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THE LEGISLATIVE COUNCIL SELECT COMMITTEE ON TASWATER OWNERSHIP MET IN COMMITTEE ROOM 1, PARLIAMENT HOUSE, HOBART, ON THURSDAY, 14 SEPTEMBER 2017

Mr Miles HAMPTON, CHAIR, Mr MIKE BREWSTER, CHIEF EXECUTIVE OFFICER, Mr DEAN PAGE, GENERAL MANAGER, FINANCE AND COMMERCIAL SERVICE, TASWATER; AND Mayor DAVID DOWNIE, NORTHERN MIDLANDS COUNCIL WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Ms Armitage) - Welcome. Thank you very much for coming to these public hearings. All evidence taken at this hearing is protected by parliamentary privilege but I remind you any comments you make outside the hearing may not be afforded such privilege. A copy of the information for witnesses is available, if you have not read it or if you are not aware of the process. The evidence you present is being recorded and the *Hansard* version will be published on the committee website when it becomes available.

By way of introduction, if you would like to speak to your submission, and members will then can ask questions.

Mr HAMPTON - Thank you, Chair, and members of the upper House select committee. I am pleased in my capacity as chair of TasWater to be given this opportunity to speak to our written submission. We look forward to answering your questions.

Our written submission is lengthy, but for that we make no apology. The issues are complex and in many instances interrelated.

Since its establishment, TasWater has had to balance a whole range of many competing objectives - in the interests of consumers, keeping prices as low as possible while delivering an acceptable level of service; delivering on the legislative construct, avoiding price shocks, removing cross subsidies and introducing universal two-part pricing and the same price for the same service; satisfying regulators we have a plan to improve compliance and are working to that plan; building a financially sustainable corporation and delivering economic benefits to the Tasmanian community; ensuring appropriate key risk mitigation strategies are in place; and providing sustainable returns to our owners.

I observe many commentators have sectorial interests but few understand the complexity or the interests of the other stakeholders. Do we always have the balance right? With the benefit of hindsight, perhaps we could have done things differently, but our intent has always been to find a pathway that delivered to all our stakeholders.

I now turn to some remarks in relation to our submission. The proposed state Government takeover is based on a number of key premises. We claim, and our submission demonstrates, that these premises are false. The Government claims we are in crisis. Our submission outlines a very different picture. We have a detailed program of work that is well advanced. We are making significant progress and our key regulators have repeatedly endorsed our plan. There is not a single performance metric, not one, that suggests we are in crisis or, as the Government has oft repeated that Tasmania has a Third World water and sewerage infrastructure.

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The Government claims our owners have starved us of cash by taking dividends. We contend on the basis of the current legislative construct, the promises made by the government of the day, when the reform happened and on the basis of equity between our owner councils, that the payment of dividends at the level paid is entirely appropriate. This is supported by the fact the Government has seen fit to endorse our dividend plan, by echoing it for the next seven years in its dividend plan.

The Government claims it will accelerate our capital program, at best, by up to three years. It is our contention that because there is no crisis, this is not necessary. This will likely cost Tasmania more, will likely result in suboptimal solutions and will leave the corporation with a much higher and perhaps unsustainable level of debt.

The Government claims it will deliver lower prices and indeed it will in the short term. We, however, note for the record that the Government has consistently overstated the likely difference in pricing between its plan and our plan.

Just as significantly we observe the Government has repeatedly failed to link the lower prices to either the higher level of debt that will have to be funded by future generations of customers or the use of consolidated funds from the state budget to pay dividends to councils for seven years. This will, in effect, be funded by all Tasmanians in reduced essential services or higher state taxes.

The Government plans to override the role of the Tasmanian Economic Regulator, the Environment Protection Authority - EPA - and the Department of Health and Human Services - DHHS - and assume the mantle of pricing and capital program arbiter. By any measure this is a retrograde and risky step.

In most advanced economies water and sewerage utilities are fully regulated, independent of government policy and the exigencies of the political cycle, and for very good reason.

The foundation of the Government's argument is based on inadequate research, exaggerations and selective use of data for what one can only conclude are purely political purposes. However, most offensive of all is that it implies that the people who work for TasWater have not done their job. In doing so, they are making the same criticism of EPA and DHHS, and the various other regulators who have oversight of TasWater.

I come here prepared to strongly defend those other key government agencies. As you would expect, they are tough and demanding, and we do not always agree, but they bring a reasoned approach, an approach based on science applied with common sense. They have been prepared to work cooperatively with us for the overall benefit of the community.

Most especially and fervently I defend the record of the men and women who work for TasWater and the many contractors who support us in doing an outstanding job in providing water and sewerage services to the people of Tasmania.

Select committee members, I cannot recall when a government anywhere in Australia has sought so persistently to attack the reputation and credibility of the highly committed work force in such a deplorable manner.

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Like many in our community, I do not understand why the state Government has embarked on this strategy. Our submission clearly demonstrates there is absolutely no justification nor benefit for Tasmanians from the proposed state Government takeover.

We call on this committee and on the Legislative Council in due course to reject the Government's proposal on the basis it is not sound, is based on forced premise and a lack of necessary due diligence and represents a high degree of risk. It also ignores the success and the achievements of the current ownership and management structure.

Chair, members of the upper House select committee, thank you again for allowing me to make some introductory remarks. We would be pleased to answer your questions and we are happy for you to direct questions to Michael, myself, Dean or David. Please do so.

CHAIR - Thank you. The first questions are from Mr Armstrong.

Mr ARMSTRONG - Mike, one of the reasons the state Government has given for the takeover is that of the 79 level 2 sewage treatment plants, only two are fully compliant with the EPA licence. Would you like to comment on that?

Mr BREWSTER - The first thing you have to look at is: what does it mean to be compliant as a sewage treatment plant? The analogy we used in our submission is that it is like you have to get an A+. You have over 400 tests and every one of them has to pass to be compliant, based on samples. That is why that statistic doesn't get used nationally. There is a more accurate and better way to look at the performance of the plants. That is why we track volume, so the better measure is the volume of sewage compliant with its licence. At the moment, under the EPA's measure, we are running at 86 per cent - 86 per cent of the effluent discharged from our 79 level 2 sewage treatment plants is compliant. That has risen from 81.4 per cent over the last two years. Is it perfect? Is there still a lot of investment needed? Absolutely. Using that statistic adds nothing, in my view, to the debate. It is really about the compliance of the effluent that is discharged into the receiving waters.

Mr HAMPTON - There is a completely detailed response at section 2.2 in our submission, but I would add to that: if we fail one of 416 tests in a plant that has 52 samples taken in a year, the plant is deemed non-compliant for the full year. It doesn't matter if that test has no environmental ramification whatsoever because we test for a range of issues. Some of those tests have nothing to do with the environment. Third, I note that at no time in the last two years has the EPA issued a single environmental infringement notice relating to the operation of our wastewater treatment plants - not one. Compliance and damage to the environment are not necessarily one and the same thing.

Mr VALENTINE - So that we can be clear on the matters you have to comply with, how many regulators give attention to your facilities? Obviously the Department of Primary Industries, Parks, Water and Environment - DPIPWE - for dams -

Mr HAMPTON - The Department of Health and Human Services for water quality; the EPA for the environment.

Mr BREWSTER - The Tasmania Fire Service for fire services - hydrant pressures.

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Mr HAMPTON - The Tasmanian Economic Regulator for the overall performance of the business and determining prices.

Mr BREWSTER - The Ombudsman for complaints management and records management coming out of the archives department. Then we have the Tasmanian Audit Office that audits all of our regulatory and financial accounts. It is quite a lengthy list.

Mr VALENTINE - Are you saying half a dozen?

Mr HAMPTON - Yes.

Mr VALENTINE - When people talk compliance, it is not just one aspect that is being measured, is it? Are you talking about compliance of the actual infrastructure and how it is operating as opposed to what it is delivering?

Mr HAMPTON - If we were talking about wastewater treatment plants, we would obviously be focusing on the compliance relating to our licence conditions. That is where the statistic Mr Armstrong raised comes from. It wouldn't surprise you that one of our high-risk areas is dams because there could be a loss of life if we had dam failure. Every month we get a regular detailed reporting on what our risk situation is with dams, what our risk mitigation strategies are and how we are monitoring that. In each space there is a different area of compliance. In terms of water quality, I won't say every day, but on a very regular basis we are taking samples of water. They go off to a lab and are tested; if there is anything in those test results that needs to be reported, it is reported. If there needs to be a discussion with the DHHS about what we are doing about water quality in a particular service area, we have that discussion.

Mr VALENTINE - Can you give us a potted picture of how you comply across those half-a-dozen organisations you are being measured on? Can you give us a picture as to whether you are failing in some areas and not in others?

Mr HAMPTON - If we talk about water quality, for example, that is DHHS. At the end of 2016-17, 99.2 per cent of our customers were receiving water they could drink from a tap. That was up from about 94 per cent or something like that five years earlier. By the end of August 2018, we expect that to be 100 per cent.

In relation to wastewater treatment plans, as I've touched on, you could look at the compliance of the treatment plant or you might ask yourself what the damage to the environment is. The EPA has not issued a single environmental infringement notice relating to the discharge from the sewage treatment plant; it's very hard to conclude that we have been damaging the environment. Might there have been a discharge? Yes, there might have been. Might that discharge not have been compliant? Yes, it might have been. But the impact on the environment is not only about what we discharge, it's also about the receiving environment. Some receiving environments can receive discharges that are more non-compliant without damaging the environment than other receiving environments.

In relation to dam safety, we report to the Dam Safety Regulator. They know which dams we are monitoring on a regular basis and where there are some identified reasons for concern about safety.

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Mr BREWSTER - I might just cut back over them. I missed one, by the way: workplace health and safety, which is effectively another regulator for us. Maybe the simplest way is to quickly cut over each of them. What I think you're looking for, Rob, is: what are the measures around compliance? Are you actually complying is what I think you're asking.

Mr VALENTINE - I am.

Mr BREWSTER - Because it's in the report, WorkSafe Tasmania regulates our safety performance. We've had an 81 per cent reduction in our lost time injury frequency rate over the period. We've had a lost time injury frequency rate of 3.8, so we are getting down towards best practice nationally and we have won awards to that effect.

Mr HAMPTON - Can I touch on safety? When we started our journey, a month would not go by when we didn't receive a notification of an incident that could have led to a serious injury or a loss of life incident. That was led by the former chair of the former corporations. The number one priority was to make sure that we had a safe working environment for our people, our contractors and community members who might be impacted by our operations. We have made dramatic strides in ensuring safety of our people, our contractors and the community.

Mr BREWSTER - I will go on to customer service, which also comes under the Tasmanian Economic Regulator. We currently have the highest grade of service in the country - to be clear, the highest grade for comparable utilities - that is, utilities greater than 100 000 customers. We've never failed to meet our grade of service target in four years of TasWater. That is a key metric in our customer service performance. There is a whole bunch of others, but I won't take you through them because they are not regulatory; they are our own standards.

The average time to attend sewage spills, breaks and chokes has dropped from 61 to 53 minutes in terms of customer service. As to our drinking water compliance, I think Miles covered almost all of it.

The one other thing that really matters in terms of drinking water compliance is *Escherichia coli* - *E. coli* - detections so that is, in effect, a proxy for whether you are likely to have a boil water alert and whether you actually have a problem in the water. In the last year we dropped that from 31 to 9 so that is a measure. It is not just about people - yes, 99.4 per cent at the moment can drink their water - it is about the risk of there being an issue with your water and that has clearly gone forward. Fluoridation has gone up from 91 per cent to 97 per cent compliance since our first year of operation. So from a drinking water perspective, I would be surprised to hear anything but that we have actually been driving significant change and improvement.

In terms of our compliance around sewage and environmental compliance, Rob, that is the EPA. I think you have to look at the whole context. Dry weather sewage spills are a critical matter because at the end of the day that is what impacts on the environment, and they have dropped from 155 to 66 per annum. I have talked about the increase, and in fact this year, the year just gone, our treated sewage volume compliance has actually lifted again to 86 per cent.

Recycled water compliance has lifted from 69 per cent to 79 per cent. Sewage odour complaints have dropped from 274 to 134. Our trade waste compliance has lifted from 16 per cent to 99 per cent. The percentage of biosolids beneficially reused, which has a big environmental impact, has lifted from 56 per cent to 99.8 per cent. So from an environmental perspective, have we done everything we would like to have done? Are we as good as we would

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love to be? No. Have we made real progress in four years? Absolutely. I would argue we absolutely have.

In dam safety, we have reduced the number of dams above the limit of tolerability from 14 to 11. I do not have the number in front of me. I think that is correct. The Ombudsman complaints have come down. In the first year I received quite a number of complaints referred directly to the CEO. I think I have had one or two this year. The best reference for that is to actually go back to the Ombudsman's statement to Parliament last year, in which our performance was referred to.

There are some pretty clear examples that we are getting on with the compliance job. Not perfect, but I would argue it is certainly all heading in the right direction.

Mr DOWNIE - I would add that there is one other body TasWater is accountable to and that is the owners. There are 29 of them and we meet with TasWater twice a year; four reports are given to TasWater and questions are asked. I bring to your attention to the fact that we have noticed a general improvement in the facilities TasWater is looking after. But we are an important part of that check also.

Mr ARMSTRONG - As I was saying, some of our submissions have touched on trade waste from the small businesses in particular. The cost of installing the new grease traps et cetera. Have you any comments to make on that, Miles? It is something that has been brought up in our submissions. They have to put a different system in now and a lot of businesses in a small area have not the room to do that and it is a big cost. I think it is up to \$2000 or more. I am not too sure. In some instances, \$40 000 has been quoted to do this. They have said there is no way TasWater will back off and let them use other ones that have been installed on the mainland and are successful.

Mr HAMPTON - I will let Mike respond to the detail, but I make one quick comment. At the end of the day all TasWater is doing is complying with legislation. What is the biggest single contributor to that figure of 77 wastewater treatment plants not complying? It is trade waste. The biggest single contributor to non-compliance of wastewater treatment plant is trade waste. The EPA understands that. We understand that and the legislation understands that. Mike, to the detail.

Mr ARMSTRONG - We are talking about, what they are saying; it is little bakeries et cetera.

CHAIR - We are talking about Grease Guardians as well.

Ms RATTRAY - We would like some understanding of why there is no flexibility around alternatives.

Mr BREWSTER - It is not actually accurate to say there is no flexibility, because we have actually approved some Grease Guardians.

CHAIR - Not for my constituents in Launceston, you have not.

Mr BREWSTER - Yes, but only under special circumstances. Maybe to help Tania, a grease trap is a passive device that basically captures the grease. The whole purpose of that is - and that is - probably just the simple starting point is we have a regulatory obligation not to have

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more than 10 milligrams per litre of fats, oil and grease going out and being discharged from our plants. No choice. That is one driver.

The other driver for us is we are under pressure over the number of sewer spills. What do you think the key driver of sewer spills is? Blockages. What are our key blockage issues? Fats, oils and grease getting into pipes. You only need to look down here at Salamanca a couple of years ago, as a typical example. Unless we can keep that out of the system, our plants fail. Our plants are biological. The fats, oil and grease affect the performance of those biological plants. We then risk exceeding our discharge limits and we risk ongoing increases or larger spills. They are the drivers. We are the regulator in this sense. We have nowhere to go because, at the end of the day, we have to meet those compliance requirements. We are required, as Miles said, to address this matter.

Then you come to the issue of Grease Guardians versus grease traps. Grease Guardians, as I understand them, are more of a skimming device. They skim the fat off. The problem is you have to maintain them, and they are not guaranteed to capture all the fats, oils and grease. On the mainland in the places we have researched, because we try to match our standards to the mainland standards, they are usually only used in two circumstances: upstream of a passive device, so being the grease trap itself. We do not require that, but in some jurisdictions they are installed upstream.

The other two places where they are used, we have in some cases allowed it. There are some circumstances where, particularly in an existing facility, it may well be entirely impractical and virtually impossible to install a grease trap, and so therefore we say, 'Look, it is not ideal, but we will allow another form, such as a Grease Guardian to go in'.

In effect, this is always a risk-based judgment. If we allow it everywhere, we run the same old risk of fats bypassing the system. You cannot be guaranteed to capture them. They go into the plant. We exceed our licence conditions. I do know, and I heard from the EPA director that they support or would support -

CHAIR - They would support a Grease Guardian. They had no problem with it yesterday.

