



September 8<sup>th</sup>, 2017

The Hon. Rosemary Armitage MLC  
Chair  
Legislative Council Select Committee into TasWater Ownership  
Parliament of Tasmania  
Parliament House  
**HOBART TAS 7000**

[two@parliament.tas.gov.au](mailto:two@parliament.tas.gov.au)

Dear Ms Armitage,

On behalf of the Latrobe Council, I wish to make the following submission to the Legislative Council Select Committee's inquiry into and report upon the concept of ownership of TasWater by the State Government.

The Latrobe Council is completely opposed to the proposed State Government ownership of TasWater for the following reasons:

1. There is no crisis in water and sewerage in Tasmania;
2. There is no guarantee that the State Government would do a better job of running TasWater than the existing independent Board;
3. The lack of financial data and modelling by the State Government to substantiate the many claims made that significant funding can be saved and the capital works program brought forward;
4. The State Government can use TasWater for political purposes and by ministerial direction, request that projects such as Macquarie Point, sewerage to the beaches area south of Hobart and the Launceston sewerage/stormwater combined system be funded, whereas the current Board of TasWater believe that the State Government has some responsibility for funding of these major projects;
5. The initial restructure of the water and sewerage sector was on the premise that the State Government would work with the Federal Government to allocate funding under the National Water Initiative to assist with backlog of work for water and sewerage systems. An amount of \$350 million was mentioned as being required to make the restructure of the water and sewerage sector sustainable. The funding from the National Water Initiative has gone to irrigation schemes within Tasmania and not to the water and sewerage sector as was indicated.

There is nothing to stop the State Government under the current model from making a substantial contribution to bring forward water and sewerage capital works and if necessary, take an equity stake in the corporation.



Council is greatly concerned that the State Government has refused to provide detailed plans of their proposal, particularly relating to how their extra expenditure will be funded and how they have come to the conclusion that customers of TasWater will have significantly reduced accounts in the future.

The State Government's comments that Councils "milk" dividends from TasWater certainly does not apply in respect of the Latrobe Council. Prior to the formation of the three regional water corporations, approximately ten years ago, the Latrobe Council received a dividend return each year of approximately \$850,000 which was inline with the requirement by the Government Prices Oversight Commission (GPOC) at the time that Councils should receive a 7% return on their equity in water and sewerage. This policy was based on the premise that water is a scarce resource and should be priced accordingly.

The Latrobe Council never received its guaranteed priority dividend for the first five years operation of the Cradle Mountain Water Corporation as the Corporation never achieved its forecast profit which allowed the priority dividends to be paid.

The Council currently receives a distribution of approximately \$500,000 made up of 3 components (loan guarantee fees, taxation equivalents and dividends). Based on TasWater's ten year financial plan, Latrobe Council can expect a distribution reduction of \$190,000 per annum from the 2017/18 financial year. The reduction is equivalent to a once off rate rise of 2.7% in 2018/19.

I have attached a table which details how this calculation is arrived at.

On top of the large reduction in dividends the Latrobe Council has also paid significant water and sewerage charges of approximately \$100,000 each year for the public assets it owns which were previously not rated by the Council (Council chambers, public toilets, recreation grounds etc). Latrobe Council feels very strongly that our community has already received the "rough end of the stick" with the changes over the last ten years and also feels very strongly that the proposed takeover in no way addresses this.

Having personally been involved in the \$9 million water treatment plant constructed at Longford approximately twelve years ago, I can verify that major projects have a long lead time and substantial funding is likely to be wasted if short cuts are taken to bring projects of this type forward by a period of two years.

Council is also concerned that despite the assurances from the Treasurer, the proposed takeover of TasWater by the State Government will make it easier for the assets to be privatised in the future.

On behalf of Council, I thank you for providing the opportunity to have input into the review.

Please feel free to contact me if you require any further information.

Yours faithfully,



Gerald Monson  
**GENERAL MANAGER**



# **TASWATER – LATROBE COUNCIL FORECAST DISTRIBUTIONS –** **From Financial Year 2016/17 To Financial Year 2025/26**

Based on TasWater's 10 year financial plan Latrobe Council can expect a distribution reduction of \$190k per annum after the 2017/18 financial year. The reduction is equivalent to a once off rate rise of 2.70% in 2018/19.

The distribution is made up of three components. Loan guarantee fees, taxation equivalents and dividends. The dividend payment reduces substantially over the 10 year financial plan, from \$21M in 2017 to \$3M in 2026, whereas the income tax equivalent and loan guarantee fees actually increase over the same period as profits and borrowings rise – (see table below) so the dividend payment is being used as the balancing figure to “freeze” overall distributions at \$20M from 2017/18 onwards.

TasWater 10 year financial plan version 1.3. Source: Table 1: Financial Outcomes, Page 6 of 57, Issue date 21/11/2016.										
	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
NPATs '000	26,316	34,827	39,974	40,745	41,918	41,356	42,577	39,773	42,317	43,842
Debt '000	500,269	552,297	604,028	657,906	723,507	784,024	836,373	873,367	899,910	891,023
Loan Guarantee Fees '000	1,453	2,668	2,951	3,289	3,947	4,341	4,704	5,018	5,240	5,399
Taxation Equivalents '000	7,116	9,455	9,815	10,123	10,611	10,432	10,891	9,834	10,733	11,423
Dividends '000	21,431	17,867	7,254	6,589	5,441	5,227	4,404	5,149	4,027	3,178
Latrobe Council share @ 1.9%										
Loan Guarantee Fees	\$27,607	\$50,682	\$55,689	\$62,491	\$74,993	\$82,479	\$89,376	\$95,342	\$99,560	\$102,581
Taxation Equivalents	\$135,204	\$179,635	\$185,485	\$192,337	\$201,609	\$196,208	\$206,929	\$186,846	\$203,927	\$217,037
Dividends	\$407,189	\$339,473	\$137,826	\$125,191	\$103,379	\$99,313	\$83,676	\$97,812	\$76,513	\$60,982
Total	\$570,000	\$570,000	\$580,000	\$580,019	\$579,961	\$580,000	\$579,961	\$580,000	\$580,000	\$580,000
Forecast rates Latrobe Long Term Financial plan adopted June 2016	\$6,829,000	\$6,951,000	\$7,035,000							
Reduction in distribution			\$190,000							
Reduction as a % of Rates			2.70%							