you've got a 10 per cent stake, which makes you the second largest stakeholder. You've also got this particular component that was actually requested by the treasurer, Mr Gutwein, at the time, that meant TasWater required a positive vote from the Crown in order for the corporate plan to be passed.

CHAIR - Not the pricing: the corporate plan, to be clear.

Mr WINTER - And there is a difference. But what I want to take you back to is 2018 when this was proposed. Part of the reason for the equity share was so that the Crown could actually exercise more influence over TasWater. That was what was told to the parliament and to councils, and I was a councillor at the time.

CHAIR - I was in parliament and heard the same thing.

Mr WINTER - I'm sure. What we have now is a situation where last year we saw the Government come out and attack the PSP5 proposal from TasWater, but its own delegate, the delegate of the Crown, had voted for the corporate plan which enabled the pricing proposal to go forward. Don't you think that it's time for the Government to actually take a stronger role in

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this to ensure that the concerns that have been raised by business, households, industry, the community sector are actually heard?

Mr ABETZ - Any corporate plan would have allowed the pricing proposal to go forward, which is a management decision, as opposed to the corporate plan.

Mr WINTER - I'll just refresh your memory. The corporate plan proposed a 40 per cent increase in revenue for TasWater. What that did, it flowed through into the pricing proposal, PSP5, which went to the Regulator.

Mr ABETZ - Subject to, which you conveniently forget, the Economic Regulator's determination. And the Economic Regulator made his determination.

Mr WINTER - Is it correct that the Crown voted for the corporate plan in 2025?

Mr BURGESS - Which? The preliminary corporate plan?

Mr WINTER - It voted for the corporate plan that was proposed in July 2025?

Mr BURGESS - Yes, the only -

Mr ABETZ - The Secretary's delegate voted for it.

CHAIR - On behalf on the Crown?

Mr WINTER - Which represents the Crown. Is that correct?

Mr ABETZ - Yes.

Mr WINTER - So, it is true to say that the Tasmanian government's representative voted for the corporate plan?

Mr ABETZ - No, the Crown's representative, as per the constitution, which gives that power to the Secretary and/or his delegate.

Mr WINTER - Again, go back to, then Treasurer Mr Gutwein's explanation for the bill at the time. And that's the Tasmanian Government having a greater say over how TasWater operated. Can you see the problem here? That you're now saying that it's not the Tasmanian Government: that it's the Crown? How has the Tasmanian Government sought to influence TasWater's corporate planning process or its activities, investment decisions, pricing over the course of the last 12 months?

Mr ABETZ - Well, that is a matter for the Treasury or Secretary of Treasury and/or his delegate.

Mr WINTER - I'm really interested in your view on this, though, Treasurer, because you have a role here as the responsible Minister. I think it's in the Finance part of this. So, how is the Government - you've raised concerns publicly about the pricing for households and businesses. You've also raised concerns about the changes proposed by TasWater for new

builds. So how is the Tasmanian Government, if it's not going to use the corporate planning process, how are you seeking to influence TasWater?

Mr ABETZ - Well, these are management decisions and a government has to be, and ministers have to be, exceptionally careful they don't start acting as shadow directors. That is why anything that we have done has been public.

Mr BURGESS - Yeah, and I'd like to say that there are a number of concerns that have been aired recently, I think, that came as news to us and to customers and to the Regulator. So, the Regulator is aware of some of these issues and is actively working with TasWater to seek to achieve an appropriate resolution to those.

Mr WINTER - Are you talking about the equivalent tenement changes or something else?

Mr BURGESS - There's changes to the sewerage charging and the changes to the developer holiday would be the two primary examples. I think from a policy perspective, if you like, we're keen to see how that process plays out to see if the Regulator can achieve an appropriate outcome with TasWater. Of course, we'll continue to monitor that because if it doesn't, then the Government can consider what options it may wish to take.

CHAIR - What could some of those options be?

Mr ABETZ - From legislation to whatever.

CHAIR - Just on that, if I might. When we had TasWater here across the table, I was asking, and many of us were asking, about their dividend policy. It's in the enabling legislation that they're expected to pay dividends. But I equated it to another highly regulated business that the State owns, which is TasNetworks, which is a completely regulated business. AER tells them what they can and can't do, how much they can charge, et cetera. If they don't make profits, which is going to be challenging for them in the near future, then they don't pay dividends. Has the Government considered, or would the Government consider, going back to the future, if you like, and I'm looking at former Labor treasurer Michael Aird's proposal to make it a state-owned company, rather than this sort of hybrid of whatever it is, whereby those decisions could be more easily made about providing a sort of level of community service obligation component where the dividends wouldn't be required? Has that been considered? And if not, why not?

Mr ABETZ - Look, as a Government, I suppose a whole host of things go through your mind as an individual but, as actual government policy, that has not been determined as yet. And we are, I suppose, still hopeful that the Economic Regulator, in discussions with TasWater, will be able to resolve issues.

CHAIR - The Economic Regulator rejected a number of what, on face value, without having all the technical background detail, some reasonably sensible approaches around things like sporting clubs that have large water inlets, if you like, but very little discharge.

Mr ABETZ - Yes, yes.

CHAIR - That was on the basis, TasWater said, of treating people equally. I go back to the point that the government's been a bit critical of this publicly. Separate to the Treasury delegate role here, the government have been critical. So, how do you think you could address it? I mean, it's easy to say, 'Well, it's not our responsibility, nothing to do with me'. Clearly it is something to do with the Government here because we have a stake, but it's a massive issue for Tasmanians.

Mr ABETZ - Look, there is no doubt it's a massive issue for Tasmanians, be it with sporting clubs, be it with wastewater for some of our industrials, and that's being looked at by R&G Consulting.

Mr BURGESS - It's due now, isn't it? Yeah.

Mr ABETZ - And I think we've got a report coming out on 30 September [2026] on that score. The Economic Regulator, hopefully, will continue to liaise with TasWater and -

CHAIR - But they said in the five-year plan, Treasurer - I'm just trying to understand what - from a Government policy point of view, it's okay to be critical, but then what are you going to do about it?

Mr ABETZ - Well, that is the big question as to whether you want us to step into the role of the Economic Regulator.

CHAIR - No, I'm not asking - you don't step into the role of the Regulator with TasNetworks: you're the shareholder minister for that. You don't tell the AER what they can and can't do, so why would it be any different from TasWater if they became a state-owned company? I'm just putting it out there to understand what the Government's thoughts are on this where you still rely on OTTER as the Regulator.

Mr ABETZ - I dare say there might be 29 mayors bouncing up and down with such a proposal. But, Mr Burgess?

CHAIR - There may be mechanisms to support the councils in different ways. I'm talking about - you're critical of TasWater and the cost to business, industry, residential customers, but without a plan to actually do something about it, it's just words.

Mr ABETZ - That is why we appoint Boards, et cetera, to make those decisions. One of their management decisions in the past was to have a holiday for developers.

CHAIR - But you don't appoint the Board.

Mr ABETZ - Sorry?

CHAIR - You don't appoint the Board. Who appoints the TasWater Board?

Mr ABETZ - The shareholders.

CHAIR - Yes, not you.

Mr BURGESS - Well, the owners' representatives.

CHAIR – But Ms Cosgrove doesn't appoint the Board as your rep?

Ms THOMAS - She's on the Board Selection Committee.

Mr BURGESS - She votes in Selection Committees.

CHAIR – So, that's the best we can expect? That one vote on the Board is enough to address the genuine concerns that the Government's raised?

Mr ABETZ - TasWater can make, as I was trying to say, management decisions. It wasn't the Economic Regulator, as I understand it, that said 'You can have a 24-month holiday'. As I understand it, with some of the charges, there is the leeway that TasWater management can then determine how they may or may not apply that. Mr Burgess?

Mr BURGESS - They are maximum charges. It's totally TasWater Board discretion. Coming back to your question, Chair, about the ownership, I wouldn't expect materially different outcomes if TasWater was a state-owned company, versus its current ownership structure, because what determines the price and service outcomes is the economic regulatory framework.

CHAIR - I wasn't suggesting that the Government did that. That would be really bad.

Mr BURGESS - That said, regulatory frameworks across the board aren't perfect and are always subject to review and potential amendment if they're not delivering the correct outcomes.

CHAIR - Treasurer, some of our Government Businesses that clearly have a community service aspect to their business are supported by Government to deliver that and don't pay dividends if they're not being profitable because they're using their revenues to deal with the capital expenditure requirements, which are huge for TasWater.

Mr ABETZ - Yep.

CHAIR - We understand the reasons why that is, and they made a case to the Regulator and the Regulator said, 'No, you can't spend that much', even though we know that they need to spend that much. It wouldn't make much difference, but surely there could be a different approach to that?

Mr ABETZ - Whilst we know that there is a huge need for capital expenditure, the question is - and that's part of the Economic Regulator's decision-making, is whether it is deliverable as well; whether it's prudent, efficient and deliverable. The Economic Regulator - and I don't seek to justify or whatever, but the determination was that it has to be spread out over a longer period of time and, therefore, it is more prudent, more efficient, more deliverable. Whereas if you try to do it all in one hit, it stands to reason the costs of delivering that might go up. Therefore, it's not that prudent and more likely undeliverable. Mr Burgess, do you want to?

Mr BURGESS - I'd agree with that, Treasurer. I think that the price aspect of it is important. It's very hard to argue that - TasWater needs to invest a lot of money in improving

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the performance of its assets, but that does need to be balanced against managing the price impacts on customers. I know it's been raised with TasWater's history for a long time too, the issue of paying dividends to councils where they could use that money to reinvest. I guess the response you'd have to think about is what councils would do in that situation. They quite rightly -

CHAIR - Yeah, you need to look at some sort of transition arrangement. I'm just talking about in high-level policy considerations here. They're critical on one hand. Did the Treasury Secretary's delegate, does she consult with you, Treasurer, at all about the Board appointments?

Mr BURGESS - No.

CHAIR - The Treasurer, I'm asking.

Mr ABETZ - No.

CHAIR - So, you have no vision over who's appointed?

Mr ABETZ - Wait a minute, I'd better be careful. I've only been Treasurer for a year. During that period, I don't think I've received anything about Board appointments.

CHAIR - Would you expect to?

Mr BURGESS - We certainly kept the Treasurer advised of decisions that the owners' rep has made.

CHAIR - The owners' rep is not required to inform the Treasurer?

Mr BURGESS - No, they're neither required nor prohibited from doing so. They could, if they wished, but that's not an expectation that's been made to date.

Mr ABETZ - I don't think there had been any TasWater Board appointments in the last -

CHAIR - There probably haven't since you've been Treasurer.

Mr ABETZ - Yes. So that is why I cannot speak from experience whether it is or isn't the practice that, to be correct, the finance minister is informed.

Mr WINTER - In an earlier answer, you referenced potentially considering legislation, I think, I don't want to paraphrase - legislation to undo or fix the situation we currently find ourselves in. Can you speak a little bit more to what, if anything, the Government is considering around this?

Mr ABETZ - Oh, look, that is hypothetical, completely hypothetical at this stage. Let's see what further discussions between the Regulator and TasWater can achieve.

Mr WINTER - What is the Government's policy position on these matters, then, particularly when it comes to the holiday for the new build?

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Mr ABETZ - For the Regulator to do that which he's charged to do under the legislation and liaise, to the best of his ability, with TasWater and see if these things can be ironed out. Some people put to me that there's an equity issue: that if I own a block of land, if I buy a block of land, I'm not given a two-year holiday from TasWater for the connection. But if somebody develops a block of land - and I can understand the rationale for that occurring, that it might encourage people to develop blocks of land for sale for housing. But, look, I don't want to get too much into the weeds on those things, but there are sort of counterarguments to each side. The holiday was provided by TasWater, as I understand it, their own decision at the time. And the pulling of it, as I understand they may have indicated to the Committee, was their own decision again. That is what management decisions are about. Sometimes they might be good, sometimes not necessarily so good. That's for others, or for all of us, to determine what our view is.

CHAIR - So, does the Government have a view or do you, as Treasurer, have a view on that?

Mr ABETZ - Look, the Premier has made a statement on that and, if need be, that can be provided to the Committee.

CHAIR - What's your view as Treasurer on it?

Mr ABETZ - Look, you know how Cabinet works: we all agree, especially when the Premier speaks -

CHAIR - What are you agreeing with?

Mr ABETZ - With the Premier's statement. And I think there was -

CHAIR - Which was?

Mr ABETZ - I think there was a media release, and we can provide that to you.

CHAIR - You're not sure what's in it?

Mr ABETZ - Yes. He was critical of it, but the exact words I don't have in front of me, so I am not going to - I read it at the time and it is Government policy, and that is what I agree with. But the exact words I'm more than happy to supply.

CHAIR - If you provide a copy so we make sure we've got what you're referring to?

Mr ABETZ - Yep.

Mr WINTER - You agree with it, but you're not quite sure what it says?

Mr ABETZ - No, that's not the case. I read it at the time and agreed and accepted it as Government policy, and that is going to be provided to you. It's not a case of somebody else who said, 'I don't know what she said, but I agree with it.' That's the game you're playing, Mr Winter, with a big smile on your face. Bad luck, bad luck, bad luck.

Mr WINTER - It was heading in that direction, Treasurer.

Mr ABETZ - I did acquaint myself with what was said at the time and agreed with it, but the specific wording on the occasion I can't recall.

Mr WINTER - What feedback did the Crown provide to this year's corporate plan, if anything?

Mr ABETZ - Mr Tipping?

Mr TIPPING - We provided some feedback which I'd describe as being of a technical nature. It was around them amending their forecasts to reflect the outcomes of the Regulator's decision and also, I think, a request for them to provide early visibility of indicative financial information in future price investigations.

Mr WINTER - We heard evidence this morning that at least some - sounds like potentially a lot of councils, provided pretty strong feedback around dividends. Did the Crown provide any feedback around dividends in this year's corporate planning process?

Mr BURGESS - My understanding is no. But I do understand the issue and, to be frank, it's somewhat of TasWater's own making. They went to their councils for the draft corporate plan that showed quite high dividends which were based on assumptions of Regulatory outcomes which didn't then occur. TasWater then had to go back to their owners rather late in the financial year and explain that they weren't getting those indicative returns.

Mr WINTER - I agree wholeheartedly with your analysis, Mr Burgess. In terms of last year, the 2025 corporate planning process, did the Crown provide any feedback to that corporate plan? If so, what was it?

Mr BURGESS - I'd have to take that on notice, if that's all right.

Mr WINTER - Sure. Are you aware of whether the Crown provided any feedback on TasWater's proposal to increase dividends by 50 per cent specifically?