Mr BREWSTER - Yes, and I know they support them in septic tanks, and those sort of devices where they do not go into a biological system, that makes sense. I can get that because that individual is responsible for that septic tank. In our case it goes actually into our system.

I would want to be convinced that Wes would not hold us to account for not meeting our discharge licence limits, because at the end of the day that is what we are held to account for. He is not the regulator in trade waste; we are. I would want to be convinced that he is either going to relax them, the EPA and the Government are going to relax them, which I would not recommend, but that is a matter for them, or they are going to relax the requirement on us to minimise the number of sewage spills. There has to be science to support these sorts of debates. In summary, we are doing exactly what is being done on the mainland.

Mr HAMPTON - Mike, how many trade waste premises have we inspected?

Mr BREWSTER - There were 3500, and I think we have inspected over half of those. From recollection, we have had 10 formal complaints on our process - sorry, less than 10 formal complaints. We do -

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Ms RATTRAY - I must have had the same 10.

Mr BREWSTER - I can only go by the formal complaints we have received. We follow them up. We even followed up, I might add - and Dean can confirm this - everyone that has been listed even though it was not a formal complaint. Everyone, bar one we could not get hold of, we followed up on the Tasmanian Hospitality Association's submission. We do not walk away. We do go back and try to work with people. We also have a legislative obligation that we can not walk away from.

If the Government wants to do something different, please tell us what that is because I have not seen anything different put up. I do not see a change in legislation proposed or a change in the limits being offered to us, so what is it? I am more than happy to talk to the EPA director about Grease Guardians. Yesterday is the first I heard of this. Again, we remain open to discuss this with the Government, with the EPA, but until someone puts up an alternative solution, quite frankly, it is all just talk.

Mr ARMSTRONG - The cost of the compliance for the operator over the 12-month period was raised.

CHAIR - For the four inspections?

Mr ARMSTRONG - For the four inspections et cetera they have to do. They say cost of compliance is driving small businesses to the wall. Do you have a comment about that?

Mr BREWSTER - If people raise concerns we will always follow up. The reality, in terms of compliance, is that we are not doing anything different to anywhere else in this country. We recognise that it is not easy for some of the existing premises and is why we go back in. If you look at some of those, we have helped them find alternative solutions. It is not always about grease traps; sometimes it is about the production methods. Looking at the way they are dealing with production and producing the waste may well avoid a lot of this spend. Although it is portrayed as us being out there as -

Ms RATTRAY - 'Heavy-handed' I think is the phrase being used.

Mr BREWSTER - Heavy-handed, thank you, Tania. The truth of the matter, yes, maybe sometimes our people are overly zealous. That happens in any organisation, but at a macro level direction of the business we ensure people go back. We try to find alternatives when people are struggling. Dean, we have gone back to quite a number?

Mr PAGE - Yes, our trade waste officers are genuinely trying to help customers find a satisfactory resolution at the lowest cost possible, trade waste pre-treatment and meeting the regulatory outcomes. The officers are trained certified plumbers and in a lot of cases are able to provide advice to customers to minimise the cost of those installations. It does not get reported and we get a lot more compliments than criticisms and complaints lodged about the work of the team.

When we engage with customers, we make them aware of trade waste and compliance obligations and give them an 18-month period to install pre-treatment. We can argue whether 18 months is too long or too short, but I would certainly contend it is not heavy-handed.

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Mr GAFFNEY - What are other states' compliance?

Mr PAGE - Most other states have been on this journey. Most other states are in a position where their industrial and commercial customers are compliant and they are now in the enforcement regime for customers not maintaining compliance.

Mr GAFFNEY - How long do they give them? You give them 18 months?

Mr PAGE - Most customers on the mainland undertook this exercise 10, 15 or 20 years ago.

Mr BREWSTER - We did some research.

Mr HAMPTON - It is 90 days. If an agency in another state found a trade waste customer non-compliant, they would be given 90 days to comply. They are well down the journey and we are not. That is often ignored, which is why we give 18 months. We invest a lot of effort in trying to find a low-cost solution.

Interestingly, more than half of our trade waste customers are fully compliant. Why should they have a cost disadvantage versus those who are not compliant? That does not mean to say we should not be focused on trying to keep the cost as low as possible and trying to find the right solutions for a particular customer. At the end of the end of the day, are we meant to be the arbiter of who has a competitive advantage and who does not?

Ms RATTRAY - Dean touched on an area I would like to pursue. It was a significant part of our submissions because people took the opportunity in this forum to bring this matter to us. I sat in on a couple of meetings where people had raised the issue. The plumbers do not have a clue what to do, particularly in small rural and regional areas. A local plumber with a small business, asked to look at a trade waste issue, scratches their heads and has not a clue what to do. Is the problem more about not providing the information to the people required to undertake this work? Is there a disconnection? I raised that question with the Launceston office last week. I thought you might have an answer for me by today.

Mr BREWSTER - They have not brought that to me yet so I can not say, but I am happy to take that on board. Once the quotes come in and we get a call or contact from the customers, we go back and support and work through whether they have really understood the scope. That is the first I have heard of it, so I am happy to take that on board. We have given a lot of information out. Maybe you are right, maybe we have focused too much on the end user, the customers rather than the contractors, and just assumed the plumbers have the experience. That is a fair comment and is something we would take on board in your area, Dean - to look and make sure we have educated them.

Ms RATTRAY - I can provide a list of businesses that have raised concerns. Considering you are just starting down the east coast, you probably have a lot more to come so you will hear a lot more from me.

Mr FARRELL - There has been a fair bit of politics around the whole trade waste issue. I imagine if there is different ownership of TasWater, whoever it is going to be, it will still be bound by the same laws and conditions. There has been a picture painted if the Government took

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it over, this whole issue would be solved straightaway. Is there anything you can see a government takeover would do that the current TasWater cannot do in this area?

Mr HAMPTON - Clearly they can change the legislation and the regulations. If they choose to change them and make them softer, that could mean TasWater incurs higher costs and has to invest more on replacing pipes that break as a result and has to invest more on our wastewater treatment plants. Who pays for that? Probably the mums and dads in Tasmania. The whole premise of this reform is that the user pays full cost recovery. What does our research say in relation to a business customer's view of who should pay? The business customer's view is absolutely clear: those who are providing trade waste that impacts upon our system should pay. There will be some who complain. It may be that we have not provided appropriate briefings to those contractors who have to implement it, but our intent here is quite simple - to comply with the law and to do so at the least possible cost to our customers. Part of that law is to make sure there are no cross-subsidies between the sectors taking our services.

Mr BREWSTER - If you reference our price and service plan submission, we did quite a bit of research into what customers think is fair and reasonable around trade waste. I cannot find the page, but 84 per cent supported the current arrangement. As I said, I cannot find the exact page; I am happy to provide it outside the session or alternatively if you go to the Economic Regulator's website, you would see it.

CHAIR - Is it the customer base that needs to put grease traps in or is the general customer business? There are people who do not have them as well.

Mr BREWSTER - That is the general customer business because at the end of the day, Chair, someone has to pay. If they do not pay, someone else pays so what the customer base is saying is that at the end of the day, across all customers, 84 per cent of them feel the current arrangement is fair and reasonable - that those who generate the waste should pay.

Mr HAMPTON - It is in section 4.7. A survey went across business and residential and 77 per cent of businesses supported only businesses generating trade waste should be paying for that treatment.

Ms RATTRAY - Seventy-seven per cent of what number, though?

CHAIR - That is all businesses.

Ms RATTRAY - Of the ones that responded, but how many responded? That is the question.

Mr HAMPTON - I do not have the answer to that question.

Mr DOWNIE - The bigger picture is that if trade waste is not handled appropriately, you will end up with what has happened in London recently - the whole system will just clog up and it will take some considerable cost and time to fix. Trade waste is a real problem within sewerage systems.

Mr FARRELL - To follow from that, the cost for the smaller businesses is \$1000 or 2000, we have been told, that they need to spend on becoming compliant.

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Ms RATTRAY - Up to \$40 000.

Mr FARRELL - Up to \$40 000 to come up to a compliant level. Larger businesses or larger property owners that have shopping centres and that type of thing, is that a much bigger cost for them? Is there more required for larger business premises to come up to that compliant level?

Mr BREWSTER - It solely comes down to the nature of the business and therefore the risk by that business with their trade waste, so it really comes down to the volume and intensity or strength of the trade waste and that drives the amount that has to be spent. The other element that drives it really is the extent to which it is practical to install trade waste devices. In existing premises it can be difficult and while I hear the \$40 000 number, I know that particular one we did go back - and hopefully Dean can provide some more background on that -

Ms RATTRAY - We can do that at a later time.

Mr BREWSTER - Yes, and found another solution. So really it is a factor of the intensity of the waste, the volume and the nature of the premise, and we go through and work through that with all of our trade waste customers.

Mr FARRELL - Where you have a business like a mechanical business where they have washdown areas and that type of thing, they would need to have a better system. In the past it has just gone to ground or floated off through various drains.

Mr BREWSTER - One of our key concerns is automotive trade waste because that presents a significant danger to our workers and to the public. So are we adamant that there has to be a solution for automotive trade waste? Absolutely. Hydrocarbons and potential explosive devices significantly damage the efficacy of our plants. We do go through and expect that people work with us. To be frank on that side of things, on the automotive side I cannot recall any real issues, people have been pretty cooperative.

Ms RATTRAY - I have one on my list.

Mr HAMPTON - It needs to be understood that when we talk about this broad trade waste area, we are talking about a combination of a few large industrial customers and a large number of smaller customers. In many senses the smaller customers run as much of a risk for us as do the larger customers. I recall, and it was at Cradle Mountain Water, we had not been operating very long when a major sewer line in Smithton collapsed. It just simply collapsed overnight. A significant number of householders were impacted by the fact they did not have a toilet that would work. Why did it collapse? It collapsed because the local abattoir had not ever complied with its discharge requirements.

That is really at the top end. In more recent times one of our major treatment plants on the north-west coast was not operating as well as it should have been and as a result generating significant odour issues. One leads to the other. It is this interrelatedness and complexity of our space that results from not complying with the requirements placed on them. It is rather curious there are many policemen who look over us but we have been turned into being the policemen in this space.

Mr VALENTINE - This is not put in a way to TasWater being taken over; it is in relation to the trade waste issue. A lot of the smaller businesses, we have been told, find it difficult to be

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able to get the cash to actually do it in a reasonable time frame. When dealing with these customers, do you provide them with options for handling this over a 10-year period in terms of costs? Is that something you get into or not?

Mr HAMPTON - It is not something that we have got into. That is not to say we might not be prepared to explore it, as in other places. For example, at Lauderdale we helped the residents, we encouraged them to commit to a sophisticated sewerage treatment plant pipeline process by, in effect, advancing them the money. I do not believe we do that at the moment, but I think that is something we would look at.

Mr VALENTINE - They are saying that, for a small business, a mum-and-dad business - I think it was Deloraine that was being looked at - to pay this in two years is unsustainable. They need to have a longer period of time so perhaps that is something you might look at.

Mr HAMPTON - We are charged under legislation to avoid price shocks, and I see this as an element of a construct about price shocks.

Mr VALENTINE - That is the only point I wanted to ask.

CHAIR - One last question while you are talking about price shocks. I refer to submission no. 4, from one of my constituents who has a real issue with having to pay the tariff of \$874 while they put these grease traps in. He was concerned that if they are putting the grease traps in, they are complying but they are still paying the trade waste levy. There was concern at the double dipping there. The main concern I have had from constituents with these issues has been from very small businesses, takeaways with perhaps two people, saying that the minimum they can put in is a 100-litre facility. They have nowhere to put it; it is a leased business and they do not own it. If the owner puts it in, it is going to cost \$10 000 or more in some of these areas.

In submission no. 4, the person says he has no area. He has a small bakery, no area whatsoever to put it, and he needs a Grease Guardian as opposed to others. The main complaint I have been getting from people is the lack of flexibility with some of the officers who have come around, particularly to these small bakeries and small businesses that might be two people or three people operating them. They are saying there is no flexibility - 'We are told this is what we have to do'. If we could go back to them and tell these people they can come back to you because there may be a bit more flexibility.

Mr BREWSTER - Without going into the specifics, fats, oil and grease are not the only trade waste. Going to your point about double dipping, I am happy to go back and review, but I find it very hard to believe there would be any double dipping. Usually if you have a trade waste charge, it goes beyond that so there can be a lot of other chemicals et cetera we have to manage at our end of the cycle at the sewage treatment plant. Usually if you have a trade waste charge, it is, 'Yes, you have to contain your fats and greases and then you get a charge because we have to deal with the other chemicals, and sometimes biological matter, that goes down through the sewer that basically costs more to treat'.

CHAIR - That is understood. It was just concern about putting it in, paying for it to be cleaned four times a years and then paying the tariff, and that was mainly from the small businesses.

Mr BREWSTER - We will take it on board.

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Ms RATTRAY - Is TasWater a member of the Australian Water Association?

Mr BREWSTER - I am an individual member and we have a number of individual members. Whether we are a formal member as a corporation. Are we a formal member as a corporation? I think of WSAA we are, the Water Services Association of Australia.

Ms RATTRAY - You probably have a membership; they were very complimentary yesterday.

It was suggested the establishment of a new entity would cause a period of disruption of up to four years, including implementation of capital works and so on, if TasWater were moved into a GBE or whatever other form the Government might choose. Do you have a comment? They suggested it would put the whole business and projects back that much.

Mr HAMPTON - I do not know about the judgement of four years. I was on the board of the four former corporations and in my infinite wisdom became chair. I argued for a single corporation. I went through that change process. Some of the directors were the same as we went forward and we all saw it. We lost momentum in the former corporations. From the time I stood up and said this to councils. Having spoken to government and opposition and cleared they would support the move to a single corporation and then broaching it with councils, it was an 18-month process.

From the time we announced it, we lost momentum in the existing corporations. It took 18 months from the time we announced it until it happened. Mike joined us in May, before TasWater was created. He had been appointed earlier but was not available to us. Mike, when was the last of your senior executives appointed?

Mr BREWSTER - October, I think. The last one came on at the end of October.

Mr HAMPTON - You lose significant momentum at the executive level and therefore you lose significant momentum at the planning level. Whether it is four years, I am not certain. You lose significant momentum in organisational disruption. The Infrastructure Tasmania report talks about the development of an entirely new delivery model, or words to that effect. If they are going to reinvent the wheel, it might not be four years, but it is going to be a significant loss of momentum.

Ms RATTRAY - Thank you.

Mr FARRELL - On that same issue, I have a question to ask about the restructuring from four into one. Has the Government indicated to you whether its intention is to transfer members of the existing board or existing management into the new government structure?

Mr HAMPTON - It is clear it is not intending to offer the board a transfer. The board will stay and their plan is, if they succeed, the current board will stay, wind up the existing corporation and then disappear. It has made provision for the costs of that period, which I think is only three months, if my recollection is correct, to complete the accounts and wind up the corporation.

Regarding management and employees, they have made a commitment that all management and employees will transfer across on the same terms and conditions.

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Mr GAFFNEY - I need to take you back to the terms of reference. We need to look at the higher level of the discussion as we have limited time. One of the things that came out with the Government's submission was that if they took it over, they would come up with an accelerated capital program. They would be looking at things such as the Tamar River and Macquarie Point as high order projects. Was it tempting for you to look at your project works over your 10-year plan and try to match what the Government said they were going to do? How did you handle that? The Government had a fair crack at TasWater. I want to know your response to that, seeing you are responsible to all the councils and all the community. Would you try to match the Government's plan? If not, why not?

Mr HAMPTON - We gave consideration to whether we should try to match two aspects of the Government's plan; one in relation to the proposed acceleration and the other in relation to pricing. I'm happy to deal with the pricing one if you want me to. In relation the acceleration, our 10-year plan was an interrelated plan. First of all, our premise is there's not a crisis, so why would you rush? Every time you rush, you run the risk of suboptimal solutions. You run the risk of paying too much if you try to compress the level of activity.

