

# MASTER BUILDERS' ASSOCIATION OF TASMANIA INC.



**SUBMISSION**

**TO THE**

**LEGISLATIVE COUNCIL SELECT COMMITTEE**

**ON**

**TASWATER OWNERSHIP**

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## **Master Builders' Association of Tasmania Inc.**

### **INTRODUCTION**

Master Builders' Association of Tasmania Inc. (MBT) was established in 1891 as a registered Union of Employers with the Australian Industrial Relations Commission. It is now a Registered Organisation under the *Fair Work (Registered Organisations) Act 2009*.

MBT has thirteen (13) employees and operates from offices in Hobart, Launceston and Devonport. Members include commercial builders, housing builders, sub-contractors, suppliers and professionals. MBT represents 90% of all commercially orientated builders. Around 40% of all residential construction undertaken by accredited builders in the State is undertaken by MBT members.

MBT provides a wide range of services for members covering industrial relations, contractual, legal, legislative, educational and technical matters. It also offers finance and insurance services as well as offering a Group Training Organisation. In addition, MBT is widely represented on many industry and Government bodies and provides on-going assistance to both industry participants and members of the public on all matters related to the building and construction industry.

As part of our mission, MBT seeks to lead the development and professional standards of the industry and to further the interests of its members and the Tasmanian community.

## **CONSTRUCTION ACTIVITY OVERVIEW**

The building and construction industry in Tasmania has experienced a substantial lift in construction activity in the past few years which should continue to flow through 2017-18 and beyond. Employment levels are at record highs, with the latest ABS data showing 22,800 Tasmanians employed in the building and construction industry; 19,200 of those employed on a full-time basis.

Depending on the timing of future developments, MBT expects employment in the industry to surge past 25,000 people in the near future.

A strong pipeline of work will be required to maintain employment at current (or anticipated higher) levels and stop the industry from dragging down future economic growth and employment levels. This pipeline of work will need to be underpinned by shovel ready projects emanating from the private and public sectors and supported by appropriate infrastructure.

## **BACKGROUND**

Firstly and very importantly, Master Builders Tasmania wishes to unequivocally state that it does not have any criticism of the current Board, management or staff of TasWater. Master Builders applauds the efforts of these parties during TasWater's brief but tumultuous history. The Association supported the amalgamation of local government owned and controlled water and sewerage infrastructure into the three authorities and then into TasWater. This was always going to be a challenging achievement and not without its issues. The transition to a single statewide water and sewerage provider in only a handful of years has been handled as well as could be expected and is testament to everyone involved.

Since 2008 MBT has consistently supported the efforts of TasWater staff and management and engaged in very productive discussions over that duration. MBT maintains that the creation of TasWater was a positive step and that it was necessary to improve the deplorable state of water and sewerage infrastructure in Tasmania at that time.

The legacy that TasWater inherited was, and still is, the core reason for the poor state of Tasmania's water and sewerage infrastructure. Most councils simply did not maintain any of their infrastructure particularly well and allowed it to fall into disrepair. This was most noticeable in the areas of water, sewerage and stormwater assets. Because this infrastructure typically lies underground and unseen it has not traditionally been treated as a high priority by Councils. Much of the infrastructure that TasWater and its previous entities inherited was well beyond its replacement date and was only being maintained. Decades of under-investment in this infrastructure by Councils has left TasWater with a massive capital works program to bring its assets up to a reasonable standard.

## NEED FOR CHANGE

The Economic Regulator, in his most recent report *Tasmanian Water and Sewerage State of the Industry Report 2015/16*, issued in March 2017, noted that a number of deficiencies still exist with Tasmania's water and sewer assets. In fact, most key performance measures deteriorated between 2014/15 and 2015/16, as highlighted by the below extract from the report. MBT has highlighted those indicators that have improved in green and those that have deteriorated in red. Those that are not highlighted are not considered relevant:

Key performance measures (from Economic Regulator's 2015/16 report)

|   | <u>2014-15</u> | <u>2015-16</u> |
|---|----------------|----------------|
| Water and sewerage connected properties   | 200,527        | 202,478        |
| Total urban water supplied  | 54 592 ML      | 52 383 ML      |
| Average residential consumption   | 172 kL         | 176 kL         |
| Water network reliability (water main breaks/100 km of main)  | 28             | 33             |
| Sewer reliability (sewer breaks and chokes/100 km of main)  | 57             | 61             |
| Average customer minutes off supply (minutes)   | 143            | 199            |
| Average sewerage interruption (minutes)   | 274            | 277            |
| Treated wastewater volume compliant with EPA requirements   | 81.4 %         | 84.2 %         |
| Percentage of population receiving drinking water that<br>complied with ADWG microbiological guidelines | 98.6 %         | 99.2 %         |
| Drinking water supply systems on long term boil water<br>notices or public health alerts                | 21 of 88       | 23 of 87       |
| Customer complaints   | 2 324          | 2 892          |
| Calls answered within 30 seconds  | 89 %           | 88 %           |
| Total revenue   | \$300.3 m      | \$309.3 m      |
| Operating costs   | \$166.5 m      | \$177.7 m      |
| Capital expenditure   | \$102.5 m      | \$128.6 m      |
| Net Debt to Equity ratio  | 23 %           | 27 %           |

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Whilst most indicators are broadly similar, they do highlight that despite increased capital expenditure in 2015/16, the performance measures are not improving overall and, if anything are deteriorating. Unfortunately, current (increased) expenditure levels are not improving the system either and more needs to be done to improve the quality of TasWater's infrastructure.

The Economic Regulator explicitly states this in his Foreword to the 2015/16 report:

*it is evident that despite significant investment in terms of both expenditure and effort, drinking water quality and environmental compliance are not at the levels expected or required for contemporary water and sewerage networks. Tasmania's water and sewerage assets are deteriorating faster than they can be replaced, and hence, remain behind their interstate counterparts in terms of both service and reliability.*

The scenario is even worse when compared to similar interstate based water and sewerage providers. For instance, the rate of sewer overflows in Tasmania is up to eight times that of similar sized utilities on the mainland and sewer main breaks are almost double the rate reported nationally for similar size utilities.

Perhaps one of the most disappointing aspects of the water and sewerage debate is the fact that most customers have been paying large water and sewerage components for their municipal rates over many years, yet this money has often gone into cross subsidising other components of Councils' operations. Therefore customers that have paid for decent quality infrastructure through their municipal rates contribution now find themselves being told that TasWater will need to increase their fees (to well above CPI price increases) to pay for the upgrade of sub-standard assets that they have already paid for.

The need to find additional income will inevitably also lead TasWater to look at other revenue generating areas such as headworks fees, which prior to the introduction of the regional and statewide authorities, were at very low levels. If the need to generate additional funds manifests itself into additional or higher headworks fees, new land purchasers will be affected in two ways. Firstly, through higher land prices due to increased headworks fees. Secondly, as customers of TasWater they will be asked to contribute higher amounts (than they otherwise would have been) in fees to bring TasWater's sub-standard assets up to the required mark.

It is worth noting that the majority of housing affordability related issues stem from high land prices and not higher construction costs. MBT addressed the Select Committee on Housing Affordability in 2010 and provided the following advice:

*Housing affordability is a growing concern to MBT as the legacy of higher property prices starts to affect new entrants into the market. Land prices have had the largest single effect on affordability in Tasmania in the past decade or*

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so... The below table (Table 1) highlights the magnitude of the rise in land prices when compared to the Hobart CPI and the Association's own labour and materials index (NCAP) over the same periods.

It should be noted that the MBT NCAP index only reflects Award wage rate increases and does not necessarily reflect subcontract rate figures which have generally been higher than Award rates. In addition, most employers in the industry are paying considerably higher than Award rates to retain their workforce. Nevertheless the NCAP index serves as an indicator of the rise in construction costs over the same period and provides the basis for some comparison.

**Table 1**

| <b>Period</b>                        | <b>Increase in Prices (%age terms)</b> |                   |             |
|--------------------------------------|--|-------------------|-------------|
|                                      | <b>Hobart CPI</b>                      | <b>NCAP Index</b> | <b>Land</b> |
| <b>1 year</b><br>(Dec 08 – Dec 09)   | 2.6                                    | 1.4               | 7.8         |
| <b>5 years</b><br>(Dec 04 – Dec 09)  | 15.0                                   | 17.1              | 57.1        |
| <b>10 years</b><br>(Dec 99 – Dec 09) | 36.0                                   | 39.4              | 243.8       |

...Land prices are without the doubt the single largest contributor to the loss of housing and construction affordability. If land price increases can be arrested in real terms (or preferably reversed) then the Association believes that there is a genuine opportunity for affordability to be returned to low and medium income Tasmanian families and also to businesses...