Mr BURGESS - No, I'm not aware of that.

Mr WINTER - Treasurer, as we've talked about, the corporate planning process is not the same as the Regulatory process. Fully understand that. But there was an opportunity last year, through the corporate planning process, for owners to provide feedback on the proposed 40 per cent increase in revenue. Your evidence so far - correct me if I'm wrong, is that that's a matter for Treasury and not for you? Is the State Government and yourself saying that you don't want to play a role in that corporate planning process? If so, why would you choose not to participate in that process if you're able to?

Mr ABETZ - Well, it is the role of the Secretary under the constitution that is empowered, and not myself as minister.

Mr WINTER - As I said at the start, this proposal was put to parliament and to councils that the state wanted to play a role in these sorts of policy decisions, and your evidence so far is that it's actually not you as minister, that it's Treasury. Is that something you would support changing to allow the state to play a greater role?

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Mr ABETZ - The constitution of TasWater - and correct me if I'm wrong on this, I haven't looked at it for some time, but as I understand it, it's the agreement between the councils and the state government, so any change to that would require -

Mr WINTER - Seventy-five per cent of ownership change.

Mr ABETZ - Yes, 75 per cent change. With 10 per cent, you can understand that we would need to garner a majority of council votes for that purpose. As a former mayor, you may be able to give us an indication as to how you think mayors would vote in relation to such a proposition.

Mr WINTER - I think they'd love to see you, Treasurer. And I think Tasmanians would love to see some influence from the State here, particularly when it comes to prices. The problem that we've seen is you've got 29 councils who are gung-ho for more dividends. In fact, most of them submitted submissions into the Economic Regulator's process saying, 'We support this, we want more revenue', which ultimately came from their communities but were going to end up, in part, into their own coffers.

Mr ABETZ - Which is a nice mechanism: you blame TasWater for the increases and then you knock the dividends.

Mr WINTER - It's almost like the politicians, isn't it? Treasurer, I understand what you've said on the constitution, but as a policy piece, is this something the Government would consider doing in order to enact the vision that was outlined by Treasurer Gutwein in 2018?

Mr ABETZ - Look, if things cannot be resolved, then the Government will consider what options there might be. But we are very mindful of the fact that we are dealing also with a 10 per cent shareholding and 29 councils holding the other 90 per cent. That doesn't make it an easy proposition to consider.

Mr EDMUNDS - Just to bring it back, the fundamental concern in the public is it feels like, and probably is, that TasWater is an entity all to itself. I was just looking for some media releases about TasWater from Government. We've got one from the Premier within the past month talking about:

TasWater should find efficiencies within its own organisation to scrap its development tax.

which I assume -

Mr ABETZ - Oh, there you go. You've got the press release. Thank you. You can print it off.

Mr EDMUNDS - That's the one you were looking for? Yeah, if you move your mouth, I can say the words if you like. But it talks about the damage that the fee and the tax is going to create, and 'TasWater development tax not on' was that headline on 28 August [2026]. They've got the 'TasWater must reconsider price increases' on 10 September [2026], so that's even more recently. I really am just trying to find - and you talked about legislation, what is

the answer to actually getting on top of these things that doesn't involve all of us sticking media releases out kicking an organisation no one seems to have any control over?

Mr ABETZ - Well the Economic Regulator does to a large extent.

Mr EDMUNDS - But they're sort of the ambulance at the bottom of the cliff, in a way, with this issue, aren't they? There's the stuff that's developed by the organisation, supported by its Board and its owners. Isn't that the issue?

Mr ABETZ - No, the Economic Regulator is designed to act as the fence at the top of the cliff because TasWater cannot put out its prices, et cetera, without the Economic Regulator's approval.

Mr EDMUNDS - So, you're saying that you're satisfied with the set-up as it currently exists?

Mr ABETZ - Look, it would be fair to say that it is suboptimal, to use a very sort of neutral term. I've got feedback from a whole host of sporting organisations, property owners, people that tried to futureproof their property 20 years ago with 100 mm pipe for fire, just in case, and they're now being charged for two connections to their property, et cetera. So, there are some very real issues, live issues, and substantial increases in charges.

CHAIR - Well, TasWater told us there was a way to address some of those.

Mr EDMUNDS - I guess the fundamental question is, how do we fix it?

Mr ABETZ - Well, that is, hopefully, TasWater and, if need be, with the Economic Regulator as well. As Mr Burgess indicated, the Economic Regulator sort of provides the parameter of the maximum possible charge. And so just because you're given the leeway to do something doesn't mean it's a good thing to do. That is where judgement and discernment comes into it. And that is where the Economic Regulator is charged to determine things for TasWater on a prudent, efficient and deliverable basis.

Mr EDMUNDS - On that voting right, with the representative through the Secretary, I'm just trying to imagine what circumstances there would be where they would actually vote, use that power, so the veto effectively. Do we ever see that ever actually being the case? If so, why does it exist?

Mr ABETZ - Look, that I don't know, but we can search the records for you -

Mr EDMUNDS - Because they're not a political person, are they?

Mr ABETZ - and take that on notice. I assume, Mr Burgess, that we could go through?

Mr BURGESS - I can double-check. I'm unaware of the veto being exercised, and it would have to be for some pretty serious concerns around the risks to the government's shareholding in the business and the ongoing viability of the business itself.

Mr EDMUNDS - And that person would be making that decision, as I understand, at least from the evidence we've got today, independent of any feedback from, say, the Treasurer?

Mr BURGESS - I think that's probably a hypothetical situation because that would obviously be very serious.

Mr EDMUNDS - Yes. So, I'm trying to see where it could ever exist, particularly when there's no communication between government and this delegate.

Mr BURGESS - I'm happy to double-check the records.

Mr EDMUNDS - Thank you.

CHAIR - We're pretty much out time. Just a quick one.

Mr WINTER - In terms of the financial position of TasWater, I believe they're borrowings are around \$1 billion as of 30 June last year. I don't have access to the latest financials and they had debts maturing. Have they requested any uplift in their borrowings from TASCORP or yourself, Treasurer?

Mr BURGESS - We don't have a role in managing their borrowings.

Mr ABETZ - That is TASCORP. And they're very close, as I understand it, to - what's the terminology? - investment-grade borrowing. They are still in investment grade, but they're at the limit.

CHAIR - They have to make money to stay there. That's what they told us.

Mr ABETZ - Well, yeah. TASCORP also has another responsibility. That is looking at the overall picture and to ensure that it's still at investment grade.

Mr WINTER - Are you able to provide us any information on that, on TasWater's position when it comes to being investment grade or not? On notice perhaps?

Mr ABETZ - I was just going to say, happy to take that on notice and flick that through to TASCORP to answer.

Mr WINTER - And is there still a Treasurer's guarantee over TasWater? I believe there was.

Mr TIPPING - No.

Mr WINTER - No Treasurer's guarantee?

Mr TIPPING - No, I understand not since COVID.

CHAIR - So, it's only all of the GBEs that have got one, not TasWater?

Mr TIPPING - Correct.

Mr BURGESS - Could I just add one thing too, though? There's a lot of claims made around TasWater's financial position. But the Regulator, you know, it takes a lot of time to

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ensure that they're adequately funded to meet their costs. That's their operating costs, their depreciation, the return on their assets. They're in an environment where they face far less risk than a lot of businesses.

Mr ABETZ - Chair, if I may, I will table two media releases from Premier Rockliff in relation to matters TasWater.

CHAIR - Treasurer, the decision to end the holiday, if you like, how does that, in your view, align with the housing accord expectations?

Mr ABETZ - It is always one of those, I suppose, speculative things as to how policy impacts: does the first home owner scheme assist, et cetera? With this specific decision of TasWater, one has to assume that, with that holiday, TasWater took a bit of a haircut to assist the development of land and to make land going to the market cheaper, which in turn, of course, means that the home builder is able to buy a product for, in rough terms, that's \$900 or, if it's over two years, \$1,800 cheaper than they otherwise would have been able to.

CHAIR - But have you assessed its impact or effect on the housing accord targets?

Mr ABETZ - That I personally haven't. And given the recent nature of the announcement, I'm not sure whether any work has been done on that.

CHAIR - Do you think you should do something on that?

Mr ABETZ - I'm willing to take that on notice and seek some advice.

Mr EDMUNDS - Just on that policy - and obviously this predates you, but I'm interested: was there much of a conversation between government and TasWater when that first came in?

Mr BURGESS - The holiday itself?

Mr EDMUNDS - Yes.

Mr BURGESS - No. To be fair, I think we were the same as many parties; we were discovering this when it was removed.

CHAIR - Thanks, Treasurer, we'll wrap that up. We've got a few matters that we'll write to you about but thank you for your appearance today and we'll leave it at that.

Mr ABETZ - Thank you.

The witnesses withdrew.

The Committee suspended until 1:03 pm.

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Meander Valley Council

CHAIR - Thank you, Wayne, as the outgoing, as I understand, owner rep, retiring very soon, and Jonathan as the GM for the Meander Valley Council and speaking in that role, as opposed to an owner rep. We thank you for appearing before the Public Accounts Committee in our inquiry into the financial and operational performance of TasWater. We had TasWater in early this morning and I assume you may have watched that. If not, we may refer to some of the matters they raised. I will read the statutory declaration to you in just a moment, but just to remind you that everything you say is covered by parliamentary privilege while you are before the Committee, but that may not extend beyond the Committee hearing. Do you have any questions before we start?

WITNESSES - No.

CHAIR - It is being broadcast and recorded, obviously, for our records.

Mr WAYNE JOHNSTON, MAYOR, and **Mr JONATHAN HARMEY**, GENERAL MANAGER, MEANDER VALLEY COUNCIL, WERE CALLED, TOOK THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR - Wayne, did you want to make any opening comments based on our terms of reference? I know you have spoken to the Committee previously in an earlier iteration, but would you like to make any comments in opening?

Mr JOHNSTON - Yes, Chair, if that's allowable, I would. Thank you for the invitation to come back today. Chair and members of the Committee, thank you for the opportunity to appear again today. I will be able to speak today as the Chief Owner's Representative and also as the Mayor of Meander Valley Council. I have with me the General Manager of Meander Valley Council, Mr Jonathan Harmey. As Mr Harmey is not a member of the owner's representative group under the TasWater constitution, his participation may be in relation to matters concerning Meander Valley Council.

Earlier this year, I joined you in the room and we spoke largely about TasWater's challenges and council dividends. I argued then that TasWater operates in a difficult environment, balancing the competing demands of the EPA, Department of Health, dam safety regulator, Economic Regulator and community expectations. Ageing infrastructure, non-compliant treatment plants and growth-related infrastructure constraints remain major challenges. That is why my council supports TasWater's case for increased investment. I made my feelings clear on the real-world impacts of the Economic Regulator's decision to reduce the amount TasWater can invest in the network. TasWater proposed investing \$1.7 billion in PSP5, and this was reduced to \$1.2 billion. The reality is that, for my council, it is a delay in the ability to build 2,000 homes at Hadspen. I'll just repeat that for you: the reality is that, for my council, that is a delay to build 2,000 homes at Hadspen. Thirty-five million dollars was budgeted to build a pipeline from Hadspen to Longford. That project has now pushed out beyond 2030 as a direct result of the Regulator's cuts. People need these homes, but without being allowed to raise the revenue it needs, TasWater can't put the pipes in the ground that the developers need.

A further reduction in dividends is being proposed as the answer to this. We had dividends up to \$30 million a few years ago when the water reforms were brought in. They dropped back to \$20 million in 2019, and that's the same amount being forecast in the last

four years of TasWater's latest corporate plan. I said before that I think that some councils perhaps over-rely on the dividend revenue. I can't speak for all councils, but certainly after the announcement on 4 June I was contacted by a lot of council saying, 'Okay, we haven't got time to redo our rates, so therefore we're going to have to wear it at this stage'. But going forward, if there was a cut in the dividends, then councils would look at increasing the rates.

I just want to sort of finish off by saying that if we kick the can down the road further by the cuts that were made by the Regulator, then the criticism of TasWater for presenting a plan to address the highest priority issues, they just won't deliver the outcomes that people expect. You can't have your cake and eat it too. Either we invest and we build better infrastructure to deliver the water and the quality of water that's expected, or we take the cuts and people just wait for those things to happen. That's my opening address, Chair.

CHAIR - Thanks, Wayne. Just to pick up on a couple of points you made there. It is a vexed issue, clearly, and I really appreciate you putting it into actual number terms in terms of what it means for your council. But I'm sure there will be other stories around the state that could describe the individual impacts in terms of what can and can't be delivered in terms of housing. From memory, I'd have to go back to the OTTER website: your council put in a submission to OTTER?

Mr JOHNSTON - Yes, we did.

CHAIR - And we heard from TasWater today that they were seeking some different outcomes, including some mechanisms in the Regulatory framework to deal with, for example, sporting clubs that might have a large water connection but very little discharge from the facility. It seems to be at odds that that perhaps wasn't considered or agreed to, and now we're seeing the price pain for customers. Are you getting, as an owner - I mean, we get some complaints. People think the government sort of own TasWater a lot of the time. But are you getting complaints about that? Also, the whole issue you raised about the 2,000 homes that can't be built now until beyond 2030, are the community aware of that? And what's their view? I'm just asking what your community feedback has been around all of that.

Mr JOHNSTON - Sure. I'll refer to the GM as far as our submission into OTTER. As far as feedback from the community, we keep hearing about unconsidered consequences of PSP5 and what the Regulator has put out. You talk about the sporting committees, and there's certainly businesses out there that are now being charged a lot more on their TasWater bill because of the size of a 100 mm pipe going into their business. From my understanding, that was pointed out to the Regulator by TasWater that there would be consequences coming from the decision that the Regulator made. That decision was still made and we're living with the consequences.

I'll say this up-front: I came out of private business and, as a farmer, I make decisions on a monthly, weekly, daily basis. If I made a decision which was affecting my business and my profitability, I would change that decision pretty quick. For TasWater, they can't do that. They are now locked into a plan that goes for four, maybe five years, unfortunately, because of the Regulatory framework that they work under. I think it would be really good for all parties to come together. I say this. I've met with the Treasurer and the Premier and TasWater combined in the last couple of weeks to talk about the issues that were talked about this morning. I think the Regulator needs to step up and go, 'Okay, we made some decisions that's having a really bad effect on a lot of businesses and residents of Tassie. We need to relook at that.' I know the

answer could well be from where your sitting is, 'Okay, we'll just cut the dividends to the owners and that'll solve the problem'. But you've got to remember the owners put millions and millions and millions of dollars in to make TasWater. That was the owners' contribution. Therefore, for us from Meander Valley, \$59 million worth of assets went into TasWater. For people to say, 'Oh well, you did that in good faith, you shouldn't get a return on your investment you made', I think is actually wrong. And I don't think cutting dividends to councils is the answer because councils will then turn around and say, 'Okay, we'd better jack our rates up by two-plus per cent at the minimum'.