Equally as much, from the point of view of the financial position of the business, allowing the amount of debt that funded the capital program to go up in a steady, measured way as the revenue of the corporation went up [inaudible]. So, there's not a crisis; we don't need to rush out tomorrow and spend. Additionally, we planned our spending over a 10-year period that keeps the organisation in a sustainable financial position with sensible metrics. We asked ourselves that question, Mr Gaffney, but we came to the conclusion that, no, we have a sensible, balanced plan. There is no need to rush what we are trying to do. In many senses there are risks associated if we were to try to do it.

Mr GAFFNEY - You mentioned pricing, would you like to comment? I think that is of interest.

Mr HAMPTON - The Government has initially flagged that it would cap price increases at between 2.75 per cent and 3.5 per cent. We're on public record. The average over the same period, I think, Dean, was -

Mr PAGE - It was a little under 4 per cent.

Mr HAMPTON - It was a little under 4 per cent over the same period of time. We gave consideration to whether we should consider matching this and neutralising it. We debated it at the board table. We said we have a measured plan of what revenue requirement is needed. Our prices are meant to be cost-reflective. In other words, we are meant to be charging the appropriate price for the service that's being provided. If we were to charge less, we would not be setting aside enough cash for future asset replacement.

I think even Mayor Downie asked me if we could match them? If the truth be known, we could have matched them. We decided that it wasn't the right thing to do. In any event, if we had matched them I suspect they would have come out with a lower price and the Tasmanian community would be further disadvantaged in the longer term, so what was the point?

Ms RATTRAY - I have a question around the net debt to equity ratio. Can you walk me through, and this might be one for Dean - in 2014-15, it was 23 per cent, and in 2015-16, it was

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27 per cent. I don't have the next. It was suggested yesterday that your debt spread should be intergenerational. The future should be paying, not so much only those paying now. Can you comment? Can you go further, spread it longer and do more?

Mr HAMPTON - I might start and Dean will follow up. The Treasurer has long held the view that we have a lazy balance sheet and we can have more debt. We don't look at it in terms of the level of gearing; we look at it at the risks associated with servicing the debt, which means: how many times does your profit cover the interest expense? Most major businesses in Australia hope to cover their interest expense in profit before interest by between five and seven times. We're a utility so we have a safer revenue stream. We established that our target interest coverage ratio should not exceed two times. That would mean that if interest rates doubled tomorrow on the same amount of debt we could still pay the interest. We are not focused on the debt to equity. There are utilities in Australia that have 100 per cent debt to equity ratio. Generally they are private equity-owned businesses that run with much higher debt. We focus on the long-term financial sustainability of the business. Today interest rates are low and they are probably going to be low for a little bit longer, but are they going to stay this low? Some of us remember interest rates of 18 to 20 per cent. We don't take a ridiculously conservative view; we have looked at what other utilities in the same sector in Australia do. We came up with: you want your profit to be at least two times your interest expense. Interestingly, in one of the early government documents, they agreed with that position. Their financial model has the interest coverage way below two times.

I have been constantly hammered by the Treasurer that I have a lazy balance sheet. Yes, we have a lazy balance sheet, but that's all got to be looked at in the context of the profitability of the business. If we were a much more profitable business, you could more safely gear it up. In any event, the board quite some time ago adopted the view that the key metric for debt was not about the debt to equity ratio. The debt to equity ratio could be 100 per cent, providing the profitability of the business meant you were not putting the business at risk. Over our 10-year plan, the interest coverage ratio declines and hits two right at the end of that 10-year period. Could we have done that sooner is perhaps part of your question?

Given the revenue increases we are talking about - and remember we have committed to coming back to CPI, not in the price and service plans 3 or 4, but beyond PSP4, they will be CPI increases. If you are prepared to ramp up the tariff increases, you could take on more debt and interest. So it is that combination of the profitability and the balance sheet and the sustainability long term with what you're prepared to pass on to customers. Our owners have consistently given us an overwhelming message since the reform first happened: affordability to Tasmanians is very important.

Mr DOWNIE - TasWater agreed to increase its debt at the same time dividends were taken away from the owners. The owners have been bashed for taking these dividends out of the business and we have helped source the extra debt.

Ms RATTRAY - In the operating costs in 2014-15 compared to 2015-16, there was an increase of \$11.2 million and yet the capital expenditure for those years was only \$26 million extra. The revenue increase was around \$7 million. Does that mean it is costing more to run the business? I am interested in how that extrapolates into the real world of customer service and provision.

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Mr PAGE - A couple of factors were impacting our operating costs over the period you have mentioned and will play out as we go forward. In those particular years there was deliberate investment in the business and in building our capability. A lot of that funding went to building up our ranks of project managers. The former corporations struggled to deliver \$100 million per annum of the capital program. Around that time we were projecting a \$120 million to \$130 million per annum capital program on a sustained basis and recognised that we needed to hire and invest in more program managers and project managers to be able to manage that larger capital works program going forward.

At the same time we also made some investments in systems capability in the business. Up to that stage, we did not have a systemised asset management system and we have now implemented an asset management system. We had some project resources brought into the business to enable us to deliver that, and that is an important investment for the business. That will give us a real time performance data on our assets to make sure that when we make those capital investments we make them in the appropriate places to get maximum benefit for the investment we are making and the community outcomes we are looking to deliver.

Ms RATTRAY - Are you telling me that we have a lot more middle management, if you like, or top end management to deliver these projects? Is that pretty much -

Mr PAGE - We do have more people. The other element there is investing in some of the backlog of maintenance we inherited as TasWater. When we came to be in 2013, we had quite a backlog in desludging our lagoons. That is basically removing the solids or the material that settles in sewage treatment plant lagoons. We had a large backlog there. If we do not deal with it that manifests itself in odour complaints, particularly over the summer period, as that material settles in the lagoons. So there was a deliberate investment there to address some of the backlog.

Another big maintenance issue, a backlog that we inherited, was around digester maintenance. That is the biological treatment process that breaks down the wastewater material we receive into our plants. Again, failure to maintain that infrastructure at the appropriate levels manifests itself in underperformance of the final effluent being released from our plants and again odour complaints from residents who live near those plants.

Ms RATTRAY - In your view, is that a reasonable increase in operating costs compared to capital expenditure and compared to increase in revenue?

Mr PAGE - I would say the last factor, just to round out those issues impacting on our operating cost, is the costs we incur from the new capital programs or projects that are delivered. Recently we delivered two treatment plants on Flinders Island and our estimate internally is that it will cost us an additional \$1.2 million per annum to operate those plants.

Ms RATTRAY - Well worth the money. Thank you.

Mr PAGE - Indeed, but they do come with a cost. We are largely taking treatment plants that have limited or no treatment and now providing full treatment to be able to deliver clean and potable drinking water to those communities. That results in spend on chemicals and, in a lot of cases, automation, IT costs, and supervisory control and data acquisition - SCADA - remote telemetry and monitoring capability on each of those capital projects we are delivering. Largely, our program is skewed towards compliance spend and then in a lot of cases is resolving problems

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in systems with limited or no treatment being brought up to full treatment to meet their licence conditions. That will impact our costs going forward as we deliver our program.

Mr BREWSTER - Just to add a little bit to it, Tania. It was not about middle management. Project managers are not middle management. Project managers are there to deliver the projects. When we ramp up our program it is not necessarily about whether it is \$29 million; it is the number of projects you have to manage. That is number one. Every project needs either a part-time or full-time project manager. So we ramp up our program - most of our projects are very small - but you actually have to bring people in to deliver them. Not middle management because we dropped about 40 staff, senior managers, at the start of TasWater. So this was about supporting the program.

The second key point to note is that we made a deliberate decision. One of the benefits for us of having councils as owners is they are not focused on profit. We said, 'Right, we can see at that point in time, two years in, we are probably going to do better than anticipated on the bottom line'. We need to reinvest as much as we can so, in agreement with the board, we made a deliberate decision to invest as much as we could back into the business and not everything can go to capital.

A lot of our costs when we are building and increasing capability go straight to the bottom line. Fundamentally from my perspective, that is the decision we made because we are always looking three, four, five years out: how we are going to deliver the whole thing? What is the shortage in capability? As Dean said, we cannot let the lagoons go on and not be desludged.

We cannot not deal with the digesters. That's the premise for all of that.

Mr DOWNIE - This is a very important part of why it is important to have the ownership of TasWater kept in local government hands. What Mike has been talking about creates the opportunity for the political opportunist to use the extra funds and drag money out of TasWater.

Mr HAMPTON - As a chairman of a board, you never like to have to stand up in front of your shareholders and say your operating costs have gone up.

Ms RATTRAY - You did that year.

Mr HAMPTON - I did.

Ms RATTRAY - I'm not sure what you are doing this year.

Mr HAMPTON - They'll be up again this year. I have this year's accounts in front of me. They'll be up for good reason. Dean and Mike have explained the reason. It's not that we are trying to take costs out of the business. Before TasWater was created, shortly after I became Chairman, I said, 'This is too costly and Onstream isn't working'. We did away with Onstream and we saved \$2.25 million. That was audited and confirmed. In the move from the four corporations to one corporation, I stood up with the owners and said, 'We will save you \$5 million. We won't save it in year one, we will save it over the first two years.' We had that audited. We have subsequently saved another \$4 million or \$5 million, and we have committed to another \$10 million. We will have them audited at each stage. These are costs that have been taken out of the business.

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The sad part for me as a chairman is that the actual cost of running it - the improved technology, the energy costs, the chemical costs - are all going up, which is why we almost feel as if we are paddling underwater very hard going nowhere. We are very focused on keeping the cost increases down, but the costs will go up as we have more compliant plants.

Mr FARRELL - Relating to this, Miles, we are talking about the ownership and Mr Downie has mentioned a couple of times the council ownership of it. In the Government's submission and in other submissions, they are saying how ludicrous it is to have 29 owners. I think earlier Mr Downie said the councils meet twice a year with TasWater. I think it's important to get on the record how the system works and who makes the decisions. Is it any different to any other shareholder company?

Mr HAMPTON - While I'm Chairman of the board it will be run as a company. The board is charged with running the organisation. We consult with our owners. I was very unpopular in August a year ago when the board, led by me, and I led the direction, made a determination that we had exhausted all other opportunities of getting finance and would have to inflict some more pain on our owners and on the management team. We are running a business that is long life and intergenerational; we are absolutely focused on affordability. Have our owners at any time tried to jump the queue in terms of priority of capital program? No. Truth be known, our owners have never even led the dividend debate. That is a board decision. I made it very clear in my statements a year ago that it was a board decision. We have no say about loan guarantee fees, we have no say about income tax equivalent payments, but the board determines the actual dividend component of distributions. The owners would like to. I'm a shareholder of half-a-dozen companies. As a shareholder I don't get to determine the dividend. I get to vote against the board if I don't like them; I might not be able to sack them but our owners can sack us if they don't like us. That is a decision for the board. We are running a company that is providing a service to the Tasmanian community. We have a legislative construct that we have to comply with and we have messages from our owners - messages about affordability, sustainability and enhancing the Tasmanian economy.

For example, as most people in this room would know, the current Government, before it came to power, said that it was going to do away with headworks charges for two years and it would make a payment to us. As it happened, the payment to us was about half what we would miss out on. Before they came to power, we had started to explore, should we not have headworks charges, and we did so because our owners had said to us, 'Focus on economic development; it is really important to Tasmania.' We came to the view that we should get rid of headworks charges. We did away with them completely and we followed on from the Government and made a commitment.

We are running a long-life business, responding to the messages from our owners, but we do not take direction from our owners.

Mr DOWNIE - The present ownership system is very democratic. There are 29 councils. If the 29 councils work as a group, we are very powerful body. If we are dysfunctional or do not agree, we will not have a lot of impact. We have a lot of influence over TasWater because we have presented a united case. We are also fortunate in having Miles Hampton, who has engaged with councils as a body and also individually. It is a very unique situation and it works.

Mr VALENTINE - I have a couple of questions. I will concentrate on one that is probably the most expensive first. That is to do with how you are working with councils to address

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inappropriate stormwater connections to sewerage systems. In the example of the Davey Street spine that comes down into Salamanca, during major storm events that overflows into the river, I believe. Clearly it is because there are inappropriate stormwater connections from the roofs of 4300 houses on that spine. I do not know how many of them are inappropriately connected or do not have a stormwater system to be connected to so they go into the sewer. Clearly it is going to be a major project and a major expense to try to stop those overflows occurring. You have to discover where those houses are. How are you working with councils to address that problem? If you do not address that problem, you are still going to have the overflows. It does not matter whether it is the government or whether it is you, that problem is still going to be there and needs to be addressed. Do you have a protocol of councils in an ongoing way to address this issue?

Mr HAMPTON - Mike will have more detail, but I will make two quick comments. I recall not long after the reform first happened, we were having issues in Salamanca where stormwater from Battery Point was coming straight into the sewer. It was a priority issue and it was dealt with as a priority issue. How was it dealt with? It was impossible to try to sort it out. A major storage reservoir underground, under Salamanca, is there and designed to help make sure we can handle the flows.

In Burnie, there is a modern wastewater treatment plant. The older parts of Burnie had exactly that issue, where there are illegal - once legal - connections. It was not an issue until Lion Nathan wanted to relocate its milk processing activities in the state to Burnie and our system was not going to be able to cope. We talked with the Burnie City Council and they accessed \$4 million-worth of federal money to run a program to remove those illegal discharges of stormwater into the sewer. Lion Nathan spent \$4 million and we spent \$4 million. We found a solution that worked.

Mike might correct me, but I do not think we have a comprehensive plan. It is about dealing with priority issues as and when they occur. In some parts of Tasmania it will never be a problem. In some parts of Tasmania it is a problem and in some parts of Tasmania it will become a problem. It is about prioritisation. Some would say that if you throw more money at it, you can deal with more priorities faster. The reality is that you may be able to, but I am not certain you would get an optimal outcome. Mike, do you have any more information on that?

Mr BREWSTER - Miles' point is absolutely on the money about priority jobs. We tend to tackle it on the basis of where the most environmental damage is. That traces back to having to model all of our systems. As you know we have 113 sewerage networks. We have done a criticality analysis in the last year-and-a-half of all our pump stations, all our networks, and we model them. From there you can determine two things. You can determine when a spill occurs and how critical it is because spills are often driven by stormwater. When it rains heavily stormwater goes in, pump stations can't cope; they're often not designed even for one-in-five-year rainfall events. When we've done the modelling, we go out - and that's what we're doing at the moment - and we liaise with the council. St Helens is a classic example of where we've done that - we go out and do smoke- and dye-testing, which is basically trying to source wherever the infiltration is, and then we work with the council to remove the infiltration.

The other part we're doing: often it's not the inflow that is the problem. If it rains very heavily, the groundwater table starts to rise. If the pipes are not in great condition, water starts rushing in. Again, I come back to what Miles said, what we're doing is saying, 'What are the highest priorities there? The sensitive receiving waters'. That's where the oyster growers are, that's where the beaches are, that's where drinking water catchments are - so we concentrate on

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modelling them first. We do the criticality analysis and then we go to the councils and say, 'Okay, here's the issue. Either it's a groundwater infiltration issue and it's not your problem, it's ours', or 'No, it's actually an inflow issue and we need to work with you on finding where this water is coming in'. Sometimes it's not even sensible to replace the pipes. Sometimes we can cope with the extra water. That's how we tackle it.

Mr VALENTINE - When this reservoir gets filled up down in Salamanca, what happens then? After the storm event do you treat that, or does that get released? What happens at that point?

Mr BREWSTER - I can't tell you, Rob, in that specific example, but what I can say is generally stormwater ends up being treated. Launceston is an example of where, when it gets to an excessive amount, it does actually bypass the plant. I have to say, the more water you run through the plant, the less effective the treatment is going to be.

Mr VALENTINE - The only other question is with regard to this concept of dividend payments. You mentioned when you first started today the Government's initial ideas on dividends at the beginning of this whole development of a water authority. Was the authority expected to make a profit to deliver back to the owners? Is that what you were saying?

Mr HAMPTON - It's quite clear in the legislation that providing sustainable returns to owners is one of the legislated objectives. It is also quite clear in the legislation that it is equal to all of the other objectives - that is, the provision of water and sewerage services. It didn't rank at the bottom or the top; it was equal.

Mr VALENTINE - Is that driven by National Competition Policy?

Mr HAMPTON - That's in legislation. I don't know.

Ms RATTRAY - It was driven by the councils at the time the legislation was put together.