The attached paper produced by Master Builders Australia Ltd highlights the problems associated with land development in the form of developer charges and fees. This is a recent phenomenon in Tasmania as most Councils have not had developer fees in place; however the introduction of the Water and Sewer Corporations has led to the introduction of developer fees throughout Tasmania. The impact of these costs to land developers is still being ascertained by MBT and will be monitored going forward.



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The "headworks holiday" introduced several years ago has been maintained, however the Association does have concerns that the need to chase revenue may force a re-think of TasWater's headworks pricing policy under a Business as Usual scenario which could have a detrimental effect on land prices.

## **FUTURE MODELS**

MBT is convinced that TasWater cannot continue as is based upon its current business model. TasWater's income is inadequate to meet its future needs and it must find more funds if it is to meet its statutory and non-statutory obligations to the Tasmanian community.

Meanwhile councils which have underfunded TasWater's assets over decades have drawn dividends of more than \$20 million per annum since 2008 and they appear unwilling to forego these dividend payments and put them towards infrastructure upgrades. MBT cannot see how the current model is viable and that is why it is advocating for change.

Both of the major political parties have put forward models to fix the current conundrum. MBT believes that the Labor model has merit and that a capital injection, funded by superannuation funds would provide the ability for TasWater to accelerate its capital works program and address its deficiencies in a much shorter and acceptable time period; much like the Liberal's plan. Both would provide the following benefits:

- They would accelerate TasWater's infrastructure plan and complete the work in a lesser period, which would allow options such as bringing forward additional investment within the 10 year timeframe.
- The additional investment will provide scope to address issues such as Launceston's combined system, Cameron Bay and Macquarie Point.
- Increased jobs and investment across the state which will underpin the record levels of employment in the building and construction industry.

On balance, MBT favours the Liberal's policy to take over TasWater as there are a number of additional potential benefits that could accrue from such a model. These are:

- Ability to better co-ordinate the state's major infrastructure through a central process. If TasWater were state owned, there would be a better opportunity for whole-of-state infrastructure issues to be integrated. For instance, with the advent of the Single Statewide Planning Scheme there is an ability for future infrastructure to be better planned for and co-ordinated. Infrastructure corridors could be developed in conjunction with all of the major utilities and a statewide

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infrastructure zoning map developed which would enable utilities to utilise zoned corridors. Work within those corridors could be carried out with relative ease and without the inconvenience, time and cost imposts of having to liaise with various surrounding property owners and seek permission. Whilst possible under the current ownership structure, it would be harder to organise and would rely on the goodwill of TasWater.

- The state ownership model would allow government to control costs to customers and in regards to areas such as trade waste and headworks fees, allow the government to act as an enabler for business and economic development by choosing pricing models that could actively encourage investment in a region or statewide. Currently, MBT believes that TasWater could be compromised if it was to actively encourage development in one local government area over another due to its ownership structure.
- The current Board structure is indirectly accountable to the 29 council owners which MBT believes can compromise TasWater's overall strategic direction and oversight. Financial management is conservative and focussed on delivering returns to the owners. The *Water and Sewerage Tasmania Bill 2017* would establish TasWater as a new Government Business Enterprise which is accountable to Parliament and to all Tasmanians, not just the current 29 councils.

There are arguments against the Government's proposal and one of the main ones is the inability of the industry to cope with the higher work levels. MBT disputes this claim. It believes that the industry can cope with the accelerated work schedule that the government has planned and that the additional infrastructure spend is a good use of public money as it will result in additional broader job opportunities as well as underpin jobs within the building and construction sector.

MBT's position is supported by both Infrastructure Tasmania's paper *Accelerated infrastructure investment delivery in Tasmania's water and sewerage sector* and the Pitt and Sherry review of that paper. Both documents confirm that the Government's accelerated investment plan is deliverable and identifies the critical factors to achieving success. Furthermore, the Infrastructure Tasmania report identified many projects within TasWater's 10 year plan that could be delivered sooner if the funding was available.

MBT's only real concern with the government's proposed takeover of TasWater is that if it is not handled properly, there may be no material change to the culture of the entity at the Board level and that decision making will be conservative, staid and relatively undynamic. The government will need to put processes in place to ensure that the revised entity reflects the wishes of its new owner and that it performs as expected. This is something that must be done to ensure that TasWater achieves the government's objectives and intended results.

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Overall, MBT believes that the lack of tangible progress by TasWater has been as a result of a lack of funds and an inability or unwillingness to borrow to funds or forego returns in order to accelerate its desperately needed capital upgrades. That is why MBT supports the Government's proposed takeover of TasWater and the potential benefits that would accrue from such a change.

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