I've covered off a lot of things there, Chair, but I'll throw it to the GM on our submission that we made, if that's all right, Jon?

Mr HARMEY – Yeah, happy to, Wayne. I guess our submission was really provided in support of TasWater's price submission, PSP5. For us as a municipality, we are growing by a greater proportion than some others in the State, and with that comes the need for infrastructure. We see that limiting the price increases is only going to be maintaining the status quo and that we, as with some other government representatives, want to see growth in the state and an increased level of housing availability. So, I guess that was the primary reason for our support originally.

CHAIR - Wayne, can I come back to you? You made some comments about the Regulatory framework; that TasWater has been dealt this hand through the proper process. It wasn't like the wrong process was used. It's just that different outcomes resulted, rather than what was requested in that process. You said the Regulatory framework needs to change, or perhaps should change. How would you see that changing? The Treasurer, when he was here, did talk about an option being legislative change. Is that what you're thinking? And what would it look like from your perspective?

Mr JOHNSTON – No. And I say this again as a business owner that thinks that all the parties should come together and look at - This has been in since the start of July [2026] and we're seeing now that there's some 2,000-odd businesses that have certainly had their water bills increased by anywhere from 150 per cent to triple that potentially. That's an unintended consequence that we've seen. TasWater potentially can't fix that problem. The State can't potentially fix that problem because it's only a 10th shareholder in it. The Regulator potentially can't fix that problem. But why can't we all sit around a room and go, okay, this has been in place for three months. It's probably not working out for the good of the Tasmanian community. How do we improve it going forward? And can we improve it or can we fix it before we get to PSP6, which is four or five years down the track? Because, at the moment, it's pretty much locked in, PSP5 is locked in. And I'm sitting here, Ruth, as somebody that doesn't understand the framework. I've been Chief Owners' Representative for nearly four years and, like I said last time, I was probably a critic of TasWater prior to that because we were not probably getting the communications that we deserve. But that's certainly improved. I've seen from the corporate plan that was put forward in 2025, where the shareholders were happy with the corporate plan going forward to PSP5, the pricing, it didn't come out the way we hoped it to, I guess. And we were, I was, our council was supportive of an 8.8 per cent increase on the prices on the basis that 30 per cent of the bill would be made up of water usage. I think people want to actually be able to regulate the amount or get charged for the amount of water that they use. Unfortunately, the Regulator's determination took that back to about 18 per cent, which is, I think, where we get a lot of angst from people.

CHAIR - I've been around since TasWater was established in its first iteration. There was a discussion right back at the time about what percentage the fixed charges should be. From an environmental point of view and a water conservation point of view, it makes sense for the fixed charge to be low and the variable charges to be higher, to take a bigger proportion of the bill, so people have some control. That's been argued many times and we still seem to - I assume it's the Regulator's decision ultimately at the moment where that lands. Is that something that should be part of this conversation? I can't see any actual barrier to people getting in the room, but I'm not sure whether the Regulator is able to change - maybe we can ask the Regulator this, change the ruling, not on the whole shooting match, but a particular focus. You said it was unintended consequences. I think they were known consequences. According to TasWater, they knew this would be an issue and raised it, but the Regulator saw it differently. Do you want to comment on those matters?

Mr JOHNSTON – Yeah, I do. I say unintended consequences. I think it was raised and the Regulator had a different view, which is fine. We all have our different views. My understanding is that the Regulator can look at the decision that he made. But it would be a process that would take a while to work its way through and it may have to be opened up for more submissions to be made. That's my understanding. And that may take 12 months, but 12 months would be far better than four or five years in the current climate. Again, in hindsight, maybe a process where people can actually put submissions in now that they've actually had real - we've had three months of people getting water bills and then they're going, 'Geez, I can't survive. Where do I pass our water bill on?'

I've always been of the opinion in my life that you have to look, review, learn your mistakes, change the mistakes and move forward. I think we should all, as a state, go, 'Okay, this is not working as good as we want it to. We'll move forward'. I know you've got LGAT coming in a bit later on. I know there's meetings planned and some meetings have been had with LGAT and TasWater about processes going forward. I've had discussions with the chair of TasWater about where we sit at the moment, how we go forward. I think those conversations are being had with the bodies. But I guess it would be good to bring them all together in the room and go, 'Okay, this is the issue. Let's fix it, let's move on', for the betterment of Tasmanians at the end of the day.

CHAIR - Wayne, is it your understanding that OTTER, the Office of the Tasmanian Economic Regulator, would need initiate that review, or what?

Ms THOMAS - Sorry, just to butt in there. TasWater did say they're doing an analysis of -

CHAIR - They're doing a review of the Regulatory framework, but that's to feed into the next determination.

Ms THOMAS - Sorry, I thought they were saying they were working with the Office of the Economic Regulator to actually put something to them analysing what some of these consequences have been. I may have misunderstood that.

CHAIR - They are, but I thought it was to lead into the next determination. You're saying it needs to be done sooner than that, Wayne?

Mr JOHNSTON - My understanding is conversations have been had and I think there is a chance that it could come around quicker than the four or five years' time that we might have to wait for PSP6. But I guess if there's a want on both sides, what's stopping it from happening?

Ms THOMAS - You talked about the unintended consequences, but have you given any consideration that the decision of the Regulator was really a response to the fact that an 8.8 per cent increase overall would have other consequences? Like that it was considered pretty high and, yes, whilst there's a need to improve infrastructure, we also have a cost-of-living crisis and people are getting hit from all angles with cost-of-living increases. What's your thoughts on that?

Mr JOHNSTON - Yes, Bec, as a mayor with a council that has a budget of \$35 million or thereabout, or better or worse - the GM will pull me up on that one, we did look at it. And 8.8 per cent looks like a lot. And if you look back at the previous PSP3, PSP4, they were capped at about 3.5 per cent increases, from memory. TasWater couldn't pass on, I guess, the cost that it was accumulating through that COVID period, and for us in private enterprise, costs went up by probably 30 per cent overall. So, for us to look at an 8.8 per cent increase, to actually get in and build infrastructure that would bring around housing supply quicker - and I'll use Hadspen as an example again, \$35 million could have been invested. We could have had 800 houses being built in the next four years. That was cut because the Regulator said, 'No, 8.8 per cent is too much. People can't wear that. So, I'll bring it back to 5.7'. So, \$35 million cut and 800 houses are not being built at all. Therefore, what happens to the housing market when we're trying to put affordable houses out for people? Again with my private background, I would rather pay for something up-front now than wait for another four or five years because it's only going to get more expensive and more expensive and more expensive, because that's the way our dollar seems to go.

I'd say, from around the councils, there was general consensus, a majority view that they would accept an 8.8 per cent increase that TasWater had put forward. TasWater consulted with its shareholders; it consulted with the public on a way that it has never consulted before. I've got to say that the media comments by both political parties that it wouldn't pass the pub test was pretty disappointing. We know we're in a cost-of-living crisis, but yet people expect drinking water that is world-standard; they expect that their sewers not be flowing into the rivers; they expect their pump stations to work properly. Yet they're not prepared to pay to have the money spent on them. That's what annoyed me immensely, that we didn't get to a place that we could have been doing this infrastructure, because at the end of the day, our water and sewerage infrastructure is ageing. TasWater did inherit that from local councils, there's no doubt about it. But the only way to fix them is to spend money.

Ms THOMAS - In terms of both the establishment of TasWater in the form that it's established in, whereas previously councils once upon a time were responsible for managing the water and sewer infrastructure: now we've got this new entity established which has a whole management structure that previously didn't exist because councils did it. Now we've got this whole new entity created and a whole lot of senior executives who get paid a lot of money to do these jobs at the top to manage this organisation. Do you have any views on that and, from a perspective of the actual cost of doing business, how the creation of this entity has led to cost pressures or added to cost pressures because of the apparent need for all these really highly paid people?

Mr JOHNSTON - Obviously, this happened before my time. I was aware of the three water entities before that. I guess councils put their water and sewerage infrastructure into TasWater and each council had a different level of where their assets sat at. Some of them probably had brand-new assets that went into TasWater, some of them probably had old assets that they were very happy for another entity to take over.

As far as the corporate body of TasWater goes, I can't really answer that, Bec, because I don't know what it takes to run a water entity. I'm the chief owners' representative looking in, representing the shareholders. It is a big organisation with hundreds of employees. Yes, there is a cost at the top of executives. We do have an independent Board, so there is no shareholder on the Board. They are independent people that are experts in their field. They make the decisions to hire and fire the CEO and management after that. I guess it's not a lot different to councils. We hire the GM, the GM hires the staff under them. I don't want to give a personal view there, Bec, because I don't know that that adds anything to it.

Ms THOMAS - Okay. Can you tell me then what proportion of your annual budget at Meander Valley is the TasWater dividend? We talked about how, if the dividends go, councils might have to put rates up. Will there be implications on services and capital works delivery? What would it look like for Meander Valley Council if that dividend was lost?

Mr JOHNSTON - Finally, a question for my general manager.

Ms THOMAS - You're welcome.

Mr HARMEY - I'm happy to talk to it. As Wayne said, I was working here when the water corporations were established. We transferred net assets of \$59 million and for that we received an ownership interest of around 2.8 per cent, so we're a just under 3 per cent owner. The dividend revenue that we would expect to receive from TasWater, based on the \$20 million overall dividend that's expected over the PSP5, our proportion of that would be \$556,000. So, based on our current asset ownership of \$54 million, a 1 per cent rate of return on that. Originally when the water bodies were established, that amount was \$30 million, so we started to receive \$834,000 as dividend revenue back to council, and that was cut by a third in 2019 financial year to what the current level would be, at \$556,000. And that's not been indexed since it was set. But that's the quantum of funds that we are talking about. I think, from TasWater's perspective, if there's no profit in TasWater, there's no dividend to be paid because the dividend will be paid from profit. So, obviously, if TasWater profitability goes south, so does the dividend, potentially.

For us, it's a small proportion of the revenue, but it's around 1.8 per cent of our overall revenue base. I think Wayne has certainly made the point that if that \$556,000 was to be removed, it would equate to a rates increase, likely to be to a similar level. That was the case back in 2009 financial year when it occurred. That decision was made mid-year, so we couldn't pick that back up until the next financial year. I say that because most councils in Tasmania either break even or run at a loss, and I would expect that experience is going to be very similar statewide. I guess that's money from the same customers, isn't it? I mean, we're talking about that the same property owners in TasWater are the same property owners for a council. So, it's the same consumer and the same end result for them, unfortunately. We would obviously see what revenue could be absorbed through other areas of council, as we do every year.

I think the mayor's point earlier around the price caps that TasWater had in the last PSP are particularly relevant because we keep saying that's 3.5 per cent each year and in that four-year period the cost of infrastructure delivery, constructing new assets, was between 30 and 40 per cent, they're already up against it at the start of the PSP5. Our councils are in the same boat. Our net assets around infrastructure, \$406 million, that's only increasing every time we're going to construct a new road. The price of steel, the price of concrete. It's the same for TasWater and the same for councils. We don't have a choice. We're a price taker in a lot of those purchases.

Sorry, I probably went a bit far there, but that's our experience. We started at \$834,000; we've been cut back to \$556,000. That's where we currently stand and that's what we're currently budgeting for over our 10-year financial plan.

Ms THOMAS - Thank you. It's all helpful information.

CHAIR - Can I just pick up on that? I think I wrote it down, the amount of working capital that was going to be \$35 million, I think, to build the Hadspen-to-Longford pipe to facilitate those 2,000 homes over the next three years. Is that right?

Mr JOHNSTON - Depending on the developers that were involved, but three to four years, Chair.

CHAIR - All right. If you look at that and the dividends being about \$834,000 a year, if you deliver the 2,000 houses, then your rates base would increase by, not 2,000 straight up but gradually increase over time. Is there an argument, perhaps, for having some sort of negotiation piece saying, 'We'll forgo some of our rates if you get on and build this'? Or is that just not something that could happen?

Mr JOHNSTON - I'm going to defer to the GM on that one while I think about it.

Mr HARMEY - Just to clarify, what you're saying is, council would put in infrastructure? Sorry?

CHAIR - Yeah, perhaps either forgo your dividend or part of your dividend to facilitate the capital expenditure to deliver the pipeline that would enable your rates base to grow.

Mr HARMEY - Well, I guess it doesn't equate perfectly like that because with any subdivision taken over, a council is taking on new roads, footpaths, stormwater infrastructure that all needs to be depreciated and maintained, and that sort of thing. Our current dividend is \$556,000.

CHAIR - Sorry, I had the wrong number. That was what was cut. Yeah, sorry, so it's lower.

Mr HARMEY - That's okay. Yeah, so it's currently \$556,000, and if we're talking about a \$35 million investment to deliver new houses, it would take some time to get to that price parity. We sat down with TasWater in June [2025] last year and talked about this particular project that Wayne's referring to. Those 2,000 houses may take a long period of time to be delivered. It's not instantaneous. There's that as well. It's a long-term investment.

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With the Hadspen example, that's also changed a bit in my most recent meetings with TasWater because they haven't done a detailed design, so they don't really know what the final cost of that project could be. As Wayne said, it was \$35 million, talking about a pipeline between Hadspen and the Longford regional treatment plant. My most recent discussion with them is that there may be rising mains and additional infrastructure in there that's an additional \$17 million on top of that. So, we're subject to TasWater designing these elements. That's changed over time as well because when we talk about Hadspen, we established a structure plan in 2012 and the solution at that point in time was an upgrade to the Carrick Sewage Treatment Plant, which was designed at a cost of around \$4 million. TasWater are now planning for a different solution, utilising regional facilities, but it's at a different price point. So, perhaps the best solution would have been in 2012, and we'd just paid the \$4 million and got the Carrick Sewage Treatment Plant upgraded. But that's probably a small – it's not the regional solution that TasWater is trying to get. They're trying to deliver long-term, 100-year solutions around their sewage treatment plants, from my understanding.

CHAIR - So, when the, the Regulator imposed that reduction, if you like, in their capital expenditure, Wayne, were the owner reps consulted on what capital work should be deferred? How were those decisions made?

Mr JOHNSTON - That was an operational decision made by TasWater.

CHAIR - So, there was no input at all from the owner reps to try to prioritise projects? I mean, I'm sure every council thinks their projects are a priority, otherwise they wouldn't have them on the books. Well, you'd hope that's the case. But there was no way to input into that process?