Mr HAMPTON - Was it driven by the councils or was it driven by the government of the day trying to induce the councils? At that time Treasury assessed which councils were making profits out of water and sewerage. It identified that about 17 or 18 of the councils were making money and they were making a total of \$24 million. For the first five years of the reform there was a thing called a 'priority distribution' and effectively the government and the parliament of the day, which endorsed the priority distributions, said, 'For the first five years, each year the first \$24 million of distributions will be paid to these councils. At the end of five years all councils will share, and only if we distributed more than \$24 million would the other councils get anything'. It was a bit more complex than that because you were dealing with three corporations at the time, but it actually translated into the first year of TasWater. That is where that \$24 million came in.

In the south, I think we came pretty close to paying out the profit, reaching that priority distribution. On the north-west coast we got nowhere near it, because they were not making any money. I cannot remember the north position but I suspect that we came pretty close to paying it out.

When we moved from four corporations to one and we promised our owners the \$5 million and I can take some responsibility here, we also foreshadowed to our owners that the distributions

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would go from \$24 million to \$29 million. If you like, the Government induced the first stage of the reform by promising \$24 million; we induced, or I took responsibility, that it would go from \$24 million to \$29 million in the single corporation on the basis we would save the money.

I forgot, as Mike subsequently pointed out to me, that the Economic Regulator took that \$5 million away from us. He expects to reduce our charges to our customers as we reduced our costs; I didn't see that coming. All that led to the \$29 million. The whole legislative construct was that our owners would see a return.

Mr VALENTINE - If this is taken over by state Government and is spread across the taxpayer base, do you see a fairness and equity issue for the current shareholders not seeing a return on their investment?

Mr HAMPTON - The shareholders transferred over \$2 billion-worth of assets and the current Government is proposing to guarantee a payment of \$140 million. What owners might receive beyond that is hypothetical. The statement is 50 per cent of the profits, but if the debt is so high there are no profits, there will be no further payments to councils.

Do I consider that the payment is fair? You have all looked at the list of people who are directors. We wouldn't have made a payment if we thought we shouldn't have been making a payment. This is regardless of the legislative construct, other than we had to pay the income tax equivalents and we had to pay the loan guarantee fee payments. We had no choice.

As I said earlier, we had a choice in the dividend component. What sort of return have our owners been receiving by way of dividend in respect of their \$2 billion-worth of assets transfer?

Mr VALENTINE - It is 6 per cent, isn't it?

Mr HAMPTON - Yes, a very low return. It is the principle, it is the discipline, of making a profit and providing a return to the owners, which they then presumably spend on valued community services.

Mr DOWNIE - This water reform was brought in to existence so the state Government could access money from the water initiative coming out of Canberra. The water reform was implemented and councils were promised there would be an injection of federal funding into the sector every year.

That money has never been delivered. It has been used for irrigation development in the State of Tasmania. The cost of water and sewerage has gone up for the communities in Tasmania, to subsidise irrigation schemes developed through federal funding.

In the Ross and Campbell Town area, where we were one of the leaders of lobbying for irrigation development in Tasmania, we have fully funded or privately funded over 100 000 megalitres of water. It has been developed by the private sector without any government money and we are proud of that.

CHAIR - Something that hasn't been raised here but has been raised with several members in the north is tendering. It has been brought to us that a lot of the companies awarded the projects are mainland companies that may be said to have some Tasmanian base. They might have an

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office here, but they often bring in fly-in, fly-out workers and the local workers on the ground end up doing the work.

They say they have stopped tendering now, but sometimes they will win a job from a mainland company. They company might be seen to have a lot of workers but they don't do these little pump stations so they will bring in their local guys. Now the local guys are asking 'Why aren't we getting the job in the first place? Why is it going to some mainland company that will employ them anyway but take the cream off the top?' The local guys are saying they aren't winning the tenders and that it is not happening for them. It is almost seen that the mainland guys must be better even though they are employing us, taking extra money and costing TasWater more money.

Mr BREWSTER - It is important to say the smaller jobs generally do go to Tasmanians, most of the small pump stations. I am happy to provide the evidence for that. I think at the moment about 60 to 70 per cent are Tasmania-based businesses.

The bigger jobs are more challenging. One of the things we have been doing is building the capacity of local guys to manage the bigger jobs. That has always been a challenge.

I will give you some evidence of that in a minute.

Some of what you say is true because sometimes when you weigh up all the bids at the end of the day, you have to take the people you can have confidence are going to deliver for our customers. We look at what is happening locally and how we build local capability. The most recent is Stornaway, which has just been awarded a contract for five water treatment plants, the design and construction of those water treatment plants for our latest program. That is an example. We gave them a job two years ago to build two water treatment plans. We have been working with them, we support them and we want to see their growth. You have to give the guys locally the chance to build their skills. Sometimes that means subcontracting, getting a track record and then getting themselves the capability to deliver on the bigger projects. If you accelerate the program, you run the risk of doing the reverse of that.

We have a focus on trying to increase capability. If you go through the small projects, very few small projects would be undertaken by mainland contractors because their overheads would kill them. It is mostly the bigger projects. We still get a lot of the local contractors winning the bigger projects. Once you are getting up to \$50 million to \$100 million, at this stage it tends to still be the bigger boys.

CHAIR - My understanding is the smaller guys are getting the jobs but they are being subcontracted from the big contractors. The other complaint was that decision-making takes a long time from TasWater. Sometimes a tender will go in and it might be 12 months before a decision is made. One of the examples given was Bridport, where 14 kilometres of pipe was purchased and is still sitting there two years later.

Mr BREWSTER - I will take the Bridport one specifically on notice. Can I go back and correct something? Just to be clear, what I was saying earlier is that sometimes the subcontractors are subcontracted and they develop the opportunity, then come back and bid and win successfully.

CHAIR - You try to use Tasmanian firms where you can?

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Mr BREWSTER - We do. I am happy to supply the committee with the numbers. We report every month to our board. We keep an eye on this and report every month on the numbers of Tasmanian businesses that are winning work.

CHAIR - If we could get that, it would be very useful.

Mr BREWSTER - I will get Dean to send it through.

At times we have taken too long to award tenders but 12 months would be out of the ordinary. There is usually a reason. The board monitors how long it takes for tenders to get out. If it takes longer than 90 days, it is reported every month and goes to the board.

Coming back to the tender period, sometimes these things happen and they make us unpopular. The reality is you start a project, do the concept design and feasibility, then you get into the planning and then you start to get your tenders back, and the tenders come in significantly higher. That happens. Another example is that when you start your project - and I think Gretna and Glenora are classic examples of this - you are focused on three plants, addressing three towns. Then partway through suddenly we find for good reason there is a different approach to regulation and we now have five temporary boil water alerts in the same vicinity. Do we just march on ahead and therefore significantly increase the overall costs of that project or do we stand back and say, 'I'm terribly sorry, but the tenders are over'? If we march on ahead without going back and looking at whether we could deal with those other towns, we run the risk of spending a lot of money the customers will have to pay for. In some cases as CEO I have said, 'Stop this project. Go back and find me a solution that fits within the budget and let the contractors know' or 'Stop the project - I now see a broader picture because something has changed and I want the scope re-evaluated'. We do go back and talk to the contractors. Are we perfect? No, but there is logic.

CHAIR - We appreciate that advice because we get constituents coming to us.

Ms RATTRAY - Are we allowed any more questions?

CHAIR - We may need TasWater to come back because it is important to cover them all well.

Mr HAMPTON - We would be happy to come back again. I would particularly like to have the opportunity to come back and proffer a way forward.

CHAIR - That would be very good. Thank you all very much for your time this morning and we look forward to seeing you here again.

THE WITNESSES WITHDREW.

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Mr MICHAEL BAILEY, CHIEF EXECUTIVE OFFICER AND **Ms SUSAN PARR**, CHAIR, TASMANIAN CHAMBER OF COMMERCE AND INDUSTRY WERE CALLED BY TELEPHONE, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Ms Armitage) - Good morning. All evidence taken at this hearing is protected by parliamentary privilege, but I need to remind you that any comments you make outside of the hearing may not be afforded such privilege. A copy of the information for witnesses is available if you have not read it or if you are not aware of the process. The evidence you present is being recorded and the *Hansard* version will be published on the committee website when it becomes available.

If you could please speak to your submission first and members will then address questions to you.

Mr BAILEY - Thank you for the opportunity for us to present. We're sorry we can't be there in person. You have a copy of our submission. I think it is also fair to point out the Tasmanian Chamber of Commerce and Industry - TCCI - has a very good relationship with TasWater. We've had a number of events with TasWater over the last few years aimed at lifting the understanding of TasWater and its performance strategy among the business community around Tasmania. They have been very fruitful. We've never had any request to meet with TasWater declined and our discussions with them have always been really beneficial.

Where our position is on the ownership of TasWater is talking about what this entity could be. We believe the current ownership model makes it difficult for the entity to act strategically from a statewide perspective. You see that play out in some of the examples I gave in the submission and I won't go over that again. The owners can at times find it difficult to see beyond their own municipality.

What we would love to have investigated are the opportunities a different ownership model could bring to TasWater, particularly around the growth of capacity and secure demand from Tasmanian businesses. One of the difficult things with the ownership model of shareholders is that the focus of the board has to be on a return to those shareholders rather than with the ownership model as one with Tasmania in mind. It is a different view and a different strategy can flow from that.

Where we see the benefit is the capacity of Tasmanian businesses to undertake more of the work TasWater has planned. With over \$700 million worth of work planned over the next year. We would like to see the model that would build skills and capacity amongst Tasmanian people and businesses. We don't believe the current ownership model makes that possible.

We also think a new entity could be developed that looks at best practice for GBEs and [inaudible] councils [inaudible] in terms of engagement, for example, is a really clever model. What other models are there around Australia for similar entities, and what might they look like. Rather than simply moving this entity to state ownership we believe the opportunity is to build something better, much better and much more reactive.

We would love to support the Government's discussion about fast-tracking the work on TasWater's books. We also should say, too, that we have not had anyone complaining about TasWater's strategy, simply the timing of that strategy. The advice we received from many of our

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members in respect to that is that if we are to fast track the work you need to be careful. You can create a boom-and-bust cycle in Tasmania.

Another benefit of a change in ownership is that in looking from a state perspective you could then line up the infrastructure work currently underway in Tasmania, our highway works and so forth. We need to develop the water strategies over the next few decades to ensure we do not have a boom and bust cycle in the sector. We need to be strategic about the timing of those projects.

Some projects have to be done urgently and we understand that. Perhaps there is a way others could be engaged in a way to include Tasmanian businesses to undertake that work in a way that enables them to have ongoing work and maintain the workforce ongoing. What we don't want is boom and bust again in this sector in Tasmania. Susan, have I missed anything in that preamble?

Ms PARR - I think culture, Michael, and the opportunity that a new ownership model might present in strategic thinking.

Mr BAILEY - That is a very good point. As I mentioned in the submission, the negativity we have heard from members around the state has been, at times, about the approach of officers on the ground to businesses. There is a feeling that it is an attitudinal approach rather than an entrepreneurial approach. We have put that to TasWater, which has at least taken that on board and tried to modify things in the field. We believe that fundamentally the structure of the ownership in turn doesn't allow for a real entrepreneurial approach. As much as we love our local government sector - and there are some fantastic local government areas - but for the new love affair, they are really not known for their entrepreneurial incentives. It is a new structure, a better structure, one that is clearly devised would be much more responsive on the ground, much more entrepreneurial and much more supportive. Equally, that should a discussion about looking forward rather than creating something for the sake of creating something.

Mr FARRELL - I would like to pick up on the points you made just then and also in your submission, saying how you have had feedback that some of the people of the ground are very hard to deal with. How do you think a government takeover will fix this? You quite often hear the same sort of criticism aimed at government businesses within State Growth and infrastructure and all over, with people saying they are hard to deal with. It's the same sort of argument. I am interested to hear your thoughts on how that situation would be improved by the Government taking it over.

Mr BAILEY - Thank you for that question. I think that's at the core of the thought about the change of ownership. I agree with you, just creating another GBE without thought in this space is reasonably pointless. What we need to be considering is: how do the best GBEs behave, how do their officers behave on the ground and how do we then recreate that? In my understanding, from talking to those in the sector, Tasmanian Irrigation is a great example of a GBE that is very proactive and very entrepreneurial. It is still meant to follow processes and various other regulations - that goes without saying - but its approach is very different. I don't believe the current model allows that to happen. I think that what we see here is the nature of the bureaucracy taking place on the ground. What we need to be thinking about is how this entity could be, rather than how it is currently. I agree with you, I don't think creating a GBE is the answer. There needs to be more strategic thought about what GBEs should look like and what the

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culture should be. We would look at best practice around the nation as to what we should be doing.

Mr FARRELL - Do you have any direct dealings with Tasmanian Irrigation or is that just feedback you've had to your office?

Mr BAILEY - Both. We have dealing with Tasmanian Irrigation and we also hear regularly from members. Obviously nothing is ever perfect but they are a good example of something that's working well on the ground, from what we hear. I'm sure there are better examples around the nation and you may well be across them better than I am. The opportunity here is to do something similar with the [inaudible] that we have.

Mr FARRELL - I agree with your comments about fast tracking. Sometimes that can lead to mistakes. We had examples of that from TasWater with projects they do that they sometimes hold back on and change course to make sure they get it right. Do you believe the takeover by government is happening at a pace that may cause errors along the way? I take on board your comments about doing it properly.

Mr BAILEY - I'm not sure I can answer that. From my perspective, this seems to be quite a long drawn-out discussion in the community rather than something that is being actioned. I certainly don't believe you can get that overarching strategy looking at all of the infrastructure spent across Tasmania with the current ownership. The nature of the beast, quite clearly, is broad. TasWater needs to be responsible to its owners rather than be thinking more broadly about the state. In my mind, one entity run in a way it can link into part of the overall strategic thinking of infrastructure around Tasmania will only happen by the ownership model changing.

Mr FARRELL - Going on from that - and I take on your concerns about parochial interference coming into play - do you think with the Government taking it over and, for example, it is under the control of the Treasurer and also, for example, the Treasurer may be a member for Bass and a city in that electorate may have a stormwater issue. Do you think there is any conflict there of having it within a political system and having a model proposed which is not a pure GBE as such, it does hand considerable to one position? Do you that then would create a similar sort of issue?

Mr BAILEY - I don't. I believe the politicians are doing the best they can do for Tasmania. The difference is that local governments need to be focusing on the best they could do for their local constituents. That is their mandate. If our Treasurer was to do such a thing, I am sure that he would suffer in the polls and certainly other parts of Tasmania would be ropeable.

The Tamar ownership situation insures that parts of the ownership model focuses on its own region, and they should. The local governments should be absolutely passionate and focused on the Tamar municipality. I understand completely that they shouldn't have to look beyond that. For a state entity, that is incredibly problematic. I don't see how that can work.

Mr FARRELL - We have just had TasWater representatives in and they said the whole reason for having their board structure was to remove the local government sector from that decision-making process, and that decisions were made outside local government areas by the board. That is the reason for the question.

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Mr BAILEY - Craig, you are right, the board's role is to do that but at the end of the day one of its roles is also be responsive to the payments. Their focus is meant to be responsive to their own constituents, which they are doing.

I think the board is doing a good job in the situation that they are in but I would be very surprised if, under a different ownership model, that wouldn't change.

Mr VALENTINE - You made a statement that fast-tracking can create a boom-and-bust cycle, Michael. I notice in the Government's submission they are arguing that there is so much work to be done that bringing contractors from the mainland to cope with that work can strengthen the sector to cope with future work. Do you have a comment on that statement?

Mr BAILEY - My belief, and certainly the belief of the TCCI board, is that we need to do everything we can to grow the capacity in those skills in Tasmania. I believe fast-tracking things - and that is what we are looking at strategically right across the state - needs to have more consideration.

This is so unsuited [inaudible] to drive things forward and to get everything done in one go [inaudible], you would have to bring in mainland contractors to do the work and then have it all fall over afterwards. One of my members [inaudible] there may well be hundreds of redundancies across the industry about to happen and that clearly isn't ideal.

My preference would be - and again I know that's not my magic wand - it would always be possible in the real world, but if you could, my ideal would be that there could be time to build the capacity in Tasmanian businesses and Tasmanian workers so that they can do the majority of the work needed by TasWater.