Mr JOHNSTON - Well, there were. There were discussions had by staff at TasWater that went back out, talking to mayors. Obviously, the mayors or GMs were certainly talking about what's happening with our particular spot. My GM was talking with TasWater about what happens with Hadspen. There were conversations then. But TasWater themselves looked at the 500-odd-thousand-dollar cut that they had and then had to make the decision on what projects may well be in the design phase or may well be getting close to the construction phase, and put their efforts into the projects that were deliverable, I suppose. From an operational point of view, they made that. They did have some discussions with us, but we could only say that we all thought that we were more important than our next-door neighbours, so to speak. But it was an operational decision made by TasWater.

CHAIR - It was \$500 million, not \$500,000, I think, just to -

Mr JOHNSTON - Yeah, sorry, \$500 million. It's a lot of money whichever way.

CHAIR - It is, yes.

Mr WINTER - I just want to go to that. Obviously, those discussions through the corporate planning process this year, we heard evidence earlier today from TasWater that there was a fair bit of discussion about the dividends and the timing around the draft corporate plan going to you. I think was supposed to be in April and didn't arrive until June because of the Regulator's determination, which makes sense.

Mr JOHNSTON - Yes.

Mr WINTER - TasWater mentioned that some councils may have made assumptions that the dividends were locked in and going up by 50 per cent, and budgeted accordingly. What do you think needs to change in terms of the corporate planning process so that we're not in this position in the future?

Mr JOHNSTON - I think those outcomes have already been changed, Dean. It caught all of us by surprise in the sense that, yes, 4 June [2026], from memory, it came out and, as was said this morning, some councils had already locked their rates in, therefore they couldn't change them. There's certainly been an acknowledgement from management at TasWater that they've got to do it better next time. We've got to have a month or two up our sleeve, as far as councils go, to understand our budgeting requirements. TasWater copped some harsh criticism over that but, to be fair to TasWater, it was just the timing and this was going to happen every four years when the Regulator makes their determination.

So, I think from the March-April projection from TasWater, it looked like we were going to be right for our dividends and then hit June, and it looked like we went from \$30 million back to \$20-odd million. Therefore, the GMs were certainly upset that their budgets would end up in the red and not the black. Like I said, I've had a commitment from management that they will do that way better next time round.

Mr WINTER - Do you think that the owners understood in July last year that the increase in dividends was predicated on the Regulator approving the increase in prices in line with the revenue assumptions?

Mr JOHNSTON - I guess it was always put to the owners that TasWater was putting forward a proposal that had not ever been put forward before. This was a proposal to do major infrastructure work, it was a proposal to put forward a larger rate increase than had ever been put forward before. Therefore, the Regulator could not approve. That was always put out there by TasWater: the Regulator could change, make their own decisions. So, we should have all been aware of that. I guess maybe there was an assumption that we would get what we were told, that we would get what was forecast.

Mr WINTER - You said the owners were told this was predicated on TasWater being able to implement one of the largest increases in prices than ever before. Was that communicated at the annual general meeting? Or if not, how was it communicated?

Mr JOHNSTON - The corporate plan was put out for all the owners to have input in and then it was ticked off at the AGM. So, it was there in the paperwork. That's from memory. The chair and the CEO spoke about what was coming forward, the PSP5. I think it was put out there. I guess if it wasn't put out there well enough, then maybe the owners should have asked more questions in that period of time as well.

Mr WINTER - It is certainly evident in the revenue projections in the corporate plan there's a 40 per cent increase. You don't have to be a genius to figure out that's got to come from somewhere, doesn't it? So, it does make sense it would be well known. But from that point in time, there were - I think I counted them previously. It's certainly over 10 submissions, might have been closer to 20 submissions from local government into the Economic Regulator's process. Was that coordinated by LGAT or the owners themselves, or was it just something that organically happened?

Mr JOHNSTON - Look, obviously, LGAT and TasWater were putting notifications out that the Regulator was open for submissions. And I, for myself as chief owners' rep, I think I might have put something out to the shareholders saying, 'Please be advised that this is there and put a submission in'.

Mr WINTER - You talked about in your case - and I hate to sort of, it's a bit unfair because you're Meander Valley, you're the chief owners' rep. But I'll use the example you used around the \$59 million worth of assets that were transferred into TasWater. I don't know how your assets, in particular, are, but the state of TasWater's broader assets, their noncompliance with, in many cases, the EPA's regulations, what's the justification for you taking dividends, given the state of TasWater right now?

Mr JOHNSTON - I think, at the moment, for the assets that each council put in to make the entity, it was a large contribution that was made. As I said, \$59 million for us into that TasWater entity. You talk about the compliance of water treatment plants. As I said before, some councils had very poor facilities that they transferred in. Therefore, there was always going to have to be some money spent on it. There are some really good water treatment plants that have come online around the state which certainly don't benefit my municipality at all, in any way, shape or form.

Justification of the dividends, Dean? Look, as I said before, if \$20 million was going to make a lot of difference to the overall health and wellbeing of the state, then that's fine. We could forgo our dividends. But as the GM has just said, for us, we would probably put our rates up by 2 per cent and that would go across the Board as well. So, I don't think the dividends back to councils is a really big issue. That's my personal view. I know that when the dividend rate was cut in June, I had some general managers ring me up and enlighten me to the fact that they may be in the red for their coming year, rather than being in the black. I didn't realise that some councils were so reliant on that dividend. But when you look at the dividends that are paid to some councils, it is quite significant. And ours is quite significant as well. Half a million dollars is significant. But if you've got water treatment plants that are not running efficiently and running at over capacity, then that's an environmental issue for all of us and that needs millions and millions of dollars to be spent on our water infrastructure. And unfortunately, I'll keep coming back to it, by the Regulator cutting \$500 million out of the proposal, then those issues will continue on for years to come rather than being fixed earlier.

Mr WINTER - Over five years, we're talking about \$500 million over five years. The dividend's \$100 million, which is nothing to be - that's your project you're talking about, potentially some other projects with more homes. We're expecting later today to hear from the construction sector, who have already been making the case earlier this week that the councils should forgo their dividends. I guess I'm trying to understand what justification there is, given your other evidence about the state of the infrastructure and about the need to invest.

Mr JOHNSTON - Well, I guess that's a structure that was set up when TasWater was established, that dividends would be paid to the shareholders.

CHAIR - It was the only way to get it through, Wayne.

Ms THOMAS - What was the other option? To buy the assets? Pay out the assets was the other option, I guess, at the time. That wasn't what occurred.

Mr WINTER - Why are we accepting that the councils should be profiting on investment in water and sewerage? This was the issue back then: cross-subsidisation, where councils, particularly one in the northern suburbs here in Hobart that was generating huge revenue from its water and sewerage and then cross-subsidising that against its general rate. I'm just trying to understand, given the state of what the assets were and what we know they are right now, what TasWater says they are, how local government would justify this in the current circumstance.

Mr JOHNSTON - But we're not profiting from our dividend.

Mr WINTER - Well, your dividend comes back into your balance, so it is a revenue stream for you.

Mr JOHNSTON - As I've said, it's not a profit. It is something that we then turn around and spend on our residents and our ratepayers.

Mr WINTER - Sure, it's revenue.

Mr JOHNSTON - It is revenue, that's right, as a shareholder of an entity that we put millions of dollars into.

Mr WINTER - Correct me if I'm wrong, but your argument is that you've put \$59 million of assets into this entity and you expect to see a return on that investment?

Mr JOHNSTON - No, that's not my argument. I haven't got an argument there. That's the way it was structured when it was set up. That's not what I'm arguing for at the moment, as I said.

CHAIR - Wayne, let's talk about an asset in a different municipality that's not yours. If an asset was in a state where it would have needed to be replaced in the next two or three years, which is a lot of them, actually, when they were handed over, that cost of building a new water treatment plant or a sewage treatment plant, or whatever it is, was no longer met by the council; it was met by TasWater. That was a cost the council didn't have to bear. As time goes on, the value of all the assets that were handed over must surely be less and less because they all age, wear out and need replacement. I think the argument is: how long should this go on for where the councils are no longer? Yes, they've handed over their assets, they've being compensated over a period, and it was done according to the value of the assets that were handed over. You could argue that this should have been time-limited, perhaps. I'm not saying it would have run out by now, but it should be time-limited so that TasWater can then just get on with doing the job, because councils no longer have to fund any of it.

Mr JOHNSTON - I don't disagree with you there, Chair, and I guess I'm understanding more from where Dean is coming from. I guess it goes back to my previous points about, how about we have a review of the whole system at the moment, not just PSP5. We sit down and go 'Where are we at?', so that there is input from shareholders, there is input from government, there is input from those around. But TasWater, in my view, are doing the best that they can at the moment. In my view.

CHAIR - The argument we heard from TasWater, and we hear it from you as well, and it's a fair argument, is that everyone expects our water to be drinkable, to be safe, and our sewage not to flood the streets of Salamanca like in the old days and things like that. Not so old days in that one. But that's what we expect. But if we don't enable TasWater to have the funding available to deliver the CapEx that we know is needed, then you're not actually looking after the community, whether it's Hobart council, Meander Valley or Wynyard. So, when you say you wanted to put your rates up, then you may do. But that could be based on a whole range of factors, not just this. Surely this must be part of the bigger discussion around how councils raise revenue. That's a whole part of a bigger conversation, more likely.

But how do we actually get TasWater in a state or place where they can actually deliver what we know and they've said quite clearly, and we know and you know as an owner representative, and agreed with them, needed to occur. Is that all getting in the room together, or is it the government taking more of a lead on it?

Mr JOHNSTON - I don't know whether it's the government taking a lead on it. I think the government should facilitate. I think we always look to government to fix problems that they probably can't fix at times. I don't know whether - and I've said in the media before, I don't know whether the government potentially taking over TasWater is the answer for any of us. I don't know. I was just going to go to the GM and ask him whether he had any thoughts on the revenue coming in for us. I have one question for yourselves when the GM responds, if that's okay.

Mr HARMEY - There is no doubt that the rates will have to go up if that revenue is withdrawn from each council in Tassie. From our personal experience, that is going to be the case. It's about what level of the \$556,000 that it does go up by. Unfortunately, that is the consequence of the structure that's been established in 2009. We did give over assets of \$59 million. Some of those probably haven't been touched because they were in a good condition. There are some that probably have been needed to be replaced in that time. That's a fair assumption. I think one of you actually said, if we were paid out our \$59 million and put that money in the bank, we'd be getting a far, far higher rate of return than what we are from TasWater. And there's other examples of governments receiving distributions from government entities. I just see this as being a very similar principle.

CHAIR - Yes, but some government entities, the only one that's probably really completely regulated is TasNetworks. That's completely regulated, so a monopoly, fully regulated business with a Regulator that tells them what they can and can't charge, and what they can and can't spend on CapEx. When they are not making a profit, they don't pay dividends. In the next few years, they'll pay next to nothing because of the impact of the North West Transmission Developments. That's a known fact. So, we'll see that the government will not get income tax equivalents or dividends from TasNetworks. That's how it works. That's with a 90 per cent dividend policy.

But with TasWater, what we heard from TasWater this morning, from their legal counsel, was that - and it's stated in the water and sewerage act, they have to pay dividends. They have to raise enough revenue to pay dividends as well as deliver the CapEx. So, it's a different scenario there. Do we need to review that, that portion of the act? If they can't make a profit because the Regulator said, 'No, you can't charge that much, but you do need to spend this much on getting assets up to speed', is that a limiting factor here for TasWater?

PUBLIC

Mr HARMEY - I would probably just say that the principle you've outlined there around TasNetworks - if they run at a loss, they won't be paying a dividend, that's exactly the same with TasWater because, from an accounting standards perspective and a corporate governance perspective, the dividend can only be paid from profit. If there is no profit for TasWater, they will not be paying a dividend back to owner councils.

CHAIR - So, it's a matter for them to determine if and how much profit they make?

Mr HARMEY - With the Economic Regulator, yes, with the determination.

CHAIR - You had a question for us, Wayne?

Mr JOHNSTON - I did. Have you had the Economic Regulator come in and be questioned the same as you have ourselves and TasWater?

CHAIR - Yes.

Mr JOHNSTON - You have?

CHAIR - Not in this round of hearings. That was previously.

Mr JOHNSTON - Okay. Well then, maybe it would be good to get them in now that we've gone three months into their changes and see how they feel about the changes that they've implemented, because people are hurting out there.

Mr WINTER - Yeah, that's a good idea.

CHAIR - Yeah, we hear you.

Ms THOMAS - Can I ask another question?

CHAIR - Yeah, Bec.

Mr JOHNSTON - No.

Ms THOMAS - Who's in charge here?

Mr JOHNSTON - I'm on the way out. You realise that?

Ms THOMAS - Throwing his weight around on his way out the door.

CHAIR - Yeah, getting very cheeky.

Ms THOMAS - You talked about the government. It's not necessarily the government's role to fix things, but they might be able to perhaps play a role in facilitating, bringing people to the table and exploring solutions here. But do you think part of the issue in all of this is the lack of strategic infrastructure planning statewide overall? Really, do you see that that's a role for government? It could be argued that government hasn't effectively planned for growth when it comes to the planning of infrastructure assets to accommodate it - not just water but power. And you've got people operating in silos in an ad hoc manner based on developer-driven

activity a lot of the time in a really reactive way, rather than a proactive way. To add further to that question, is part of the issue, from a funding perspective, the fact that we don't have developer contributions?

Mr JOHNSTON - Yes and yes, in my view. It's interesting how things change. If you look at the strategic plan five years ago to where the strategic plan may be this year - and I speak generally, then things change. We see COVID get thrown in, we see a flood get thrown in, we see a fire, we see all those things happen. It's on all of us, I think, to review. I've always been a great one to continue to review policies and direction to make sure that we're heading down the right path. I guess the government do that, but governments are usually reactive, not proactive. I don't mean that as a criticism, I really don't. I guess for me, with TasWater, they're certainly working hard with their shareholders and with their councils to understand what's coming up on their horizon. But 10 years ago, a lot of land probably wasn't being developed that is now, therefore the requirements of the pump station down the road is not what it was, or has changed. I think it's on all of us, yourselves included - and I guess this PAC meeting is one way to try to have some questions answered and to have some things sorted for the future.

But again, I get back to we really need to be, rather than perhaps every four years or five years looking at price paths, we should be going, 'Okay, we've done this, it's had consequences, let's see if we can change it earlier'. I mean, I'm not in politics or legislation per se, I know I'm in little politics but not big politics. To understand the implications of what I'm saying - it's probably a very simplistic view that I've got, but I think get everybody in the room with the best intent of doing the best for Tasmania and I think some good things would flow out of it.

CHAIR - We need to wrap it up there. We've actually gone over time. Thank you both for your appearance today. And on behalf of the Committee, Wayne, we wish you all the best in your retirement. You must be counting down the days.

Mr JOHNSTON - You said that last time and I'm back again.

CHAIR - You're back again. Anyway, we still wish you all the best.

Mr JOHNSTON - Thank you. Appreciate that.

CHAIR - We hope we don't have to call you in again, but we do appreciate you taking the time to appear before the Committee. Thank you.

Mr JOHNSTON - Thanks for letting me. And if I can help any way, please reach out. I'm a passionate Tasmanian and really want to see Tassie go forward.

CHAIR - Absolutely. Thank you.

The witnesses withdrew.

The Committee suspended from 1:59 pm. to 2:01 p.m.

PUBLIC

Local Government Association of Tasmania

CHAIR - Thank you for appearing before the Public Accounts Committee inquiry into TasWater's financial and operational management, particularly focusing around the PSP5 and the implications of that.

This is a public hearing. Everything you say will become protected by parliamentary privilege, but that may not be the case once you leave the Committee proceedings. It is a public hearing and if there's anything of a confidential nature you wish to share with the Committee, you can make that request. Otherwise, it is all public. Do you have any questions before we start?

WITNESSES - No.

Mr BEN MORRIS, POLICY DIRECTOR, and **Mr DION LESTER**, CHIEF EXECUTIVE OFFICER, LOCAL GOVERNMENT ASSOCIATION OF TASMANIA, WERE CALLED, TOOK THE STATUTORY DECLARATION AND WERE EXAMINED

CHAIR - I assume, Dion, you'll lead off with this. If you want to make some opening comments, just introduce yourself and your role. I do want to introduce your role, too, Ben, just so we know who you are.

Mr MORRIS - Yes. I'll go first. Ben Morris, I'm the policy director of the Local Government Association Tasmania.

CHAIR - Thank you. And Dion, over to you.

Mr LESTER - Thank you, Ruth. Dion Lester. I'm the CEO of the Local Government Association of Tasmania. I won't linger on any on significant opening statements. I will make some commentary regarding the provision of dividends to councils because there's been a little bit of attention in the media and elsewhere, and from some Committee members regarding that matter. The Board sets the dividend policy in accordance with the *Water and Sewerage Corporation Act*. And I guess it's important to understand that's done consistent with their objectives, which is to deliver a sustainable return, consistent with good commercial practice. But that can only be provided once adequate provision has been made for future capital and operational expenditure, and TasWater's dividend policy does reflect that.

When it comes to the commentary regarding the stopping of dividends is going to somehow create savings for the community, this really overlooks a fundamental reality, and that's it's really a zero-sum proposition. Removing the dividend doesn't make or change the community's funding needs. Councils still need to provide a range of services and infrastructure. So, a removal of the dividends is ultimately going to result in councils either needing to reduce services, defer infrastructure upgrades or maintenance, or increase rates. That impact, should that occur, would be variable across the 29 councils, depending on their circumstances. But in broad terms, you're looking at a rates offset typically in the range of between 1.5 and 6 per cent. Or put another way, an increase in rates of between 1.5 and 6 per cent to cover the loss of dividends.

PUBLIC

I'll finish by pointing out that the state government receives dividends on the majority of GBEs, and across the last five years that's typically been between somewhere between \$100 million and \$250 million. We're happy to take any questions.

CHAIR - Either of you may have a better answer to this. We have just heard from Wayne Johnston, as the owner rep, and we heard from TasWater this morning, and there was a comment made that there are councils who, without the dividends, would be in negative territory. They would be in red, effectively. From your knowledge, how many councils would fit into that category where they absolutely rely on their dividend to make the bottom line work?

Mr LESTER - I can't give you a number on that but there's very many that the 1.5 per cent of the - rates is a significant part of their revenue but the TasWater revenue probably comes in third, after rates revenue and other grants revenue, in a lot of councils. Short answer is I don't know. I guess, more broadly, to make up the difference, there's three ways of looking at it: they either go into the red, they reduce services or increase rates. You're talking about 5-6 per cent rate increases to offset it. I'm not sure that answers the question. The short answer is I don't know how many it would make that sort of difference to.

CHAIR - Would there be many? There are 29 councils. I'm not asking for the actual figure here. I'm just interested in whether it would be half of them or a smaller number. Are they mostly the bigger or the smaller councils?

Mr LESTER - It would be double figures. But again, what it would do is it would create a choice. They could either go into the red or they could increase the rates revenue, or they could decrease services. If it was taken out without changes to services and changes to rates out of, let's say, this year's budget, then most councils would go into the red. Are you with me?

CHAIR - Wayne Johnston was telling us, with his mayor's hat on, that the decision by the Regulator that took out the \$500 million of CapEx meant that a pipeline between Longford and Hadspen was deferred until 2030. A start I assume that was. Which meant that 2000 homes could not proceed in that subdivisional area they'd set aside for that housing development. Clearly that has a flow-on impact, too. I know that they're not all delivered on day one and it might take quite a while to get to the 2000 homes, but there's a rates revenue return from new homes. So, there's a bit of a chicken-and-egg thing here. I did ask him, 'If you were to forgo some of your dividend to enable that work to commence, is that a possibility?', acknowledging it goes nowhere near the total cost of it. Do you have a view about that, or is it we're just going to let TasWater set the priorities and live with it?

Mr LESTER - One of the concerning things for local government regarding the PSP5 decision of the Regulator was it did carve out, I think it was, \$63 million of the bucket, if you like, of revenue that was going towards growth projects. These are projects exactly like Wayne cited. That's not a compliance need or a Regulatory need. These are projects that are going to enable growth. That's one project where we know it's implicated, but there's a range of others that are either being contemplated or that will come online during the PSP5 that will enable growth in municipal areas, in housing predominantly, although there are some examples where there's future industrial precincts that may be implicated. So, these are projects now that are not going to be able to go ahead during this PSP5. Beyond a significant cut in their CapEx program around those compliance and environmental needs, this inability, or significantly constrained ability, for TasWater to fund growth projects is going to basically cause major issues when it comes to delivery of housing.

Mr MORRIS - If I can just add to that. Over that total \$500 million, obviously compliance makes for a large component of that. They were originally proposing \$900 million. Many of those have growth as a secondary driver. They're doing it because they're impacting the environment, but they'll build it so it's bigger, so it can cater for growth for 50 years or whatever.

CHAIR – So you'll get the dual benefit in those cases?

Mr MORRIS - That's right. That's where it's going to see the biggest reduction, in those compliance projects. But they also support growth.

CHAIR - Bec made a comment with Wayne and Jonathan, the GM there, and I'll repeat it because I think it's a really valid question: 'Do you believe that there's been a lack of strategic planning not just for water and sewerage from TasWater's point of view, but for the government to look at all of the necessary infrastructure: roads, networks -

Ms THOMAS - Power.

CHAIR - All the other aspects, even data and IT infrastructure, to facilitate growth, and that maybe there's a role for government here in trying to pull it all together.' What's your view on that?

Mr LESTER - As a state, we haven't done strategic planning super-well. We're at a point in time now, I guess, where with the southern regional strategy coming to a conclusion, the north and north-west - well, in fact, a southern one's been declared and north and north-west becoming finalised. That's useful, but the integration of infrastructure with that land use planning still hasn't landed. We would say in relation to TasWater, their engagement through those regional land use strategies, through their precinct planning particularly in the last - and Ben will know, but I'll say two to three years has certainly been a welcome improvement around that. But we're not connected across state government infrastructure, GBEs and TasWater with the broader land use planning environment as well as what we could be, and certainly as well as what most other jurisdictions are.

CHAIR - Why does it work better in other jurisdictions?

Mr LESTER - They just do the planning work. They invest in the planning work around their infrastructure priorities, their land use and those sort of things. We just haven't done that. Well, it hasn't been a focus of governments, really, for many years here.

CHAIR - Sadly.

Mr LESTER - It's a very demand-driven environment in Tasmania with the GBEs and the provision of this infrastructure, as opposed to planning ahead.

Ms THOMAS - Do you think, Dion, further to that, there's a role that state government ought to be playing in facilitating bringing those stakeholders together so that there is a more coordinated approach, rather than this operating in silos?

Mr LESTER – Certainly as a sector we would welcome that. It's been frankly, through the development of the regional strategies, at times it's been difficult to get engagement from state agencies around it. It just feels like it hasn't been a priority around that engagement in the planning environment. Now, we are seeing that shift slightly, I guess, with greater attention on the regional strategies and the Tasmanian planning policies. But again, the interface of infrastructure planning with that land use planning still has got a little way to go, frankly.

Ms THOMAS - This whole discussion we keep coming back to when we're talking about dividends, we're talking about if TasWater don't pay dividends to councils, then councils will have to increase rates so the customer effectively pays one way or the other. If you take a step back, though, there's a bigger-picture issue here, aside from the lack of strategic planning. That is related to the broader need for strategic planning. Say we didn't have any of these organisations established, in existence, you could look at: what's the plan and then what's the funding required to deliver community infrastructure, what's the funding required to deliver community services? And then look at how the funding's allocated to those different organisations to deliver agreed infrastructure and services if you had a coordinated approach and a clear plan.

One of the things that came up through the Future of Local Government Review, through discussions around this stuff, was I was thinking about why do councils actually collect rates? Should it be, rather, the government collecting community infrastructure and services tax and then funding the relevant organisations to deliver those services? Is there an opportunity here to take a bigger-picture, more strategic approach to how we actually deliver community services and infrastructure, not just limited - I know we're talking about water today and I know this is maybe very utopian and out there, but it's just what's come to my mind. If we're talking all the time about robbing Peter to pay Paul and who gets funded, and it becomes a debate about that, we lose sight of the bigger-picture issues here around it's not necessarily about who's getting the money; it's about how do we best deliver services and infrastructure that Tasmanians need?

Mr LESTER - Look, Bec, I think we come to this discussion with a perspective on emphasising the importance of the dividends to councils and the community retaining it. If we come out of this discussion with me suggesting that the government take over the collection of rates on behalf of councils, then that would be severely career-limiting. That's a big, bold grand idea. It's a messy space. I accept that proposition around it. You've got competing priorities - the GBEs and government departments and what's demand-driven, and council's role within that. So, yes, there's an opportunity here. Do we think it's councils losing the collection of rates? No, we certainly don't.

Ms THOMAS - Sorry to put that on you. I knew you'd be up for it.

Mr LESTER - That's all right.

Mr WINTER – Thanks, Dion. Early on in your evidence, you talked about the government receiving \$250 million in dividends from its GBEs. But what the government has also had to do, in the case of TT-Line, Hydro, TasNetworks, is when there have been challenges that have been inflicted on the business or have run into trouble, they haven't collected dividends. TasWater has said:

If we don't invest now, we'll continue to fall behind and the catch-up investment required to maintain and replace our assets, creating larger challenges and increasing the urgency of response, resulting in customer price impacts that are unsustainable for future generations.

Given that situation, don't you think that, by the same logic you use around the GBEs, the TasWater owners should be more open-minded to whether they need to be, firstly, asking for a 50 per cent increase in dividends and, secondly, receiving dividends in the short term?

Mr LESTER - I guess it's important to note the government's collected revenue every single year for the last five years, or dividends, from the however many GBEs. The least it has been is \$100 million and the most it has been is \$255 million. So, there's always been a revenue stream there. The owners have - and as far as the dividends are concerned now, there has been a reduction on what was originally outlined in the corporate planning process. It was originally proposed \$30 million in dividends and that's been reduced to \$24 million. I'm sure TasWater, in their evidence this morning, would have outlined as far as their level of debt gearing and some of the rationale behind that, which is certainly beyond my level of expertise.

I'll go back to my point earlier, Dean, that being that you're pinching from Peter to pay Paul. The scenario where the revenue or the dividends reduces to zero is just going to result in the community needing to pay for the provision of those services through rating, or councils will deliver less. It was said to me earlier this week regarding this, from a council that said 'If we lost the dividend revenue, we don't think our community could sustain the rates increase to make it up, so we would cut things'. In looking at what they would cut, actually they were looking at their level of strategic planning and precinct planning, and some of those other activities that they might have to cut, which ultimately is going to impact on the delivery of housing. That's just an example around it. Each council would be faced with this difficult choice: what do we cut or how much do we put our rates up?

Mr WINTER - There are consequences to all of these decisions, aren't there? We heard from the mayor earlier that the consequence for his local area is that a \$35 million water and sewerage project doesn't go ahead and, potentially, 1000 homes, which is another consequence.

Mr LESTER - It's worth bearing in mind that with councils, they're not just owners of TasWater; they are representatives of their community and they're also customers - a major, major customer of TasWater. When TasWater were first forming up their proposition for PSP5 and the sort of increases, no one loved the idea of what they were proposing but, actually, councils supported it because they could see the need for it and the associated benefits around it, despite the kind of -

Mr WINTER - In the case of the council you mentioned, in that case they didn't think their community could sustain a rate rise. Well, that council voted for the TasWater bill increase, a 40 per cent increased cost of TasWater on their own community. I'm just struggling to see how this works if, on the one hand, you're saying that the community can't sustain higher rate rises but on the other hand, you're saying your members were more than happy for TasWater to jack their TasWater bills up by 40 per cent over five years.

Mr LESTER - I wouldn't characterise it as 'more than happy', but could see the need for it. The key difference between the two, and particularly with TasWater's original proposal, there was a higher emphasis on use charges, as opposed to a flat fee. So, yes, the price was

increasing, but it was providing a great deal more control over that bill shock or the bill changes than has previously been the case. You certainly had, across those two difficult choices - and that's really what we're talking about here. We're talking about a rock and a hard place, frankly, because at some point someone is going to have to pay around getting the assets to where they are and supporting the sort of growth projects we need. But at least through the TasWater increase proposal you could reduce your water usage and so, therefore, you could reduce the impact it would have on you as an individual.

Ms THOMAS - Is part of this issue here not just the lack of strategic planning by the government but also the fact that we don't have developer contributions in terms of covering the cost of this infrastructure that TasWater needs to deliver?

Mr LESTER - Ben, if you'd like to describe their arrangements they've got in place for TasWater now around developer contributions that might be useful.

Mr MORRIS - That's right. They have put in developer charges in PSP4 and they have increased those for PSP5. That covers the incremental take-up of the capacity but doesn't cover the full cost. So, TasWater, when they know there's development coming, can build it into their planning. And this is where the link is with state government planning, as you say, and with council's own planning. And when they know that's happening, they can build that in. But if they haven't got the growth money to spend, then it makes it hard to build that capacity when it's needed. They do have an ability to capture that, but it's on a per-lot basis, so it won't be enough to pay for the full cost of the asset immediately.