Clearly, some of the work is absolutely specialist and they need expertise from other states around the country to do some of that work. We understand that. Everything else that possibly could be done by Tasmanians should be done by Tasmanians.

We think the more strategic approach, taking in all of the infrastructure work that is underway - the Midland Highway and other things - laying it all out so that when things happen, making that really clear to businesses in Tasmania so they can gear up and could hire, and can do all the things we want them to do, with some surety that they will gain work, clearly that is a better model. Simply pushing everything forward I think is potentially foolhardy.

Mr VALENTINE - I hear what you say about the model and I couldn't agree with you more. With the major infrastructure plan going forward we ought to be getting all parties to sign off on the content of such a plan and the time frames and then let them argue about the small bits.

Mr BAILEY - Absolutely, and make it clear.

Mr VALENTINE - But clearly that is not necessary how parochialism works sometimes. You would probably be well aware of the genesis of the creation of this creation going back over a number of years now, so why would injecting another major change into the mix, a change in ownership, fix things? It seems at the moment the way TasWater operates it is shareholder-blind in respect of the major projects they are concentrating on. They are concentrating on the things that should have the highest priority, regardless of who the shareholders are. There are 29 shareholders but they are not operating in that space where all 29 are at them to change their

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project model. Why would injecting another ownership change into this fix things? I can't see how that is going to benefit anyone.

Ms PARR - 'Shareholder-blind' is debatable, but it is certainly customer-blind and it is funded blind. Every person who pays taxes in Tasmania has an interest in TasWater. They are all consumers and customers. That is the culture I see as the problem and a change of ownership will enable a change of leadership and strategic and cultural focus.

Mr VALENTINE - How do you then make sure that those who have put the investment in the infrastructure are receiving due return on their investment? Coming at it from a business perspective, how do you see it being equitable or fair to take all those assets that ratepayers have paid for and putting it into a different paradigm where it is spread across the whole tax base? How do you see those original investors getting the return on their investment?

Mr BAILEY - I think that's again one of the [inaudible]. If you look at the submission, there is a wonderful quote in there live on ABC Radio who said, 'Why should my ratepayers have to foot the bill for the work in another part of the state when that council hasn't done its job historically? To me that's the problem. This infrastructure is owned by the people of Tasmania. Whether it's been paid through rates or through taxes, it is owned by the people of Tasmania. It should act in a way that looks after the state and the people of Tasmania. The ownership model, as good as the board may be, fundamentally is flawed. I don't think this change is going to make a lot of difference to people within TasWater who are working hard and doing a great job day to day. What it will do is change the way TasWater can function strategically. To me, that's the key. This is an entity [inaudible] infrastructure of water and waste throughout the state has been built by the people of Tasmania and it is owned by them. Fundamentally that is what it comes down to.

Mr VALENTINE - Yes, but that still doesn't address the issue I am trying to get to. Say, for instance, the people of Hobart - however many there are - who pay taxes have paid initially \$450 million. The people of Glamorgan-Spring Bay may have paid a minute amount. I don't know how much they put into their sewerage system, but it was a heck of a lot less than a lot of people in Hobart have put in over periods of time. It's not all equitable. If you are saying, 'Yes, it belongs to the people of Tasmania', that's fine, but if you've paid in \$20 and I've paid in \$5 and we are going to get the same return that doesn't seem to be equitable to me.

Mr BAILEY - To me, that's the same argument, that the people in Hobart pay more taxes, they have a better health system and a better school than someone who lives in St Helens. To me, we are Tasmanian and we expect to have to support people who live in minor communities, not deny them because of [inaudible]. To me that is the core of the discussion.

Mr VALENTINE - I understand. The whole issue is, though, that with taxes, everybody pays a certain percentage into health or into whatever - a certain percentage of their taxes - but this is not the case of the development of sewerage and water systems across the state. Only certain people have put that in and they've put it in at different rates. That is the whole crux of the problem we have before us at the moment.

Ms PARR - I wonder if there is a different way of looking at it. We're looking at it from an infrastructure point of view only and a return on that investment, when in fact water is the resource and it is, I guess, rolled out to different communities by virtue of infrastructure and it is managed by our infrastructure. I wonder if we shouldn't be looking more strategically about what it is that we're doing with water rather than with an infrastructure provider.

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Mr VALENTINE - I understand that and some of the position you make, but I'm just exploring that. Thanks for that; I appreciate the answers.

Ms RATTRAY - I'm interested in exploring the governance arrangements a little bit more. It's been suggested that if there is a new structure that it needs to strengthen rather than dilute the level of operation and managerial independence for the entity. Do you see that a GBE-like arrangement would be able to achieve that any more than what is already in place with TasWater, given that possibly the Treasurer will have some direct input?

Mr BAILEY - I do, for a number of reasons. I think the first one is the discussion about some parts of the state having put more money into the service than others. In my mind we need to look at the state as a whole. I think the fundamental issue of ownership flows out in that discussion. When it comes down to it the owners are, quite rightly, looking after their own patch, which I understand. The other thing, too, is that we shouldn't be just thinking about building the same GBE that we've always done. I think there are some great examples of GBEs in Tasmania, and again TasIrrigation.

Ms RATTRAY - I don't think they're a real good example, Mike, I mean their money just comes. It's not like-for-like in my mind. You may have a different view. TI have had the funds coming in left, right and centre, and they don't have to really put their hand out much.

Mr BAILEY - I think there are other good examples of water and sewerage operators in the mainland too, which I understand are responsive and have a different view and a different approach. I certainly don't think that we should just simply move one bureaucracy across to another bureaucracy somewhere else. I get that. My mind is all about building something that is different, responsive and strategic to help Tasmania move forward in a way that we want it to behave. The long-term strategy is building capacity and skills as part of its focus.

Ms RATTRAY - Okay. Can I take from that changing this structure now is probably not your preferred position? We need to think more about what structure is required? Is that what I can take from your contribution?

Mr BAILEY - I think changing the ownership is essential. I really don't think it can happen without changing the ownership. You're going to be faced with the same sorts of thoughts of the 29 owners, quite rightly looking after their own patch. I think ownership has to change. That is a given. We're not going to get a state view without ownership changing.

Ms RATTRAY - Thank you, I appreciate that.

Mr GAFFNEY - I'm interested in your last comment about the 29 councils and their ownership. Are you aware of what return investment percentage-wise the councils get from water and sewerage?

Mr BAILEY - Sorry, Mike, I can't quite make you out, I'm not sure if you're a bit further away from the microphone.

Mr GAFFNEY - You mentioned about the 29 councils and the dividend to the owners and it would be better if it was one. Are you aware of the percentage return the councils get on their investment?

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Mr BAILEY - Yes. We had a terrific presentation from the chair of TasWater. I have also have had a number of phone calls from a number of mayors around Tasmania who made it very clear which is also absolutely fantastic. We support councils receiving funding from the state government as to the discussion in the legislation so they are not disadvantaged financially by this change.

Mr GAFFNEY - I am talking about the dividend, the less than 2 per cent. You are in industry and commerce. Would you know many businesses in the state that would survive if the return on their investment of nearly over \$2 million was less than 2 per cent? You would not have private business going into that area, would you?

Mr BAILEY - No, you probably would not, Mike, you are absolutely right.

Mr GAFFNEY - Therefore, the return on the investment councils are putting in is because of the equity they put into the business in the first place. That was passed by parliament, by legislation. Are you suggesting that those businesses and communities are to be penalised if there is a takeover of state water and those dividends do not eventually flow onto communities and councils, who still have responsibility for stormwater and still have responsibilities within their area?

Mr BAILEY - No, Mike, most GBEs with such high levels of capital investment would be showing similar returns, if that. We are suggesting water and sewerage, which was built by the people of Tasmania, belongs to the people of Tasmania. It does not belong to councils; it belongs to the people of Tasmania.

Mr GAFFNEY - That is a contentious issue, isn't it, Michael? You would suggest the local councils do not represent the communities.

Mr BAILEY - We are saying is that the best model for the state, in our opinion, is a model that has ownership by the people of Tasmania. At the end of the day, they have paid for this infrastructure over time. My belief is that the best model going forward is the ownership model that reflects that.

Mr GAFFNEY - Thank you. I see in your submission that there has been considerable interaction between the TCCI and TasWater, to the extent that the CEO and the chairman have regularly invited citizens to briefing sessions facilitated by the TCCI.

Mr BAILEY - Yes. We have a great relationship with TasWater. They are very responsive and always, as I said in my preamble, responded to any contact that have been made. I have a direct line into the CEO. There is a very good relationship in place.

Mr GAFFNEY - Do you think they have kept the TCCI up-to-date on the challenges and progress they face regarding trade waste?

Mr BAILEY - Absolutely. Trade waste is something that was highlighted at least two years ago in a roadshow that we did with TasWater for businesses around the state as being an upcoming issue.

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Mr GAFFNEY - I know you have consistently commended TasWater for its transparency and progress on reforms. Is this still the view of the view of the TCCI? I am pleased you have been able to put on record your statements because your submission is quite damning of TasWater in places.

Mr BAILEY - I disagree with that completely. I do not think it is damning of TasWater at all. We raised in the submission the issue that I raised with TasWater too - about some of the officers on the ground having an approach that did not seem to understand the wants and needs of businesses. That was about trade waste. I know TasWater itself has received a number of different levels of representations from organisations about that. The discussion we have had was, although the businesses were aware of this change, the approaches from officers have, in the opinion of the businesses, been quite bullish. It does not take away from that wonderful relationship with TasWater. I don't see that in my submission at all. What we are talking about here is how we can make better entities for Tasmania strictly around capacity and skills.

Mr GAFFNEY - It seems to me the Government is proposing to change the approach to trade waste charges such that residential customers will cross-subsidise businesses. Do you think that is reasonable?

Mr BAILEY - The problem with trade waste for many businesses in small parts of Tasmania, Mike, is that it is incredibly difficult for them to cover the cost they are going to be faced with. Although they were aware this was coming - they were going to be hit with a \$15 000 to \$20 000 charge - what we see is businesses shutting down. That played out. We know that, for example, a bakery in Launceston, made the front page in the *Examiner*, closing down after 100 or so years in business because of this issue for them. What we had to try to work out was a model that doesn't destroy businesses in regional areas due to a change that needs to happen.

We don't want our waterways to be damaged. We understand our systems are fragile, particularly our waste treatment plants. We have very fragile systems to manage. Again, it is very difficult in reality for small businesses in regional areas to manage that sort of cost. I suspect you would have had delegations from businesses in your area too, talking about this. I know it is top of mind right across regional Tasmania.

Mr GAFFNEY - We heard a figure yesterday of a \$79-million cost annually to deal with the trade waste issue. A lot of the compliance issues on water and sewerage facilities were to do with trade waste. The TCCI has a fairly close relationship with governments of the day, so do you think it is wise to have the minister being able to prioritise projects? At the end of the day, it will be the residents across Tasmania who will have to pay for those projects. If it's not coming from the businesses, it will come from the residences.

Mr BAILEY - That's probably a question for the minister. From the businesses point of view, what we need to do is try to protect businesses in regional Tasmania that could well be put out of business because of this change. That's my response, but I look forward to hearing that from the minister.

Mr GAFFNEY - You know in business, as would Susan, that a business takes some time to get up and running, to have its networks, to be able to present and get a good return. TasWater has only been in operation for three years and in its report it has shown great advances in the time. Many of the issues the state Government has raised regarding potable water, drinking water and that sort of thing will be finalised in August this year. I believe it was 99.2 per cent of

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Tasmanians are experiencing good water quality. Don't you think that as the organisation itself has only been going for three years, it deserves a bit more tenure to reach the goals it has made? If the Government wants to come on board, there are other ways it can inject those funds to deliver the projects quicker.

Mr BAILEY - Some of the questions raised today have shown the problem with the current ownership. It was pleasing to note that no-one seems to be complaining about the strategy of TasWater, perhaps it is the speed of the strategy. The strategy itself shows some great work is going on in TasWater.

From my perspective, and the perspective of the TCCI, they are not going to get the best outcome for Tasmania strategically with the current ownership model. Some of the questions today, which perhaps deserve some more thought than other areas, are prime examples of that. In my mind this is an entity that has been paid for and built by the people of Tasmania over time. It is owned by the people of Tasmania. We need to find the best model to ensure the people of Tasmania are up front and centre going forward. That model should include some strategic thought about a more businesslike approach on the ground and also particularly about capacity growing in our industry and skills growth for the ongoing betterment of Tasmania? That would be the ideal outcome.

CHAIR - Thank you very much for your time today, Michael and Susan. We appreciate your submission and also the opportunity to ask some questions.

THE WITNESSES WITHDREW.

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Mr STEVEN ROBERT OLD, GENERAL MANAGER, **Mr GREGORY ASTELL**, DEPUTY GENERAL MANAGER AND **Mr ANTHONY McCONNON**, MEMBERSHIP MANAGER, TASMANIAN HOSPITALITY ASSOCIATION WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Ms Armitage) - Welcome to the public hearings. All evidence taken at this hearing is protected by parliamentary privilege. I need to remind you that any comments you make outside of the hearing may not be afforded such privilege. A copy of the information for witnesses is available if you haven't read it or you're not aware of the process. The evidence you present today is being recorded and the *Hansard* version will be published on the committee website when it becomes available.

We propose you make an overview and then members will ask you some questions. We have allowed 45 minutes.

Mr OLD - Both gentlemen who are with me work with the Tasmanian Hospitality Association, the THA. Greg Astell is the Deputy General Manager of the THA and he is a life member of the THA, so he's owned pubs for 20-odd years. He used to work with the Federal Group and he's been with us for about 18 months or so. Anthony McConnon is my membership manager and has been with me for about 10 years, the same time as me. They are two of my staff and I've brought them with me because -

Ms RATTRAY - You need back up?

Mr OLD - Basically, yes. They are protection. Anthony deals with our members on a day-to-day basis along with Greg. We wanted to come along today as much to answer your questions, but we also have some information for you based on a list you provided to us. It is a list of our members who have reported some dramas over the course of the last couple of years to you. We want to put some of the queries some of our members have had into perspective. We're here on behalf of our members to explain some of the difficulties and issues they've had and put them on the table to you as the committee.

CHAIR - Thank you. Would you like to mention some of the issues you have?

Mr OLD - Would you like us to table a list of some venues that Anthony has spoken to in the last couple of weeks - who the venue is and what their issue is? I was going to run through and talk to this. I thought if everyone on the committee had that in front of them, it might be helpful. It is probably the same list, Rob, but I wanted to make sure it was because this has a bit more detail.

Mr VALENTINE - It has the West Coaster Motel on top and the Shearwater Tavern on the bottom.

Mr OLD - It might be a bit longer, though. Just so we're talking off the same hymn sheet. To start with our perspective, the biggest frustration a lot of our members have been facing is the trade waste issue. From our members' perspective, the trade waste issue has been quite frustrating. I think the vast majority of operators in the hospitality industry would understand that if you make adjustments to your business, if you're going to put more waste through your system, there is the chance you will have to upgrade it or bring it up to a higher standard. I think the

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frustration for a lot of the members, and a lot of them have this issue, on the list in front of you is that they have made no changes to their business. There has been no evidence to suggest they are putting more through their systems than they used to, whether it's unfair or not meeting previous obligations. I guess their frustration now is they're getting knocks on the door and being told they need to upgrade their system even though they've said they've made no changes to it and there's no evidence they are putting anything wrong through it or anything like that. For some of these upgrades, you are talking in the \$30 000 to \$40 000 bracket.

Unfortunately, as you probably know, the bill might go to the business owner but it gets handed down to the person who rents or holds the lease on the building. It is putting big extra burdens on some of these businesses, many of which are just small cafes and restaurants. I probably don't have to tell members around the table that a few businesses, not even in our industry, such as a butchery on the north-east coast, have shut down because of this issue. A few of our other businesses have made claims to us in relation to what impact it is going to have on them. As I said, our biggest frustration is around the trade waste issue.

We have sought meetings with TasWater before. We had a meeting - myself, Anthony and Greg - only probably three months ago where a few commitments were made by them saying if we got them a list, similar to this, of the venues they would work through, take on board our concerns and work with our members to fix it. The feedback we've had from a couple of venues is that it has not changed. Anthony has a specific example of that, of a Hobart business that has basically said the attitude and the ask on them hasn't changed at all.

We are here representing our members to say it is very frustrating, it is very costly. The reason we're supporting at the moment - I have said this to the opposition party, just so you know. They have asked me why we are supporting this. I said that the options we have on the table at the moment is the current situation with TasWater or the option the Government is putting forward in taking it over, fixing the infrastructure more quickly et cetera. Of the two options, it is far better for us and our members that the current Government option is put in place. We can only take what is on the table for our members and that is the best option for us at the moment.

CHAIR - Anthony, was there something you wanted to say?

Mr McCONNON - I can give you some examples of the issues if you want me to go through a couple of them.

CHAIR - If you would, we can move on to questions.

Mr McCONNON - Yes, sure. The West Coaster Motel - he had quite a few issues for quite a while in regard to sewerage, fire lines and bits and pieces. He raised two main points and the first is trade waste. He has a restaurant or a bistro that seats probably about 60 people. That is closed down for a couple of months a year through the winter because he doesn't have the trade to keep it open.

He has been quoted a \$12 000 to \$20 000 expense to install a grease trap which, if he has to go through with, will close the business. Accommodation statistics on the west coast are down at the moment. They struggle to get people over there and that charge is going to go onto him. To put that grease trap in would close his business.

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The other problem he has is that he has had a damage bill twice now. Once was on Tuesday when TasWater hadn't given him any indication that they were going to close the water off. They had works down the street so they closed off the water. When they do that, he can close his line, which keeps his line nice and clean. If he doesn't, there is a lot of black 'muck' that comes up through the system into his lines.

It happened about six or eight months ago where black water came up into his system. It went through all his sinks, his showers, his toilets and into his linen cleaning. He put a claim into TasWater and he got under half what he asked for. He also put a claim in for cleaning of the venue - for someone to come and clean the toilet basins, the showers and the like - and that was dismissed. It happened again on Tuesday and he reckons there is probably about another \$800-worth of fitted sheets he was cleaning. He sent us through some photos and they were grey, so they have to be thrown out. He won't be able to resurrect those at all.

The other I want to talk about quickly was the Shamrock Hotel in Hobart. They have been asked to install a grease trap. That grease trap will be at the expense of \$45 000. Initially with that one, I contacted TasWater and asked them to send someone around there to have a chat to them and see if we can work this one out. They have to close their business for six days to install that. You have issues with revenue because of that. The TasWater people went through and asked when they were going to start works; they said it needs to be done now. They said they were going to close the venue down if they didn't do it. There was no real negotiation as to how they could help the venue out with this one. They are starting this weekend. They will close for two days, Sunday and Monday, and then again from Show Day through to the Sunday. That is loss of revenue as well, in addition to the overheads.

Kingston RSL was another interesting one. They are a not-for-profit business. They have a grease trap within their venue but there is no food preparation whatsoever. They are charged an extra \$1200 a year because they have that facility, even though there is no food preparation and they do not use it at all. We believe it seems a ridiculous charge for a not-for-profit organisation.

Lansdowne Cafe, Lansdowne Crescent, was another one. They were categorised as an 'A1' - I am unsure of the term - and they were brought up to a level 2. This is TasWater jargon as to how you are billed, based on how you are categorised. With that one, they made quite a few changes to the way they look after their waste. All of their waste goes into compost. That is serviettes and everything off plates. The whole lot goes in. That reduced the amount of waste going into their system but that higher charge still stayed. From his point of view, even though they didn't go through and look on an individual basis and categorise what he had done, he said, 'I may as well tip all my waste back down the sink because I'm being charged a higher rate'. That was the way he looked at it. Why should he go through the process of trying to separate everything - have all oils and everything taken away at his own expense and put everything else into compost and he is doing the right thing environmentally - why not tip it down the sink if he is going to be charged a higher rate?

I think Greg had one that was quite interesting.

Mr ASTELL - I had one on Tuesday this week from a small business up our end of the woods, Mike, up in King Edward Street, Ulverstone, called the Spice House. The lessee, Leanne Crossley, rang me. Currently they have a 288-litre grease trap which they get pumped out twice a year. TasWater came and visited them, just inspected where the grease trap was, opened and

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closed the lid, and informed them they have to replace it with an 800-litre capacity tank. An 800-litre tank won't fit. This lady is under financial stress.

I think all of our members who are ringing us of late are under extreme pressure from TasWater which is giving them no leniency at all and is very dictatorial to them.

This lady was very upset on Tuesday and she said, 'I have to put in an 800-litre grease trap and it won't fit'. They have to have one custom-made. We're looking at upwards of \$20 000 for this small business, a 32-seat restaurant that opens for dinner only. Fortunately for them, they contacted Veolia who do the pump outs and they were extremely generous with their time and came around, sat down and had a meeting with her. What they have offered to do is a full inspection and write to TasWater with a suggestion that they can simply pump out every quarter and that will solve any problem they have. The grease trap does not need replacing. They have been informed by TasWater it does, they have to enlarge it. It's a cost to them, as Steve alluded to - it is not a cost to the lessor. If it is, it will get passed down to the lessee. That is just a very relevant case that just came up this week.

Mr ARMSTRONG - It was on the grease traps and everything. Out of all those that you've had listed with us, how many have been resolved? On your list there - that was not on my original list. What has been resolved and what has not? Have any of those been resolved since you printed this up?

Mr McCONNON - What is listed on there are works that have not been undertaken and are still ongoing.

Mr OLD - It's a good question. We've advised our members, the ones who are contacting us, to basically hold off making any decisions. TasWater gave them 18 months: from the start of their first initial contact to when it has to all be completed is 18 months. What we've said to our members is basically, 'Hold off. There is a process going through with government and it's a bit up in the air. We don't know if TasWater is going to change its policy in relation to the trade waste and other issues'. We are basically telling them at the moment to hold off.

There are ones like Tall Timbers and others up at Smithton that are being asked to upgrade a system that has had no changes to it. There is no extra stuff going through it and it is a \$40 000 impost. If people are living in fairyland and think that businesses are flying along at the moment and making millions of dollars, I can tell you now they're not.

If you're a lessee of a business - and I had this conversation with the Treasurer, and this is why we've been working with the Treasurer because he understands it - if you're a hairdresser you go into a business and sign up a lease for three years under a business model that says, 'I know what the numbers are, I can do this and I can do that, whatever'. Someone then walks in and says, 'You have 18 months to put in a \$15 000 grease trap, even though your business is not changing', as a lessee you cop that hit and have to try to come up with \$15 000, which, as you know for a potential hairdressing business, can put you out of business.

It is the financial hardships that some of these businesses are going through at the moment is extremely hard. A 32-seat restaurant in Ulverstone isn't flourishing. It opens for dinners only.

We will also be frank, too. Members have quite openly said to us that if they're making changes to their business and they're going to put more through the system, or the system can't

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cope with what is going through, they understand they need to make the necessary changes. We're talking about businesses who have made no changes. There is no evidence to say they're pumping anything illegal through et cetera. The question that they're asking us is: why do we need to upgrade when there is no evidence to say we need to upgrade? To us that is a reasonably fair question and we're struggling to get some answers.

Mr ARMSTRONG - When you've spoken to TasWater, have they given you a reason? Have they come back to you and said 'This is the legislation this is how it has to be'? What is their reason?

Mr OLD - The response we got last time is it is that under the EPA charter, they have to do it. The basic gist is that the infrastructure is poor. We all know it's been poor for a long time underground. My argument to them is: why should the poor lessee of a business who is unfortunately in that business at the wrong time, which is now, have to fork out potentially \$10 000, \$20 000, \$30 000, \$40 000 to rectify a situation that has been ongoing for 15 or 20 years?

Mr ARMSTRONG - If it's under the EPA and you have a change of ownership, how do you think that will change?

Mr OLD - Change of ownership of business?

CHAIR - Of TasWater.

Mr OLD - Sorry, of TasWater. One of the commitments we've had in conversations with state Government is that if businesses are not making any changes to their business or the regulation of going through, they are looking at changing the EPA, or at least looking to fix the infrastructure themselves. That is the conversation we have had.

Mr ARMSTRONG - Can't they do that now?

Mr OLD - They don't own TasWater.

Mr ARMSTRONG - But can't they change the EPA?

Mr OLD - I assume, given they're going through the TasWater conversations in relation to the takeover, they're going to wait to take it over and then do what they want to do to the system. I'm sure you will have to ask them that.

Mr GAFFNEY - Just a question, Steve. Are you saying the Government said to you that they would change the EPA if they take over?

Mr OLD - I meant to say that they would look at the EPA and other things around the system, as in TasWater's current regulations, or what needs to be done. They're saying to us that if a business does not need to make any change - they're not making any upgrades, they're not making any systems, they meet all the obligations - the understanding we got from them is that they're not going to force them to make any changes because they understand why they would need to.

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Mr GAFFNEY - It's a bit of a concern because on one hand we have had evidence from TasWater that its water and sewerage infrastructure is under pressure because of the ailing system and that most of their EPA warnings or issues come through the trade waste. Therefore they are saying the national approach is that people who contribute to the trade waste are the ones who have to be responsible for paying for the repair and the infrastructure. If that's not the case and you are saying, 'No, it's not fair', payment for that infrastructure change and development has then got to be spread across other areas, which means the residences. If the people who are in the business don't pay for it and the EPA says it has to happen, are you comfortable with residential people paying and contributing to the trade waste issue?

Mr OLD - My question back to you in answering is: is it fair, if an infrastructure has been neglected for 20 years, whether it is by council or by TasWater since their ownership, why should the poor business lessee, at the time they have to make the changes to deal with a system that -

Mr GAFFNEY - I appreciate your question, but we ask the questions.

Mr OLD - The end result is, as I understand it, that the Government is basically saying they are looking to put more money in to repair infrastructure needs.

Mr GAFFNEY - They will take over responsibility of the business owner and where does that money come from? I mean I'm just trying to understand. Your argument is that the businesses should not have to pay the trade waste because of the current situation. TasWater is saying the EPA says that they have to, which is the regulation by the government of the day. They are complying with what is being requested. They have to charge somebody for the upgrade.

Mr OLD - As I say my argument from my members is: why should the business that is not pumping any more through the system than has ever been pumped before have to be asked to do the upgrade?

Mr GAFFNEY - They also pointed out in TasWater that over the 3500 businesses they have inspected, nearly half are compliant. So there are quite a number of your members out there that are compliant. Do you think it is fair that those members should have a competitive advantage over members who have already put in the infrastructure, have already paid their expenses, have already done the right thing as far as the EPA situation is concerned? I think they said they've had 10 complaints from the people they have seen, out of the groups. A lot of your members have done - I'm not saying the right or wrong thing - they have actually -

Mr OLD - Met their obligations.

Mr GAFFNEY - Yes, met their obligations. Do you think the other half should not have to meet their obligations?

Mr OLD - But I'm not sure they're not meeting their obligations. If the infrastructure under the ground is the problem, is that the business's problem? Are you saying that it is their fault that the infrastructure under the ground is not right? What I am saying is: if what they have always pumped is the same as what they're currently pumping, and they are not pumping anything illegally through the system, what has the business done wrong?

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Mr GAFFNEY - The trouble is that the water and sewerage infrastructure is not coping with the trade waste. The greatest percentage of EPA infringements comes from the trade waste. Improving the trade waste going into the infrastructure has to be paid for.

The national approach is the same as TasWater is taking. If the Government came and said to them, 'Do not worry about that, we will give you some money so you can help out the businesses', TasWater would not be able to do that.

Mr OLD - That is a conversation you have with the Government. If you are asking to make that policy now, I would debate that the Government will pay for it.

Mr GAFFNEY - You are just saying to me the Government has already said to you that they will step in and fix the problem.

Mr OLD - They will fix the problem of the venues not doing anything different to what they have already done and not putting through anything illegal through the system. They are saying they are not going to make them pay for the infrastructure. As I understand the conversation, they are not going to make them pay for that infrastructure change.

Mr McCONNON - There is another issue we probably have not touched on. Where you have upgrades of trade waste and grease traps, it might be at a lower capacity than they want. They can be pumped out more regularly so they are not overflowing. The waste is not going out into the system. It makes sense that if you have a 500-litre grease trap when you are supposed to have 1000, you should have it pumped out more regularly than what you are at the moment.

Mr ASTELL - The system on the other end should be upgraded. It should not be a cost to the business, because the volume is not going to change. The point in case is in Ulverstone, with 32 seats, the volume does not change from day to day to week to week. Also of importance, as Mike commented, is the science behind the reporting or lack of reporting from TasWater to the lessors - a quick inspection, open the lid, close the lid, you have to upgrade your tank. It is not clear at all as to why and there is no data. Our members are telling us there is no real data to support the upgrade.

CHAIR - Thank you. Steve, I want to clarify, when you say the businesses are not putting any more through, do you actually mean businesses with systems that are coping sufficiently with what they have always done as opposed to not putting anything more through? I want to take the ambiguity away. When you say, 'If they had a system not doing what it should have done and they are not putting any more through' what do you mean? Could you clarify that businesses with systems in place that have been working sufficiently to address what they have are not doing any more?

Mr OLD - Yes, sorry, I probably did not explain well. Apologies, Mike.

CHAIR - It was a bit ambiguous.

Mr OLD - I accept that. If using their current system they are putting through the same amounts and the system can cope with it, then why do they need to make an upgrade? I guess that is the question that they ask us. It is our responsibility to come back to the Government. [Inaudible] I guess they are asking us a question about why they should have to pay for it.

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CHAIR - It was a little ambiguous. That is fine to get that on the record.

Mr OLD - Part of the other issue, and TasWater did say this, is if they send a letter out to a business sometimes - sometimes or always, I cannot remember - it goes to the person who owns the building. There is also the issue that the building owner might not pass the information on to the lessee, which means the lessee does not get it or lacks a bit of information, but that's not TasWater's fault. I make the point that it can actually happen as well.

Mr VALENTINE - It does not matter who owns TasWater, fixing this problem is really one of the issues that whoever is the owner has to address. I do not know that changing the ownership is not going to address this particular thing.

If the legislation has to change, the Government is not going to be able to guarantee that the legislation will change either. It has to go through the Legislative Council. I guess they can say what they like.

With your members who are suffering these particular situations, is it about their capacity to pay over a short time or would a longer period of time repayment structure make it more sustainable for them?

Mr OLD - A good question. One is for some of them, yes, it will be about the sheer amount. For some, it will be about the amount, but have a capability to pay it, but probably over a period. Their first angst is that they feel they do not understand why they need to do it. That is the key part. With two structures, the bigger businesses probably have the ability over a period; some of the small ones, it will have an impact. I am not going to say. Like, how long would it take a small cafe in Ulverstone to pay back \$15 000? I am not sure. It might be five years; it might be 25 years.

Mr VALENTINE - It might be the difference between being sustainable or not.

Mr OLD - Certainly, yes.

Mr VALENTINE - TasWater told us this morning they would look at that issue of payment and ways of being able to assist them.

Mr OLD - I am not sure they have said that before. It is good to know.

Mr VALENTINE - Would you see changing the ownership as being a certain path? I do not know it is a certain path to fixing some of the problems you are dealing with.

Mr OLD - We are not saying it is a perfect system, but the Government, as I and my members have understood it, wants to improve the infrastructure five years earlier et cetera. From my business' and my members' point of view, that is a better offering than what we have had from TasWater.

Even Rob's comment a minute ago that they've said they want to assist is good to hear. We have not heard that before. All I can put on the table is that we can only tell you what we get from TasWater. We can tell you what the Government says. If TasWater can make answers to fix the issues for my members, then we will say that is great, but they have not given us that to this point.

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Mr VALENTINE - They were telling us they have something like six bodies to answer to that measure them for compliance and all sorts of different ways, from dams all the way through to the effluent quality. Obviously, whoever owns this is going to be under exactly the same structure. That is why I ask the question: is changing the ownership actually going to fix the problem? I do not know that it is.

Mr OLD - That is what you are going to ascertain through your council. We are only putting it on the table. We represent our member's concerns. Our member's concerns are the issues they are facing.

Mr VALENTINE - Yes.

Mr OLD - The answers we have had through the Government - and you are right, there can only be a commitment if it actually happens. What they have said to us is resonating with our members a lot more than conversations we are having with TasWater. The frustration with TasWater has been, even in our conversation, we meet with two of the senior execs but nothing changes when they go to see our members.