Ms THOMAS – So, it's on a per-lot basis. In an ideal world, what would it be?

Mr MORRIS - The amount, you mean?

Ms THOMAS - I'm not fully across the whole developer contribution issue, but I know it's something that's been talked about in the past and how in Tasmania we differ from other states in terms of what it looks like. Can you just explain a bit more clearly to someone who doesn't know a lot about it.

Mr MORRIS - Our water is now on par with other states that have a developer contributions. There's both arrangements to make sure that the first mover isn't disadvantaged and you can share that cost over time, and they can charge on a per-lot basis. What we don't have is for local government infrastructure. I'm not sure, Dion, if you want to talk to that or not, but that's the gap at the moment, and that is what makes it hard to do all of that planning. So TasNetworks have their charging arrangements, TasWater does, I guess Telstra. Councils don't. So, that's a split between what ratepayers pay now, or maybe they don't build that now and that has to come in the future, or the developer has to pay for that. That's the gap. A little bit out of the terms of reference, but yes.

CHAIR - This flows on in some respects but a different question in other ways. Do you think that the current ownership and governance model gives owners enough capacity to hold TasWater accountable? When we had the Treasurer here, he was talking a little bit about his government, that the government's been critical about some of the decisions of TasWater and he said, 'Well, there's always the option of legislative reform'. He didn't clarify what that could or might look like. Do you think that the current structure works, or do we need to have a look at that?

Mr MORRIS - We're not receiving significant feedback or concern regarding the current structure. At various times, I guess councils or individual councils might have felt they need or should have greater control. But if there are limitations there as far as their role is around governance - but at the moment, we're not hearing that there needs to be any changes. So, yes, it seems to be operating fine.

Where we think there is an opportunity is around some Regulatory reform. The regular PSP process causes challenges. It causes challenges for TasWater, it causes challenges for our councils as far as the timing, the nature of it. So, where we're hearing calls for reform from the sector is around a review of the Regulatory process, an independent review of the Regulatory process, the PSP process.

CHAIR - TasWater did say they're looking at – well, they haven't started or done it, but they were suggesting an independent review of the Regulatory framework would be appropriate. So, you would support that and then see what came out of that, as opposed to having a view about legislative change at this point? Is that it? Am I right in understanding what you've said?

Mr LESTER - Yes. Absolutely.

Mr MORRIS - I'll just add to that. The Economic Regulator has put out some draft terms of reference around them running a review, and TasWater and ourselves have said we think that needs to be independent. It's a bit hard to set your own rules that you're then going to -

CHAIR – So, you don't think the Regulator's independent?

Mr MORRIS – Well, they're independent, but it's hard to review your own work, I suppose.

CHAIR - Yeah.

Mr LESTER - You can't review yourself.

Mr MORRIS - Yes.

CHAIR - Who would be an appropriate person or body to lead such a review, in your view?

Mr MORRIS - Well, I think if I may, Dion, I think it needs to make sure we're engaging across government and we need to pick up the Treasury and Building Tasmania aspects. So, I'm not sure exactly who that should be -

CHAIR - But not someone of government, surely?

Mr MORRIS - No, it needs to be done independently. But it's how it is commissioned in the scope of that work.

CHAIR - Who should pay for that work?

PUBLIC

Mr MORRIS - Well, I think, as TasWater noted, they end up paying for everything. They pay for OTTER's work, they pay for the Regulator, anything. They will pay for that, and customers pay for that ultimately.

CHAIR - That's right. TasWater say they pay for it, but it's the customer who pays.

Mr WINTER - There was talk earlier this morning about the dividend policy review. It sounded like it had come from the AGM this year. It sounded like it would have been a good room to be a fly on the wall in, actually. It mentioned that LGAT was going to be part of that process, I think maybe the consultation process. What information can you give the Committee about that process and LGAT's role in it?

Mr MORRIS - Do you want to talk to that?

Mr LESTER - Yeah, I'll open and then flick to you, Ben, as far as the details. We run what's called an expert advisory group. It's a representative group from councils that is made up of a range of mayors/elected reps, CEOs, CFOs; a small group that, I guess, sits off the side of LGAT and from time to time will undertake reviews of TasWater's activities or work. They'll often look at the corporate plan ahead of the owners looking at it. It's in effect, Dean, so that you don't have 29 councils having to review a document. Now, they all do, but it provides a little bit of insight. And they can be stood up or down depending. They did a review of the SLE, for example, three or four years ago. But off the back of some of the challenges with particularly the timing and communication with the dividends this year, that prompted our members to say, 'We think this can be done better'. We're only at the commencement of it, but have you got anything else to that Ben?

Mr MORRIS - Yes. We'll be doing that work through October and it's proposed to go to owners in November for the first consultation. But ultimately, it's the Board's policies. I think some of the things you may have spoken about this morning, and certainly TasWater has acknowledged quantifying that proportion of profit as GBEs at 90 per cent. It would be a much lower level because that's more a corporate figure, and that early indication of when things are at risk, as they mentioned as well, the forecasting the dividend.

Mr WINTER - I'm not looking at the document now, but it's not a very lengthy document, the current dividend policy. Is it the view of the councils that the actual level of dividends needs to be reviewed? Or is it just around the timing and information flow?

Mr MORRIS - This review is about how that policy is structured and the communication, which ultimately is a decision the Board needs to make in line with the policy, in line with the legislation you've heard about today.

Mr WINTER - Are they seeking to change the way that TasWater determines the amount of dividends that they pay?

Mr MORRIS - No, that's not in the scope.

Mr WINTER - So, it's purely about the process to communicate it?

Mr MORRIS - And making really clear about that proportion of what the maximum profit -

Mr LESTER - It boils down to predictability, Dean. The late changes to the dividends that are going to be paid, late changes when councils have already set their budgets, are very difficult to accommodate. So, it's about that predictability of what's happening with the dividend in what's a pretty fluid environment is the key outcome so we don't get the surprise in May or June that actually you're expecting \$25 million, now it's \$20 million. It goes back to my earlier point, because it's 5 or 6 per cent of their budgets. To try and recast your budget in May with a 5 per cent reduction in revenue is extremely difficult for councils.

Mr WINTER - Do you think the general managers could reflect upon whether they plugged that new dividend number into their 2026-27 budgets a little early, given that the PSP5 hadn't actually been approved?

Mr LESTER - They were operating on the best available information they had at the time.

CHAIR - But there were caveats on that, Dion, as TasWater said that the corporate plan was based on a proposal that may or may not be accepted by the Regulator, and the Regulator, according to them, has never given them everything they want. I think probably TasNetworks would say the same about AER. But notionally you go with your ambit claim and see what you can get.

Going back to Dean's point, it seems that the council sort of locked that in. And I appreciate the timing issue here. It was a particularly significant challenge, but you might have been more prudent to take a more conservative approach and say: 'Well, this is how much they've asked for, this is what they suggested would be returning dividends. But we know that the Regulator usually gives them a haircut, so we will be a little bit more conservative.'

Mr LESTER - I think that's a reasonable point, except the CEOs were basing their budgeting on the information that was being provided and updates by TasWater. Perhaps, with their own detailed scrutiny, some of them may have taken a more conservative approach. But, frankly, one of the areas where TasWater let the sector down was that they didn't communicate that precise point around the risk to the change in it as early as what they could have or should have.

CHAIR - They sort of half-admitted that they were pretty bolshie in the fact that they reckon they made it pretty clear.

Mr MORRIS - There is a fair degree of having to know the background and you have to read between the lines. And I think they would acknowledge that.

CHAIR - When you're reading between lines, that's not really an effective way of informing key decisions by councils.

Ms THOMAS - Do you think it's fair and reasonable for councils to continue to receive dividends effectively in perpetuity, given they're not contributing to the maintenance, renewal and replacement of the assets that they contributed to the entity in the first place, which basically is the reason why they collect dividends? My understanding is that councils put in these assets, became shareholders. Another option might have been for those assets to be bought out and then they weren't shareholders in the business. I wasn't around when all of that

was happening. But, ultimately, should it be time-limited? I think you asked this question of Wayne, Ruth. Should there become a time where those assets would have reached the end of their useful life, councils aren't contributing to replacing them or maintaining them.

Mr LESTER - Councils contributed circa \$2.8, \$2.7 - Ben will know, over \$2 billion worth of assets back in 2008. They remain shareholders of the corporation. So, perhaps if actually the sector was bought out around it then, yeah, they're obviously not. But at the moment they are a shareholder of that corporation and they've contributed more than the majority of the assets. I think there's another - Ben, is it \$2.1 billion that TasWater have kind of created or grown since that point in time? Certainly, in the immediate and mid-term, no. There's absolutely no justification for them not continuing to receive a return on that investment.

Ms THOMAS - But at some point? I'm just trying to understand. They're not contributing now. It's one thing to contribute assets, but then if you're not contributing to the maintenance or the renewal of them, at what point does that stop? Or doesn't it? Do you have a view on that?

Mr LESTER - Well, they're shareholders. I mean, in a corporation setting, just because - so, the answer is, while they remain shareholders then absolutely should be - if there was contemplation of removing that, then there'd be a discussion around paying fair value for those assets that they've provided.

Ms THOMAS - Okay.

Mr WINTER - Sorry, who would pay fair value for the assets?

Mr LESTER - Well, that's the point. No one. No, that sounds terrible. I guess if what Bec's suggesting as far as ownership transferring, then it'd be a State Government would be the only one to - you know, the option in 2008 was they buy it or they create a separate entity with councils and shareholders. They've chosen the latter and, as shareholders, they're entitled to, both from the significant provision of assets that they've provided -

Mr WINTER - But being a shareholder does not entitle you - I'm talking in broad terms. Being a shareholder of any entity does not necessarily entitle you to a dividend. The argument that I think has been made by several people today and questions we've been asking is about, given the state of TasWater's assets, how do you justify taking dividends after everything they've said? Right now, where's the justification, apart from to say that you invested in the assets before 2008? Or underinvested.

Mr LESTER - It comes down to the first point I made: that if there's a reduction in the dividends or removal of the dividends, then that contribution has to be made up somewhere through reduction of services or - I mean, councils aren't squirrelling this money away in the bank. We're not talking about a private entity here. It's a reinvestment into the community. These are things community will miss out on or will have to pay more for in the future, the other range of services that councils provide.

CHAIR - Dean, did that address yours? Anything else Bec?

Mr WINTER - I've got one more for you just because we've got a couple of minutes left. Dion, I think you and I have spoken about it in the past. There's been an issue in a policy

sense around TasWater and around the first mover. There's been developers that haven't wanted to build and, I think Brighton Council's been the most passionate about it. Is there anything in a policy sense that's moving or changing around TasWater, apart from obviously the policy issue that HIA and those guys are coming in to talk about shortly, but in a bigger sense around new subdivisions? Is there any action in that space?

Mr LESTER - Look, we remain committed to wanting to (audio interference 2.39.17) infrastructure contribution framework for Tasmania. Ben highlighted this. There's a kind of a part of one when it comes to TasWater, but for remaining infrastructure and for something like a - it's that incremental one rather than that new piece of infrastructure. Brighton's a good example where they have managed to secure some federal funding but secure agreement from, I don't know what it is - three, four, five developers, to partially fund a new pump station, a single pump station, a single facility, which is far more cost-effective. They were only able to do that by agreement. The legislation does not allow it. In the absence of them doing a lot of hard work around securing that agreement across those developers, then TasWater can require them to do something if they want their development, but it would be five pump stations instead of one. So, this is where, going to your point, Bec, earlier, we need a broad infrastructure contributions framework in Tasmania so that we can get rid of that first mover. Because it's not more money. This is the thing. Someone will pay. If you need to develop a greenfield area, someone is paying or it's not happening. What we're saying is, let's put a framework in so that everyone who benefits pays a little bit, than one person paying a lot. Or that it can be coordinated. In the example of Brighton, rather than five small pump stations, it turns into one big one, which turns out to be, the one-fifth contribution is less, if that makes sense. It's a cheaper solution and it's centralised.

Mr WINTER - Have you got a policy somewhere in the LGAT archives on this that you could pass on to the Committee?

Mr LESTER - We definitely have got stuff we can pass on to the Committee out of session regarding this.

Mr WINTER - Appreciate it. Thank you.

Ms THOMAS - Ben's done a lot of work on it, haven't you, Ben? You could tell with the contributions.

Mr MORRIS - Yeah. For TasWater they have their developer charges policy which addressed the Brighton issue, in particular. I'd say, too, they recently just held their series of developer forums, so they are engaging more with industry to understand what they have coming up, what their challenges are. And the message was, 'Come and talk to us', so then they could build that into their growth planning.

CHAIR - All right. We'll write to ask you for that formally, that information. That would be really helpful. Thank you. Is there a closing comment you wish to make, Dion, at all or not?

Mr LESTER - No. Thanks for the opportunity. That's it.

CHAIR - We appreciate your insights into this and your deep connection to the issues and the role that you play in this space, so thank you.

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The witnesses withdrew.

The Committee suspended from 2:42 pm. to 3:01 pm.

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Construction Representatives

CHAIR - Thanks, Jenna and Ben, for appearing before the Public Accounts Committee Inquiry into the Financial and Operational Performance of TasWater. We did an initial round of hearings with TasWater and other stakeholders a while back, but we're now starting to see some of the impacts of the PSP5 flow through. You've both been public in comments around some of the decisions that have been made by TasWater, so we appreciate you appearing before the Committee. This is a public hearing. Everything you say is covered by parliamentary privilege, but that privilege may not extend beyond the Committee hearing. As I said, it's a public hearing, but if there are things of a confidential nature you wish to share with the Committee you could make that request and the Committee will consider it. Do you have any questions before we start? Can I ask both of you to introduce yourselves and who you're representing, and take the statutory declaration?

Ms CAIRNEY - I'm Jenna Cairney, CEO of Master Builders Tasmania.

Mr PRICE - I'm Benjamin Price, executive director of the Housing Industry Association in Tasmania.

Mr BENJAMIN PRICE, EXECUTIVE DIRECTOR, HOUSING INDUSTRY ASSOCIATION and **Ms JENNA CAIRNEY**, CHIEF EXECUTIVE OFFICER, MASTER BUILDERS TASMANIA, WERE CALLED, TOOK THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR - Thank you. I think, Ben, you're going to make some opening comments.