The fact they have come in here today and said to you, 'You can do a payment plan or whatever,' has not been said to us. It is amazing when someone is put under a bit of pressure, they start to answer with a few more things. Those sorts of things are what we want to get back to our members. Hopefully we can go back to the Ulverstone cafe or whatever, and if they said, 'It has to be done over this period,' or, 'It can be extended,' that is the sort of thing that can hopefully either save that business or at least save the heartache for the person in the business. We are not trying to destroy TasWater or anyone else. My job is to try to represent my members and try to get them the best outcomes.

Mr VALENTINE - Thanks for that.

Ms RATTRAY - You do a mighty fine job, Steve or bringing forward their issues. Thank you. Can I take you to the first part of your submission where you talk about the boil water alerts or the do not consume alerts. The committee has been provided with information, and it is pretty public, that 99.9 -

Mr GAFFNEY - It is 99.2 per cent.

Ms RATTRAY - That 99.2 per cent of those alerts will be gone in August 2018.

Mr GAFFNEY - No, sorry, the 99.2 is of drinkable water in Tasmania. They have said most of those boil water alerts will be finished by 1 August.

Ms RATTRAY - Yes, of 2018. Effectively if the Government were to take over TasWater, they have it for a month and get a big tick because the work has already been done. It can take up to 17 weeks to get a boil water alert taken off a town because of a series of tests. Even if there are two really good ones in a row, they still go through the 17-week program. That is a health department requirement. Do you have any comment? In that case, your statement is not exactly correct?

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Mr OLD - It was when we wrote it. In all fairness, we wrote this a few weeks ago. My answer would be that is great.

Ms RATTRAY - You can get a lot of things done by writing something.

Mr OLD - That is great. If that is the case, that is great, because for us it is about the fact there is record numbers of tourists and all these sort of things. There is local stuff. One of the key things is about Tassie's brand. Obviously, drinkable water is one of those things everyone expects Tasmania to have the highest level of. I think everyone expects that. If that is the outcome, I applaud it. That is great.

CHAIR - I will go to Mr Farrell.

Mr FARRELL - Yes. Do you have any regular meetings with Mike Brewster? Are you able to talk to him about the issues the THA has?

Mr OLD - No.

Mr FARRELL - Would that be an avenue that may help work through some of these issues? There seems to have been, from all areas, including the Government, a severe lack of information coming through. If THA made a direct approach to TasWater, some of these issues could be worked through.

Mr OLD - Can I touch on that? TasWater contacted us through two senior executives; I cannot remember their names. They were very senior people in TasWater following a few media things we had to do to try to ramp things up, as I said. It was great that they contacted us. I make the point that three months later, nothing has changed. It is fine to have a meeting and it is fine to have commitments made that they were going to look at this and treat our members better. Anthony, as I said, has the evidence to suggest it has not changed. I am happy to have regular meetings with anyone. Regular meetings do not mean the dialogue or the situation has changed.

Mr FARRELL - Okay. With what the Government has told you, has that been vocal or have they documented any of the things they have promised that they will do, or fix?

Mr OLD - I think the conversation is vocal but I think they have been on record as to where they stand in media statements and other things. I think it is out there.

Mr FARRELL - With this proposed GBE model, what dealings do you have with other GBEs and what are they like in comparison?

Mr OLD - We deal with Aurora. We are happy for you to have a parliamentary inquiry on energy, if you want to have that one. A bit tongue in cheek. Those guys and the *Spirit* are probably the two we deal with the most. Our relationship with *Spirit* is great. They have a very open relationship. I have spent time on a couple of boards with the CEO, so that dialogue is a fairly open one.

Mr FARRELL - We have been told - and we have to find out whether this is the truth - that this new model will be a better operational system. It is important to know that.

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Mr OLD - When you talk systems or whatever, it is fundamentally not for us. We want outcomes for our members. That is what we want to see. We want whoever it is to deliver it, as I said at the start. At the moment we have two options on the table: the Government option or the current option. The Government option, or proposal, is the better one for our members, so that is the one we are going with. I have had conversations with your party members and they have said 'Why do you stand on this, this and this?', and I told them that when they put the third proposal on the table, we can judge it. All we can do is represent our members. If TasWater could fix the issues we are raising on behalf of our members, we would not be sitting here today.

Mr ASTELL - One of the things made clear in the meeting we had with the two TasWater executives was that their plan, sitting around the board table, was not being delivered to the people on the ground. The message our members were receiving from their staff was completely different to what the two executives thought the message was. It was quite dysfunctional.

Mr OLD - They were both good operators. We are not having a go at the two guys we met with because they were very forthcoming and they came and met with us. It is not a personality thing. We are not saying that they -

Mr ASTELL - No, it is just a fact of what was happening.

Mr ARMSTRONG - I am interested, Steve. I have seen the feedback from your members, particularly in the rural areas - east coast, west coast et cetera - all this negative media about water and sewerage within Tasmania. Does it have an effect on tourism numbers going to those areas? Do members give you any information? Does a tourist come in and say they were not going to visit a place because of issues they have heard about its water and sewerage?

Mr OLD - I have not heard any, Rob, to be honest with you. The only point I would make is that is we all know regional areas in Tasmania are doing a lot tougher economically than, say, Hobart. Any issue seen as a negative publicity in any way, shape or form has to be detrimental to some of our regional areas. My answer is, without having evidence for you, is that it would have to have some sort of impact. I do not know whether they are going into venues saying that, but reality says any publicity suggesting regional areas have bad water or bad sewerage or whatever could not be a positive for them. Does that answer your question?

Mr VALENTINE - Yes.

Mr OLD - I will ask Anthony because he might know if a member said -

Mr McCONNON - I have had no feedback from members on that point. In my rounds you see, if you go into a toilet or whatever it might be, a sign on the wall that says, 'Please do not drink the water. It has to be boiled.', or whatever it might be. It is not a good look when you have tourists.

I was up at the national park last week and there is a big sign on the mirror in the men's toilets in there, 'Please do not ingest this water.' They have just increased their visitation through the national park by 30 per cent. More and more visitors are coming through there. You want the messages to be good and for them to relay that they have had a fantastic experience in the state. You tell a bad story and 12 people find out. You tell a good story and five people find out.

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Mr ASTELL - A survey we conducted through our workforce development department earlier in the year came back resoundingly that the reason people come to Tasmania is product. If we do not improve the product, especially our water, it is so damaging to the Tasmanian brand. Our members cannot wait 10 years for this to happen. As we know, we have a two-speed economy and the regions are suffering. This debacle is no help to them at all.

Mr GAFFNEY - It is interesting you say a 'debacle'. Over the last three or four years when TasWater has been in control, and they are a fledgling business as in ownership, they have shown great improvements in their report. It is not a quick fix. Some people would say the THA, the TCCI and the Property Council are seeing this as an opportunity to put some pressure on the Government because they are in a space now where they are quite vocal and quite verbal and can influence the members.

Ms RATTRAY - Do you have a question?

Mr GAFFNEY - Yes, there is. Do you think it is fair that the people who are in control of water and sewerage infrastructure in Tasmania will be pressured by community or public interest groups because the minister of the day, in the Government's model, will take over and prioritise projects?

TasWater does not currently have that pressure. They put the infrastructure where it is needed, whether it is in Gretna or a small town. They do not go for the big cities because they do not have to. I am concerned this is opportunistic for your group, which is fair enough because that is who you represent -

Mr OLD - We are a lobby group, Mike.

Mr GAFFNEY - Yes. If the Government takes TasWater over, the government of the day will be lobbied by community groups such as yours because it will come down to a political decision, not one that is in the best interests of Tasmania.

Mr OLD - Your call is that it is not in the best interests of Tasmania, but the job of lobby groups is to lobby governments, oppositions - anyone - about their members' issues. That is what we are doing. If you are saying the Government is going to be influenced by that, welcome to the big world.

Mr ASTELL - I do not think it is fair for an organisation to go around and put financial pressure on businesses that are struggling at the moment without any science.

Ms RATTRAY - A question to Anthony. My understanding is the east coast is only now starting to be assessed for the trade waste and grease traps. Is that your understanding as well?

Mr McCONNON - Yes, we have not had a great lot of feedback from the east coast, to be honest. A lot of it has been from the south, the north-west and the north.

Ms RATTRAY - That is probably why. I suggested to TasWater this morning they will come.

Mr McCONNON - They have been there recently. They might have been one of the last regions on the -

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Ms RATTRAY - They are the last cab off the rank.

Mr McCONNOR - I have heard they have been up there but we have not had any contact from members on that yet.

Ms RATTRAY - Just interested to know whether you have had any feedback from that. That is probably why you have had little feedback. I think TasWater is well and truly aware of the issue.

CHAIR - Thankyou very much for coming in. We appreciate your submission and you taking the time to come in and talk to us.

Mr OLD - Thank you very much.

THE WITNESSES WITHDREW.

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Mr PHILLIP COCKER, Dr EVA RUZICKA, ALDERMEN, AND Mr NICK HEATH, GENERAL MANAGER, HOBART CITY COUNCIL, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Ms Armitage) - Welcome to our public hearings. As you are aware, all evidence taken at this hearing is protected by parliamentary privilege but I need to remind you that any comments you make outside the hearings may not be afforded such privilege. A copy of the information of witnesses is available if you have not read it and if you are not aware of the process. The evidence you present today is being recorded and the *Hansard* version will be published on the committee website when it becomes available. We will ask you to make a short statement to your submission and then members will ask questions.

Dr RUZICKA - Thank you, Madam Chair. I will start with the commentary from the City of Hobart on our submission.

We really appreciate the opportunity to address the members of the select committee and thank you for that. The transfer of ownership of TasWater to the state Government is of considerable concern to the City of Hobart. The council has resolved to reject the state Government takeover of water and sewerage systems across the state in the interests of the ratepayers of Hobart present and in the future.

The state Government's takeover is flawed, in our opinion, and lacks good governance. There has been a lack of consultation and the absence of fine-grained data on their part and modelling has failed to substantiate their claims made. The state Government has assumed there will be a smooth transition to a government-owned entity. We know this is simply not true and the experience of 2009, possibly highlighted by TasWater in these hearings, highlights these changes cannot be rushed.

The City of Hobart transferred \$316 million in net assets to the Tasmanian Water and Sewerage Corporation, 55 staff and significant assets including our reservoirs, sewage pumping stations, the Selfs Point laboratory, the Olinda Grove pumping station, the Macquarie Point wastewater treatment plant and the Selfs Point wastewater treatment plan. I make the point at this stage that unlike other capital cities in Australia, local government in Hobart has diverse and geographically spread water and sewerage infrastructure.

Our current investment, following asset revaluations and other factors, is \$164.686 million. We receive an annual distribution based on our 10.8 per cent shareholding in TasWater. That is currently \$3.258 million. From 1 July this will fall to \$2.172 million. The TasWater distribution has assisted the City of Hobart to renew and install new infrastructure in our community.

I also make the point that the City of Hobart is an original capital city. What happens here has flow-on effects to regional municipalities. We have major facilities that ratepayers, communities and visitors to Tasmania use as well that are not present in their municipalities because they are present in Hobart and we can afford for the ratepayers of Hobart to fund this. We have afforded it in the past and we wish to afford it into the future. The TasWater distribution has enabled us to renew and install new infrastructure.

Local government has been best placed to own and oversee TasWater. It has an experienced board of skills-based directors, which is the professional norm in this day and age, and it has an expert team of professional experienced water and sewerage managers. The level of expertise,

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skills and the knowledge to resolve conflicts in our community around expectation, service provision, capacity and willingness to pay are better managed by us as a level of government closest to the community. We have a finer-grain understanding of what our communities can afford to bear and what they are willing to endure in order to have these assets and services in place. It is a lot harder when you are in parliament, with respect, to get that finer-grain understanding - admitting of course that you do a great deal of work out in the community but local government is the closest level.

The City of Hobart has a low reliance on external funding. We have deliberately made that financial decision as a matter of prudence; however, the reduction in distribution will be compounded over time with either a reduction in provision of services or, unfortunately, an increase in rates. It is a basic a zero-sum game. If we get less money in order to keep the service provision and the maintenance of our assets going, we have to increase rates.

From 2024-25, councils will receive half of any future profits made by TasWater. This is contingent, of course, on the level of profits, if any, and if the government of the day honours this promise. The minister is on record as stating publicly that councils had better get used to managing without those dividends and they have eight years to do that in. That is a fairly frightening comment. When you then see, in the legislation, the capacity for the minister to have the power over dividends and for the Parliament to delay the payment of dividends, this will produce quite a difficult issue for financial management for any council. Hobart City Council has some capacity and some capacity to manage, but for smaller local councils this is a concern. That of course then will compound and flow back onto the ratepayers of Hobart in the provision of regional services.

The minister's extensive power over pricing contemplated in the Water and Sewerage Act 2017 is significant. Ministerial interference will inevitably lead to a degradation in confidence that pricing for water and sewerage services is fair, equal and transparent. The last thing Tasmania needs is the politicisation of water and water pricing into the future, especially when TasWater supplies water to councils and those water supplies are used in community and recreational services. A very local example is our hockey centre. That hockey centre has a lot of water on the playing fields because it has a particular type of service. If we find that the cost of water to the City of Hobart starts to dramatically increase the politicisation and fooling around with the pricing to suit political needs, then we are going to have to pass that on, and that will flow on and impact on an organisation that hosts national and international events. That is just one example. Then we have the Doone Kennedy Aquatic Centre. Again, national and international events occur there. If we start to find water pricing is an issue, we are going to have problems and this, again, will compound within the region. The loss of dividends is going to lead to that compounding disruption, as I have mentioned earlier, also to council's financial planning.

We are deeply concerned as a council with this legislation. We do not wish to see it succeed. We are particularly interested to find out how the act's section 9, the no privatisation clause, the act can easily be amended. It is fairly straightforward. Any parliament can amend an act by the lower House combining to do so but how, we ask, can the Legislative Council ensure that public assets which have been built up over years, paid for by the ratepayers, cannot be easily sold off? There is a worldwide trend for privatisation. Privatisation has not necessarily led to better public service provision. If local government is all about managing and caring for our communities then, for us, the basic supply of water and public health through good sewerage management are key issues. They equate with roads, rates and rubbish. They are our *raison d'être*. To take it away

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from local government is to say there is no need for local government. To take it away from local government is ultimately to the detriment of the ratepayers of the City of Hobart. Thank you.

Mr VALENTINE - I am interested in your attitude to the issue of the whole system being taken over by Government and the statement being made that the system has been paid for by the people of Tasmania so there should be no issue with taking those assets and putting them under state government control. Do you have any comment to make with regard to fairness and equity in who has paid for these things and how that might be applied?

Mr HEATH - The Council's initial investment in TasWater when it was Southern Water was over \$200 million. As Alderman Ruzicka said in her introductory remarks that has now been written down to about \$165 million to \$166 million. I suppose where the Council sits on that is the ratepayers of Hobart have paid for those assets. The ratepayers of Hobart would reasonably expect to see a return on their investment over that time. Up to this point they have. I believe it remains a concern beyond 2024-25.

Mr VALENTINE - Is there a concern as to whether there is going to be a return at all?

Mr HEATH - Yes. I suppose the legislation has also been silent on the issue of compensation. If the ratepayers of Hobart have paid for a considerable amount of water and sewerage assets over a long period of time, what is the form of compensation they could reasonably expect to receive for that investment? Up to this point it has been a promise of distributions in the form of dividends, loan guarantees and tax equivalents. Beyond 2024, there is no certainty the ratepayers of Hobart will continue to receive some form of compensation for the investment they have made over a long period of time.

As Alderman Ruzicka outlined in her submission there has been a significant amount of infrastructure investment by the ratepayers of Hobart over a long period. I am not talking about minor water and sewerage infrastructure. We are talking about major water and sewerage infrastructure over a long period. From a fairness and equity point of view the Council's strong view is that there ought to be some ongoing compensation to the ratepayers of Hobart for their investment.

Mr VALENTINE - When the National Competition Policy came in, were facilities and assets expected to earn a dollar to then return that to the community? Is that your recollection? I seem to recall that was -

Mr HEATH - I am trying to remember that.

Mr VALENTINE - It is a long way back.