Mr PRICE - Thank you, Chair and members, and thanks again for the opportunity to appear before the Committee today. Apologies in advance, my opening contribution is somewhat lengthy. The Housing Industry Association represents the builders, contractors, suppliers, planners, building surveyors, designers and other residential industry professionals that make up our membership. Most are small and family businesses in communities right across the state. They see the consequences of TasWater's decisions each and every day. Every new home needs a water and sewerage connection before anyone can live in it. You can have the land, the planning approval, the builder and the home buyer, but if the infrastructure isn't there, or the treatment plant has no capacity, that home does not get built.

The Committee has asked whether TasWater's settings are balanced against the state's housing priorities under the National Housing Accord. That's exactly the right question to ask, in the HIA's opinion. The long-term evidence on land in Tasmania is confronting. Since March 2001, the median price of a residential lot in greater Hobart has risen from around \$35,000 to almost \$300,000, an increase of nearly 750 per cent. Outside Hobart, it has been faster still, over 800 per cent across the regions and almost 1300 per cent in the south-east. No part of Tasmania has been spared. Land and the essential infrastructure that services it is the number one long-term constraint on housing supply here in our state. The question for every public authority is whether decisions that it makes ease that constraint or make it worse.

TasWater, as we know, is a monopoly. It doesn't compete for customers and it doesn't compete on price. A household, business or developer unhappy with its service, its timeframes or its charges can't walk away. There is no alternative supplier. In a well-governed public monopoly, the owner is meant to provide the discipline the market can't. Here the owners are

29 councils who receive annual dividends from the business, and many of whom are also the planning authorities that decide where and when housing proceeds. When the owners' budget interest competes with the network's long-term needs, the owners' interests will win every time, in our opinion. The Productivity Commission's interim report of this year found infrastructure is often the main constraint on new housing delivery and recommended that regulated infrastructure providers be given an explicit goal of facilitating housing supply. It is my understanding that TasWater has no such goal.

TasWater pays its owners around \$24 million a year, as has been canvassed in evidence earlier today. That's \$120 million over the past five years and, on current plans, more than \$200 million by 2030 paid to local government. At the same time, TasWater sought \$1.7 billion in capital investment and a substantial price increase to fund it. As we know, the Regulator approved \$1.2 billion. We have a utility saying it urgently requires more money for essential infrastructure, customers paying more every year and owners still taking tens of millions of dollars out of the business, and within TasWater's proposed pricing plan, an effort to significantly increase those dividend payments, understanding that that was then revised.

When the state became an owner, it chose not to take a dividend. The question is why the other owners have not done the same, while TasWater defers \$500 million of essential capital investment. HIA does not consider that this is a balanced arrangement. The chair of TasWater said today that the business makes a profit and that's how it pays its dividends. With respect, that is our point. A monopoly's profit comes from customers who have no choice. When bills are rising every year and owners are still taking tens of millions out, that's a choice about who comes first and the loser here is the Tasmanian consumer. It is also our strong view that the significant infrastructure challenges that TasWater is now facing and seeking to manage and improve, are in significant part due to the failure of local government to adequately manage their infrastructure over the decades prior to the establishment of TasWater. We have heard this clearly in evidence from the owners' representative earlier this afternoon. In effect, local government is being rewarded for decades of infrastructure failure, with consumers now being sent the bill.

On 26 August, TasWater wrote to HIA and other peak industry bodies advising that from 1 October, it will end the 24-month remission on fixed charges for newly subdivided lots. That remission has been in place since 2012. From next week, every new block will attract around \$900 a year from the day the title is created, before a house is built and before a tap is turned on. In plain terms, this is a tax on new housing. Independent modelling by the CIE for HIA found that 37 per cent of the cost of a new house and land package in Hobart, about \$257,000, is taxes, charges and Regulatory costs. Around \$88,000 of that is Regulatory cost alone. These costs cascade as a charge applied to land early in development doesn't stay the size it started; it's financed, a margin is priced over it and then GST and stamp duty are applied on top at the point of sale. The CIE's modelling is also clear that because housing is a necessity, it's the home buyers who will bear this cost.

HIA asks this Committee to recommend, first, that dividends to owner councils end so that TasWater's profits are reinvested in the infrastructure Tasmania needs. If this is unworkable in the short term, dividends should be reduced to zero over a defined period, but no later than the end of the next Price and Service Plan. In the meantime, every dollar paid to councils should be quarantined for housing-enabling infrastructure above existing spending, and publicly reported by each council quarterly. Second, that the decision to end the vacant lot remission be abandoned by TasWater. And, third, that the government commits to

comprehensively review whether the current ownership and governance model can deliver the infrastructure Tasmania needs to meet its housing targets, and report back to either the Committee or to parliament.

Chair, Tasmania cannot meet its housing targets without the infrastructure to support them. That infrastructure won't be delivered by a monopoly whose owners are paid to take money out of it and whose answer to a funding shortfall is to send the bill to the next generation of home buyers. Thank you.

CHAIR - Jenna, did you want to add anything?

Ms CAIRNEY - Yes, I'll just give a short opening statement, if that's okay, Chair. I thank the Committee for having us here. Master Builders Tasmania supports and understands the need for TasWater to invest in its network, and nobody in our industry argues that the systems and the infrastructure are fit for purpose. Our concern is really about how the bill is being shared and who's carrying it. We've lodged a joint submission with the Property Council of Tasmania. Its executive director, Rebecca Ellston, can't be here today. She sends her apologies. But our shared position with the Property Council and Master Builders Tasmania is that customers, businesses and new developments shouldn't be the revenue backstop for what is ultimately decades of underinvestment. The headline increase is about 5.7 per cent a year, but for many of our commercial and industrial property owners, the reality that we are seeing is 100, 200 and even 500 per cent increases on fixed sewerage charges. Those are landing pretty much overnight with no transition and no plan.

As Ben's outlined correctly in his submission, Tasmania is falling woefully behind its housing accord targets. We missed those by more than 50 per cent. We've also seen the cost of building and owning a new home significantly increased, at 60 per cent more expensive to build a new house in 2026 than it was pre-COVID. And these sorts of costs add to that.

I want to just give the Committee a couple of examples on the impacts on our members of the fixed sewerage charges, which are calculated on the size of the water connection, not on what the property discharge is. A real example from a member - and we will keep the details confidential of that member, if that's okay with the Committee, though we're happy to provide privately, the fixed water went up by 1.4 per cent but the fixed sewerage went from \$10,553 to \$21,129. That's more than a 100 per cent increase. On top of that, TasWater's first letter to that customer carried the wrong account number and wrong estimates, and had to be reissued. The member asks if TasWater can't get its own estimates right, customers have no chance of planning. Other members at our commercial Committee this week reported one property's sewerage charge that went from about \$30,000 to \$82,000 a year, and that was on a 150 mm connection. Another reported increases of about 300 per cent. We've seen public reports as well that have been well canvassed. And the issue is these get passed on through to commercial tenants as outgoings. They land on retailers, hospitality businesses, offices and employers already struggling with the cost of business going through the roof. So, it's not in reality a 5.7 per cent increase; it's a structural shift that TasWater and the Regulator approved and we see that the average is hiding that.

We just want to touch on the developer holiday ending as well, TasWater ending the 24-month holiday on fixed water and sewerage charges for newly created lots from October. That concession has been in place since 2012 and that will mean developers pay about \$900 a lot a year from title registration. It's been called a development tax and Master Builders

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Tasmania and the Property Council of Tasmania's position is simple: we want it reversed. We don't want it reviewed. It should be returned. It sits on top of the higher headworks charges which the Regulator moderated to about \$3025 for water, \$1700 for sewerage on a standard 20 mm connection. The Regulator took costs out. TasWater found another way to put them back in. And, ultimately, that's a cost that's borne on new housing.

We understand TasWater inherited ageing networks after decades of underinvestment. We accept that there needs to be significant investment and that some of our members do stand to benefit from investment in infrastructure. But rising charges can't be a substitute for scrutiny of efficiency, prioritisation and funding. Dividends and other returns to council owners while TasWater seeks materially higher revenue from customers have long concerned both organisations. The question is whether more should be retained for that infrastructure.

We support a broader transparent funding model with TasWater, its owners and, where appropriate, state and Commonwealth. And we believe TasWater should show it has exhausted operating efficiencies, prudent borrowing and sequencing, and prioritisation of capital works, before costs go to customers. I'll leave it there. Thanks, Chair.

CHAIR - A couple of things I want to follow up on. Both of you have touched on some of these. You talked about, to start with, the remission and the request to reverse that decision to remove that. From memory, and I've heard a lot of stuff today, I think I'm correct in saying that we did ask TasWater whether other jurisdictions actually do this, and I'm pretty sure they said no, Tasmania is only one that does that. Do you know if there are other jurisdictions that have some sort of remission for vacant land?

Ms CAIRNEY - Yeah, Chair, I'm not aware of what exists in other jurisdictions. But what we can say is, it is expensive to build in Tasmania. It is more expensive than other states and territories for a multitude of reasons. There are incentives that exist all over the country that come in a variety of forms. The issue is that the Regulator's tried to put a cap on how much TasWater increases charges to developers and the like, and then what TasWater has done is found another way to recoup that money. And that's through the scrapping of the headworks holiday that's existed for quite some time now. Did I say since 2012? And they've decided to abolish it without any consultation. Ultimately it adds to the cost of building a new home.

CHAIR - They did say that they did consult on this. Not with the owners, like the local government entities -

Ms CAIRNEY - We were told days before the announcement, and that's not consultation.

CHAIR - Tell us how you found out then.

Mr PRICE - I will, if I may.

Ms CAIRNEY - Yes, please.

Mr PRICE - I'm happy to table for the Committee's benefit the letter that the HIA, for example, received. My understanding is that other peak industry bodies such as Jenna Cairney and Master Builders Tasmania received, in essence, the same correspondence. It is our strong view that that was not an example of consultation. But as I stated in the opening, that was

advising us of that change; it was not seeking to seek our opinion in relation to the change. It was telling us it was coming, and it was coming in on 1 October.

CHAIR – So, this is not something that had been raised during the engagement with the Regulator as an option?

Mr PRICE - Not to my knowledge.

Ms CAIRNEY - Not to my knowledge.

CHAIR - So, it came as complete news to you?

Mr PRICE - Absolutely. And Chair, to your comment, to your query earlier, our expectation is on utilities, governments, be it state, local or federal, to pull every lever available to them to make housing more affordable and more accessible at a time of significant cost-of-living challenge and housing supply challenge. We think it's quite damning that the TasWater utility provider would then, at this time, seek to increase the cost of the delivery of new homes, and again with no consultation.

CHAIR - You've made the point earlier in your comments, Ben, that when they in 2018 took an equity position, like a 10 per cent equity position in TasWater, that the state, at that point, decided not to take a dividend. But I understand the dividend was to compensate councils for handing over assets, some of them not in the best of shape, but the dividend apportionment was set on the relative value of the assets they were handing over. I think that's the reason why, perhaps, the state didn't, because they didn't hand over anything. But that said, obviously these assets age, they need maintenance, they need replacement. And ultimately, after a number of years, depending on the stage they were handed over at, they've had to be replaced or certainly upgraded. Councils no longer bear that cost. That's entirely the cost now to TasWater. So is there a point, do you think, when you recommend the dividends stop now. If there hasn't been more of a recognised cost recovery or value recovery from the councils here, do you think there should be a definite cut-off point sometime in the future because they're no longer expending any money to maintain those assets?

Mr PRICE - I made the comment earlier that it is our view that the dividend payments to local government should cease immediately. However, if that is unworkable for local government in the short term, a pathway should be to reduce the dividends annually to a point of zero at a fixed point in the future.

CHAIR - There would need to be a plan for that, is what you're saying, if it's not immediate?

Mr PRICE – Yes. And in the absence of that, at least quarantining the dividends paid to local government so they are invested exclusively into the delivery of infrastructure for housing.

Mr EDMUNDS - With that phase-out of the dividend, at least, you'd like to see that extra money in TasWater's accounts reflected in their corporate planning as well?

Mr PRICE - Absolutely.

Ms THOMAS - Just on that, what's your view on the impact on consumers in terms of likely being required to pay higher rates?

Mr PRICE - It would be the Housing Industry Association's view that this is another example for the need to consider forced amalgamations to pool resourcing of councils and deliver better outcomes for the communities. We hear it from not only our members delivering homes across the state, but from local government itself that they do not have adequate resources and capability to manage infrastructure and deliver positive outcomes, particularly in regional Tasmania. I think the claims made in evidence earlier today only point to the fact that we really seriously need to be considering: should we have 29 local government areas in a state of this size?

CHAIR - Ben, early in your comments, you talked about - you might reference it too, Jenna, under the *Water and Sewerage Corporation Act*, there's not a requirement for TasWater to facilitate the delivery of homes. They've got other requirements like operating efficiently and effectively, and paying dividends is one of them. That's been clarified by a number of people that that means, effectively, if they don't make a profit they don't pay a dividend. A bit like TasNetworks, for example, another regulated business. It seems that they structure their business to enable them to pay dividends regardless of whether they'd be profitable without reducing spending in capital expenditure areas or other operating expenditure areas. Do you think that needs to change, that there is an expectation, and should there have been legislation, or is it in the Owners' Statement of Expectations?

Mr PRICE - I think that broadly goes to our point earlier that we need to be considering if this is the best model for Tasmanians. I did find it concerning that in evidence from TasWater today, they did discuss that they are focused on delivering profits in order to then make a dividend payment, or words to that effect. It is our strong view that an entity such as TasWater should not be seeking to make profits; they should be seeking to deliver the infrastructure that we do urgently need. I think that's something that TasWater and industry all agree on, the urgent infrastructure needs.

Ms CAIRNEY - I think it's absolutely essential that every layer of government in Tasmania, every utility, every GBE, has housing Tasmanians as a priority in whatever form that would take. I'd just like to go back, if it's okay, Chair, to the local government question about rates as well. I think the reason - there are many reasons we push to increase housing supply, but the increase of housing supply also helps expand the rate space for any local government area and, therefore, allows them to collect more rates if there's more houses and more residents in that area. So, every level of government working hand in hand to try and build more houses and house more Tasmanians is only a good thing for the state and should be an absolute priority.

CHAIR - You've suggested the structure is not really working, which is a key question that we're asking in our terms of reference. In your view, what would be the ideal structure to support the ongoing investment in water and sewage infrastructure, but also to enable growth, which is the government mantra, as well as to make sure they meet the environmental requirements and water conservation requirements, and all the other things that are expected of a water and sewerage company?

Ms CAIRNEY - Look, from a Master Builders Tasmania perspective, we support a broader transparent funding model involving TasWater, its owners and, where appropriate, the

state and Commonwealth. What we would expect is that TasWater should show it has exhausted operating efficiencies. I know that was a line of questioning pursued today. That's absolutely critical, both for TasWater and local councils, that they have exhausted all operating efficiencies, prudent borrowing and sequencing, and prioritisation of capital works before the costs go to customers. Ben, you've probably got a stronger line on that than me.

Mr PRICE - No. I think, Chair, our comments earlier in relation to the need for a review, I won't pretend that myself or the Housing Industry Association has the definitive answer on what the solution is but we would be strongly supportive of a wholesale review of this TasWater to understand what would be the best model for Tasmania.

CHAIR - Well, TasWater - and if you were watching, you would have heard them say that they're looking at commissioning an independent review of the Regulatory framework, which is one aspect of it. I did put it to the Treasurer that I was here when Michael Aird created TasWater, which was three entities - well, four if you count Onstream to start with. That was always problematic in my view, but there you go. Now we've got TasWater as the one entity, but with an unusual ownership structure.

If the government was to make a decision to create a government-owned business, which was the original intent by Michael Aird back in 2008, I think it was, 2007 or 2008, do you think that would fix the problems? Or it's just shifting the problems to another place?

Mr PRICE - I'm certainly open to that being a solution, Chair. But again, I don't have a definitive on what the model should be. But I would state that we would have a concern if it were TasWater commissioning this independent analysis and advice. Our preference would be that it, at the direction of PAC or any other parliamentary body, be something that the government commissions and then reports back up transparently to parliament.

CHAIR - Who do you think would be an appropriate body or person to undertake such a review? We've asked this of TasWater. They said maybe someone independent, and they believe they would have to pay for it, so we all pay for it if that's the case.

Mr PRICE - Someone with a comprehensive understanding of Tasmania's infrastructure challenges. I think it's often attractive to seek someone from interstate, given we could make comparisons to utility providers in other markets and in other regions. But often we see that Tasmania is unique, for good or for bad. So, it would have to be some individual that has experience across both Tasmania and other regions.

CHAIR - The Government, we Tasmanians have a stake in the business, although there's not a responsible minister as such. The person who sits on the owners' rep Committee is a delegate. Well, it's the Secretary of Treasury, but the Secretary of Treasury has a delegate, which he has. But it's not the Treasurer. So, is Treasury in a position to make that decision, do you think, about undertaking the independent review and appointing someone? Or is that going to look like the government doing it?

Mr PRICE - I have no clear preference on the mechanism there, other than it be transparent and visible to the public. I think it's really important that we have an understanding of what this review would look like, terms of reference, and then some clear reporting back to either this Committee or parliament as a whole.

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Ms CAIRNEY - Yes, I echo those comments. No clear position on where that review would sit other than someone independent of TasWater. I think, Chair, you talked about whether it being a government-owned or a government-run utility, whether that would make the difference. From a Master Builders Tasmania perspective, we're less worried about kind of what door the sign sits on and more worried about how TasWater gets back to delivering for Tasmanians and playing a part in the housing crisis that we have in the state, and looking at its role and its responsibilities in broader terms than just returning dividends to local government. I think we'd rather the issues at hand be dealt with, rather than broader structural reform, which we're seeing with Building Tasmania at the moment. It's a lot of upheaval but necessarily significant outcome changes.

CHAIR - Would the Regulator be suitably independent? We've had people with differing views on that.

Ms CAIRNEY - Again, we don't have any final position on that. Moreover, that we need to see change in a number of areas. The fixed sewerage increase is certainly one of them and the reversal of the cessation of the developer holiday being number two.

Mr EDMUNDS - Today when we had the Treasurer, I was trying to put across to him that there's this feeling that no one really has control over TasWater. We heard that the state government, despite having more power in the Crown, but even Launceston City Council has a higher stake than us, yadda, yadda, yadda. But the question I was trying to get across to him is: how do we actually get on top of this stuff in the corporate planning process? Putting aside a broader review, do you think that there needs to be something done to toughen up the veto power that we were told that governments would have over TasWater when this legislation went through, but now effectively doesn't seem to really exist? It doesn't feel like the government's delegate really has any authority in the room, so to speak, on these matters. The Treasurer did mention that legislation might be a way to go down on that specific issue. I wonder if you have any feedback on that, around how we could have a stronger state government voice, within that corporate planning process at least, when it comes to TasWater?

Ms CAIRNEY - Certainly, if that veto power therefore allowed certain decisions to be looked at, such as the developer holiday and the sewerage charge increases and model, as well as oversight on that corporate plan process and a clearer understanding of the long-term-growth infrastructure plan, then that's a potential solution in Master Builders' view to the issue, or at least some more oversight.

Mr PRICE - I think, Mr Edmunds, from the evidence earlier today, the feeling that we had as an association was that nobody has control of TasWater, and it is very concerning. I think that has played out by their conduct in relation to the headworks, the vacant lot charge, where it's the drop of a letter just to give you a few weeks' notice that they're going to start hitting developers for this additional cost.

Mr WINTER - I don't think anyone today has actually explained what the vacant lot change means. For our Committee, do you want to explain exactly what it is and why it's important for your members?

Mr PRICE - Yeah, absolutely, Mr Winter. My understanding, as members have explained it to me, and they are concerned about it, is that this will mean once a lot is titled - so, there's no connection, it's gone through the Land Titles Office and released, then immediately

you incur a \$900 per year charge. To date, you had a two-year period to then get your connections before you would incur that cost. It is fairly simple, to our understanding: \$900 additional per year.

I think it's a really important conversation to have, that so many people say this sounds like a relatively insignificant amount of money when you're talking about hundreds of thousands of dollars for a home. But it's a pattern that we've seen nationally in relation to housing delivery - that we make so many minor changes to the cost of a new home. Master Builders and HIA have spoken very often around changes to the National Construction Code that were presenting mandates which didn't make it to the final version of the code for electric vehicle charging stations, provisions in relation to energy efficiency, provisions relating to mandatory carbon moderating in relation to building products, et cetera, or liveable housing provisions, for example.

Mr WINTER - Waste levy.

Mr PRICE - Yeah. On the face of it, all of these matters are actually really difficult to argue against because they all have a benefit. But at the end of the day, in aggregate, we're talking about significant increase to the price of a new home, many tens of thousands of dollars.

Mr WINTER - Is it just the vacant lot charge that's gone up for the construction sector, or are there other costs?

Mr PRICE - Master Builders gave some evidence already on some examples, and I did have a couple here today that I won't spend a lot of time on, but I think they really run this home. A member built a home design for a person with a disability which required a fire suppression system. That's system needs a guaranteed flow, so the house needs a larger connection; I'm not a technical expert, but this is the information they've provided to me - a 50-millimetre connection instead of the standard 25-millimetre. No upgrade was required for TasWater's main in the street but the supply charge is now \$1,900 a quarter, compared to what it was of \$300 a quarter for the standard connection. That's an increase of more than 500 per cent, or roughly \$6,400 extra a year.

Another good example from a member was headworks charges for small infill developments, which we should be trying to encourage right across the state to get more housing opportunity everywhere. From this financial year, TasWater calculates developer contributions for additional dwellings by the size of the water connection, as Jenna spoke of earlier, instead of per dwelling. So, one member who builds two-unit developments for infill often, the last one in March [2026] attracted a contribution of approximately \$2,800. The same exact design in the same municipal area is now \$4,800, an increase of more than 70 per cent. He would argue a site with two units can need the same connection size as one with six, so the change hits hardest on the most common infill project, which is that small two-unit addition.

Ms CAIRNEY - Can I just dig into your question a little bit more? The issue about the \$900 on the lot, that's before anyone's actually using it, before a house is built. And we know how long a lot approval from the Land Titles Office can take before there's actually a home and someone living there, using the water and the sewerage system.

To answer the second part of your question, Mr Winter, that sits on top of higher headworks charges, which the Regulator moderated but there's still an increase. The headworks

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charges were moderated to \$3,025 for water and \$1,797 for sewerage on a standard 20-millimetre connection. So, while they took some of the cost increases out, TasWater has found another way to add them back in.

Mr WINTER - Yes, so they ended up getting what they wanted.

Ms CAIRNEY - In a different way.

Mr WINTER - They changed the policy.

Ms CAIRNEY - Yes.

Mr WINTER - You talked a little bit about getting the letter. We were told you were consulted, but you received a letter, which is very different to consultation. In a broader sense, how does TasWater engage with Master Builders and HIA in a standard practice? Do you have regular meetings with them on behalf of your members, or do you members have access to them?

Ms CAIRNEY - From a Master Builders Tasmania perspective, I have to say broadly TasWater has been very proactive in recent times in terms of engagement. Other than this headworks holiday, we've found them to proactively engage, meet with us when requested and have also been quite quick to be able to come to Committee meetings and Board meetings. So, they have done a good job at engaging with stakeholders and also, in particular in their developer space, there's a TasWater representative who's happy to hear about individual issues and try and address to the best of his ability. So, I think this is more about strategy and direction at the top level, corporate planning and strategic level.

Mr PRICE - If I can just make a slight correction just for clarity's sake. My experience is we did receive that letter on that date, but earlier in the day I received a call from TasWater from their stakeholder engagement team. So just to be clear, it wasn't a blind drop in the inbox, it was a -

Mr WINTER - But also it wasn't a consultation.

Mr PRICE - A phone call, yes, to advise of the letter that is advising of the change.

CHAIR - Did the phone call happen before the letter or after it?

Mr PRICE - Before the letter but on the same date.

Ms CAIRNEY - But also not asking about it, just informing.

Mr PRICE - I just want to be very clear that they did reach out in that way also.

Ms CAIRNEY - And have done since as well, since we've done media, and as recently as yesterday to check in, and we have regular meetings with them. It's just hard when it's bad news.

CHAIR - Can you provide a copy of the letter?

Ms CAIRNEY - Yes.

Mr WINTER - Was there justification to you as to why this policy, this 'holiday' must end?

Ms CAIRNEY - To basically rake in more money to pay for their infrastructure spend.

Mr PRICE - Which is particularly concerning after we heard evidence that they are still making profit to the point where they can then make payment to their owners.

It's important to note, even in TasWater's own media commentary, that they've only forgone \$8.5 million, by my recollection, since 2012 of not having this vacant lot charge. That's a very small amount of money. Our conversations were with them that it's approximately \$1 million per year that they're looking at currently, so it's a very small amount of money. However, it will have an impact on the cost of housing.

Mr WINTER - It's a pretty negative signal to your members about -

CHAIR - Building houses.

Mr PRICE - To be very candid with the Committee, my interpretation was that they did not get their way with the price plan increases and so now they were attempting to penalise industry and consumers with this lever that they could pull.

Mr WINTER - Are you concerned that there are other levers available?

Mr PRICE - Certainly concerned if this is the way that they're going to conduct themselves with no consultation, despite their evidence today, and making housing more expensive. It should be concerning not only to industry and not just to this Committee, but to all Tasmanians.

CHAIR - One of the arguments that's been put for getting rid of it, the remission of the vacant lot charges, is to prevent land-banking. How do you respond to that?

Ms CAIRNEY - I don't see any evidence that that charge has anything to do with land banking. We don't accept that there is any evidence to that effect.

Mr PRICE - And also, if I may, two years is all that's provided for that holiday. And I think everybody in this room would understand that once a lot may be released by the Land Titles Office, it's still some way away from getting planning approval, which can take a long time, building approval, securing trades, contractors, et cetera, to then deliver the house and make a connection to the lot.

CHAIR - So, if you haven't delivered the property and made a connection to water and sewerage, assuming both are being connected, then the remission doesn't hold if it's beyond two years?

Mr PRICE - That's my understanding. And that's why we would argue that the model that we did have in place was a good incentive that allowed developers reasonable timeframe to deliver housing at that lot without incurring that penalty.

Ms CAIRNEY - The best way to stop land banking is to make housing projects stack up commercially. We know that all any additional charge does is impact either the viability of a project or it gets passed on to the end user, making home ownership even more out of reach. Keeping costs down in a high inflationary environment and not adding additional Regulatory red tape or government taxes or costs or charges is the best way to get these houses up.

CHAIR - Ben and Jenna, you gave some pretty stark examples of significant cost increases. The numbers are big and so, big increases on a big number makes a very big number. TasWater spoke to us today about engaging with, from memory, 1300 customers who they expected would have a 10 per cent or more increase in their bills. On the cases that you've referred to, both of you, are you aware of engagement with TasWater on these significant increases? And how has the relevant person or bill payer there responded?

Ms CAIRNEY - One of the examples that I gave, we are aware of discussion with TasWater because, of course, they had to reissue the initial letter, an estimate, with regard to their response regarding the increases. I'd need to take that on notice. But what I would say, Chair, is it would be helpful for TasWater to actually print or publish an understanding of the highest end of the increases, which surely they know, so if we're collecting anecdotal evidence of 100 per cent, 300 per cent, then surely they have a list of who's been hit with the highest percentage increases, rather than giving an average, so we can see the full spectrum of pain there.

CHAIR - Because obviously you only can acknowledge and respond to the people or entities who contact you. TasWater spoke about, I think, it was about 150 complaints.

Mr EDMUNDS - It was 150 complaints, 1,300 people more than 10 per cent and 642 customers who saw an increase of more than \$5,500 which, for that portion of 642 customers, added up to \$16 million for the 642 customers.

CHAIR - They must have data that sits behind those figures.

Mr EDMUNDS - They do. We should ask for it.

CHAIR - We probably need to ask for that. Do you think it's been disproportionately impacting on certain sectors of the community? Well, they argue that it is. What is your view on that?

Ms CAIRNEY - From our perspective, because we've had the feedback from those commercial and larger clients, yeah. But because of the connection size as the measure being used, I think it is disproportionately impacting commercial and industrial, but that are on the smaller scale, not necessarily at the high end, even though they're impacted too, obviously.

Mr PRICE - And I think as the example I provided earlier, the 70 per cent increase for infill lots, that is a significant increase in the cost for those connections. Even if the figures - what were they? From \$2800 to \$4800. They may sound modest but when we're talking changes of that scale, they are significant.

CHAIR - Surely infill is better than a whole new subdivision over here?

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Mr PRICE - We would argue that.

CHAIR - I think most people would, wouldn't they? The Meander Valley Council could, when they can't get a pipe built from Longford to Hadsden perhaps. I don't know if they have land they can infill, but that's a moot point, I guess.

We appreciate your time today. I think it's really helpful to hear if there's anything you want to follow up with the Committee, and we'll get a copy of that letter that was sent to give some indication of the consultation or notification perhaps. I appreciate your contribution to the Committee and time today. Did you want to close with any comments?

WITNESS - No, thank you.

CHAIR - Thanks very much.

The witnesses withdrew.

The Committee adjourned at 3:47 pm.