Dr RUZICKA - As I remember it, yes. There was an expectation of a return on the assets. Bear in mind, when National Competition Policy came in it was in the face of a drought on the mainland of Australia. National Competition Policy, whilst being a very effective policy tool, was a fairly blunt one in water and sewerage for Tasmania. You may recollect the Hobart City Council resisted going into Southern Water, which ultimately became TasWater, on the basis that we were managing the situation well with Hobart Water. We did not see the need for water meters, simply because of the way we were managing our assets at the time.

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National Competition Policy is wonderful but when you look at the assets across the entire mainland, more often than not, that was a policy response to the drought occurring during the Hawke-Keating era. Water security became a major issue. How it has then flowed on to a state such as Tasmania, I have no idea. We have so much water it is not a joke, compared to the mainland of Australia, and we fund our renewable energy with water. Despite the fact we are the fourth driest capital city, we have not been on the same path as the mainland of Australia even though we have had droughts.

We have eventually been moved over process, since 1993 onward, into a situation whereby our assets have been turned over to TasWater. It provides on a statewide basis but it remains in the ownership of local government. The ratepayers of Tasmania have, since the inception of this colony, through colonial governments and to the federal government, have managed water and sewerage. This has been done either through water trusts, through council town boards or through any other mechanism. Metropolitan water boards, if you go through the history, have always been managed by a local government area. It is our equity and they are our assets. It is not fair to take it away when the ratepayers in particular areas have paid so much to put it in place.

Mr VALENTINE - Has there been any communication from the Government to the Hobart City Council with respect to them wanting to take over sewerage and water at all, in any way, shape or form?

Mr HEATH - Yes, that is a fair comment to make. My recollection is we invited the minister down.

Dr RUZICKA - Yes, and the minister decided that the situation had come to a point where it was pointless for him to attend. By that point we had passed a motion at council that we would reject at that time, but invite the minister in and invite TasWater in. Miles Hampton came and presented. The minister had an appointment; he put it off and eventually decided not to show. We were also subject to the presentation at TasWater, at the LGAT and at a special initial briefing by the minister at the LGAT at which he outlined the process from the beginning. We have had the same information as the other councils have had.

Mr VALENTINE - In any communications you have had with Government or with TasWater with respect to the big issue of inappropriate incursions of stormwater into sewerage that cause overflows and causes environmental issues, has there ever been any discussion about how these sorts of issues are going to be addressed?

Correct me if I am wrong, general manager, but I think there are something like 4300 homes on the Davey Street spine; the number of which whose stormwater is inappropriately connected to the sewerage system is unknown. That is an environmental issue. Have there been discussions with TasWater as to how you are going to deal with that? If the Government takes that over, how is that all going to be addressed?

Mr HEATH - You are absolutely correct in your recollection of that. There is a major trunk sewer that runs from St John's Hospital down Davey Street, through Battery Point and connects into Salamanca precinct. That is a major trunk sewer that is now controlled by TasWater. As you alluded to, there are a number of - I think 'illegal' is probably a bit strong -

Mr VALENTINE - That is why I said 'inappropriate'.

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Mr HEATH - 'Inappropriate' is probably the correct term. When they were constructed they were legal but they are now causing issues. When there is a heavy downfall that stormwater drains into the sewer. That was playing out in 2007 and 2008 when we had raw sewage running down Salamanca Place.

Mr VALENTINE - The treasurer was wandering around in it saying the sewerage system is broken.

Mr HEATH - Showing the bottom of his shoe - that is right. As part of the transfer of -

Mr VALENTINE - Not the present Treasurer, sorry.

Mr HEATH - No, certainly not the present Treasurer. As part of the transfer of assets to Southern Water in 2009, the council transferred a plan to Southern Water to deal with that issue in Salamanca. The council did a lot of work on design, engaged consultants and paid for consultants to come up with a design to fix that problem. Those plans were transferred as part of the transfer order to Southern Water in 2009. Southern Water subsequently constructed an overflow in Salamanca near the silos to deal with that problem.

What is absolutely true at the moment is that the councils, following the removal of the powers of the Sewers and Drains Act and introduction of the new Urban Drainage Act, have no power to fix that issue as we presently sit here now, unless there is a statutory nuisance created under the Local Government Act. That is basically a public health nuisance. We are in the process of redoing our by-laws and writing to the minister asking for that power to be reinstated in the Urban Drainage Act so we do not have a repeat of what happened in 2007.

Mr VALENTINE - You do not have any fears, if the Government took it over, that they might turn around and say to you, 'This is stormwater issue - fix that problem', and then the council is then bound to put in a new pipeline on the Davey Street spine and find all those houses that are inappropriately connected, and make sure they connect to that stormwater?

Mr HEATH - That is a possibility, but that sort of fix would be beyond the remit of this current council. It would need a massive infrastructure investment. If we were ordered to do that by a minister or by a government down the track, that would be an issue that would be beyond the current capacity of the council to fund or do.

Mr VALENTINE - It is similar to the Launceston situation really, isn't it?

CHAIR - Launceston has 9120 houses, double the number.

Mr VALENTINE - This is only one spine. We are not talking about the other ones that exist.

CHAIR - Not the total.

Mr HEATH - It would be a similar situation to Launceston, where we would be in a little bit of difficulty to abide by that.

Mr VALENTINE - Thank you.

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Mr GAFFNEY - It is interesting that a lot of the times when you hear legislation coming through from the Government, it is to do with their having a mandate from the 2014 election. This was not an issue in 2014; it was not on the table. In fact, it seems to have come on in the last 18 months that the Treasurer has said all these people have been talking to him about the inadequacies of water and sewerage. The reports back to TasWater up until the time never highlighted that there was a crisis. Would you like to comment on that situation and how you see that panning out? It has been quite short of time that it has been thrust upon councils and TasWater.

Mr COCKER - I suspect Mr Hampton's response, who has been quite impressive, in my view, has dealt with this and the shock to him in the Government's response would indicate to you that there had not been proper discussion around this issue with him and/or the councils. We have had regular briefings with Mr Hampton about TasWater and the way it is functioning and our responsibilities, and he has never raised the Government's attitude about these issues with us.

I am quite confident that had the Government been raising these issues outside of us with TasWater, he would have discussed them with us because we have regularly spoken with him and he has regularly given us updates. Mr Brewster and Mr Hampton have been talking to our council probably once or twice a year about what are the issues. He has never raised them with us. The shock value of the Government's approach to this being so aggressive, unnecessarily so in our view, and the lack of consultation and the lack of coming to talk to us has been unfortunate. The general view is that it could have been done in a much more cooperative sense and discussion.

Dr RUZICKA - I would back those comments in the sense that if the minister, right back to the hon. Mr Michael Aird, had come to councils with a more workable approach about the matter, I do not think we would be sitting here today. We would be in the process of, probably back then, putting in something like TasWater.

It is the aggressive and negative approach of 'there is a crisis' when, in fact, there is not a crisis. 'There are sewerage crises all over the state', when in fact, by all the measures that TasWater presents in its evidence and is publicly available, there is no crisis. There is resolution of issues that can be done in a positive and conciliatory way.

I feel very sad that the minister - and he is also the minister for Local Government - has felt the need to have what is, for me personally, a disturbingly unnecessary aggressive approach to resolving a situation that I do not think has been warranted. My experience across local government in Tasmania is that people in local government are reasonably intelligent and they are reasonably capable of resolving conflicts and concerns. It is part of our day-to-day job. It is what we do with the community. If we are presented with the facts, then we generally tend to act on them.

Crisis - what crisis? Mandate - what mandate? It is very sad that we are in this situation. I see it as totally unnecessary to be put in this highly negative situation that has downgraded not only the reputation of the portfolio of the minister for Local Government, but also local government generally across Tasmania. I refute everything the minister has had to say about local government and water and sewerage in Tasmania.

Mr GAFFNEY - We have all been around for the last 10 or 12 years and for the younger people in the room this started in about 2006-07 when the then treasurer and minister, Mr Aird, virtually gave the councils an ultimatum that they needed to change and reform. At that stage,

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there was an indication that there were two or three different models on the table. Do you believe that at that stage, when the legislation went through, we could see it was still evolving but at no stage was it ever going to be threatened that local government would lose control of the entity and the assets it had and had put into it because it was a case of 'do this and you have it forever'? It seems to me a lot of the hard work has been done, especially in the last three or four years, with TasWater. I am interested in your opinion about the last three or four years with TasWater taking over the sole responsibility of the water and sewerage corporations which, for the people in the room, there were initially four and it is now zoned into one. Would you like to comment on how you see that performing?

Mr HEATH - I think you are right. Back in 2006, the deal was that Onstream was really important. The government was very keen to get an overarching Onstream-type model in place, a statewide service delivery model to support the three water and sewerage corporations. I am pulling back my memory 12 years. Part of the deal was that there would be a regional approach to water and sewerage management when it came off the councils because that was a political reality, I suppose, at the time.

In terms of the move to one entity, I believe it makes logical sense and there was a case to say there had been duplication, there had been three chief executive officers for instance, three sets of business managers and that sort of thing. Bringing TasWater together as one from a cost structure point of view made some logical sense.

I think you are right with the history. In terms of its performance now, I do not think the council has had too much concern with the way the current management of TasWater operates. We have certainly actively participated in the owner meetings, both regionally and on a statewide basis. We ask questions and have made them accountable. Generally speaking - Alderman Ruzicka is the representative - it has been that TasWater is performing very well.

Dr RUZICKA - Yes.

Mr GAFFNEY - You did speak earlier on about ministerial powers under the new bill, if it goes through. The council at the moment can see the 10-year plan. It can see what TasWater is going to do. With ministerial powers coming to play, that plan can virtually go out the window in the fact that the minister of the day can prioritise projects.

Dr RUZICKA - Let me phrase my response this way. In the 18 years I have been in local government and on Hobart City Council especially, we have shifted from bickering about a couple of projects around the table and 'I will back yours if you will back mine'. When I went on the council and gradually managed to eliminate the politically sensitive projects, we put in place a 10- to 20-year project length of how we wanted to develop our city. We did this well before any other council. It is good housekeeping. It is what you do.

In the process of doing that, we have managed to sort out and know that every year we will have x amount of equity, x amount of assets, x amount of write-downs, x amount of depreciation, we will know where we have to go with our rates. We can plan over a long period, and have done so in that time very successfully, for the ups and downs of CPIs and credit crunch financial things and the federal government not showing us the money when we asked for it for major projects - all sorts of stuff. I believe local government, by and large, and Hobart especially, has managed very well with the infrastructure.

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I know that I have a series of projects on my 10-year capital plan works that I can say with certainty to the ratepayers: you will get your streets, your footpaths, your playing fields, your community halls, you will get these things; we can plan for our festivals and everything else. It is good housekeeping.

If the minister then comes in and decides he is going to override the infrastructure plans and fool around with the pricing in election years, like sometimes we used to do in Hobart with the rates - and we have made a concerted decision to no longer do so. We stick to our rating because we know we will have a bit of pain in some years but by and large at the end of that period of time our ratepayers will be better off. That is how you manage a business.

Local government is partly community and legislative but it is also a business. It is a good housekeeping. You do not have someone come and say we have a problem in our electorate so maybe we will fool around with the infrastructure. We will do a few things there on that year and we will switch these other things around and we will deal with them when we get to it if and when we find we can raise the money in order to do it. This is my real concern. It is a lack of transparency. It lacks fairness. It is susceptible to a minister of any political colour of government or parliament of any political colour to fool around with the good management of water and sewerage.

Water is a basic living right, as a human entity and any other species for that matter on this planet. Basically as humans, three days without water and you are out. If we lose our water and sewerage and we have public health crises - it is not all that long ago that we had major water infections in Tasmania. If you remember, until we put the metropolitan water board in place, we still had typhoid in this city. We cannot risk to have our assets downgraded by a politically-motivated infrastructure plan, as you see occur in places like the United States.

Mr GAFFNEY - Thank you. Thank you, Chair.

Ms RATTRAY - It has been suggested in one of our submissions that there is a need for change and there were a number of items that were listed. One of them was the number of complaints around TasWater and delivery of service. It has increased from 2014-15 to 2015-16 by 570 - almost 3000 complaints from Tasmanians to TasWater. I am interested in how you see those figures. From my perspective as a committee member, taking on board those figures - and I know that I have not had 3000 complaints but I have had many complaints to my office. People have felt that TasWater was not receptive, if you like, to their issues and I have had to deal with them for them. Can you give me some feedback, as a councillor, on what complaints you have taken on board?

Dr RUZICKA - You need to break down what the complaints are and you also need to break down, along with that, the expectations that have now been created about the supply of water and sewerage. There is one example of where there was a deliberate decision made to not supply water by pipe to a community. In fact, it was cheaper and safer to supply it by tanker. There is an expectation I have found, because with my role as an alderman I get onto various state boards from time to time, there is an expectation that what is supplied in a capital city will be supplied out into other areas.

I do not think it is unreasonable to expect to get clean water and operating sewerage. That is not unreasonable. But there are levels of expectation around service that often over time cannot be delivered as immediately as a ratepayer may wish to have. You need to go through a process

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of sorting through the infrastructure as TasWater has. Their prime issue has been clean water. Absolutely everywhere - clean water. Sewerage comes second but they are working on that now.

The difficulty we have in Tasmania is there is a level of expectation about service that perhaps TasWater is not quite catching up to at this point because there has been a backlog in supply over a period of 50 to 120 years.

As you would be aware, if you go through the history you will find that for many places councils could put works in but they did not have the ratepayer base to pay for it. Or they may have lacked the technical expertise to do so. In this day and age there is an expectation of service that TasWater will eventually reach and it will professionally and properly reach and do it in a way that you will not have to go back and re-do the works over time. I guess sometimes people may not be satisfied with what is the best way to supply to an area in terms of the safety of that water.

Ald COCKER - Just briefly, also in Tasmania you have to realise when you compare it to the mainland states that we had so many systems in Tasmania. If you compare us to New South Wales and the number of sewerage systems, the number of water systems we had, we had over 100 whereas New South Wales and some of those organisations were dealing with much smaller numbers. Just as an anecdote, I have a public walking track near me. There was a broken pipe there about six weeks or two months ago. I complained, and they were out there next day. They sent me an email within five days asking if I was happy with the response. I was extremely impressed at a very personal level, but it depends on the nature of the complaint.

When TasWater has tried to implement change or change conditions, or put pipes through a public reserve, the level of complaint goes up. You need to look at the nature of the complaint and the purpose of the complaint. Sometimes putting in new facilities causes complaints, or they are putting in or rejecting facilities, as they have done on the east coast, which causes complaints. To give you an honest answer you would need to look at what is causing the complaint: is it works they are doing, or works they are not doing, and where does that sit within their plan for the future? From a council point of view, their plans for the future have been pretty robust from our perspective in recent history.

Ms RATTRAY - There seems to be a broad lack of understanding by the general community that TasWater is owned by councils. Is that something that you would agree with from Hobart City Council?

Dr RUZICKA - With respect, there is a broad lack of understanding across the community about many functions of government and who owns and operates what. The privatisation era of the 1980s, 1990s, significantly changed the idea of who owned what there was in Tasmania. We no longer have the PMG or the DMR. Telecom is a thing of the past. Telstra is almost a thing of the past in terms of being privately owned. People do not really quite understand who owns what. That is a matter of continual work and dealing with people.

When they say councils still own the assets they then think we are there to resolve the problems. So we then refer them to TasWater and they feel they are being shifted and shoved around when in fact it is the structure that has been set up.

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I try to explain the planning system to people and then I try to explain the interim planning system with its acceptable solutions performance criteria and even I struggle at times to try to work through a resolution.

We have a complex governance system. Yes, it is a matter of continually repeating but, yes, we own the assets but we have TasWater manage them prudently for us.

Ms RATTRAY - Thank you. I was interested in the response.

CHAIR - A question I was going to ask regarding the complaints when you were asking the type. The majority of the complaints that I would get in Launceston is to do with the cost. Having been an alderman at the time when it was taken over I can remember making the comment, which we were all told to say to our constituents, the only change will be that instead of paying the fee through your rates you will pay it to a separate entity but you will be paying the same amount of money. The complaint that I get now, just as recently as yesterday - someone came in with their water bills to say 'I am now paying as much for my water as I am paying for my rates. Look what I am paying. I am paying almost \$1200 for my water, not using very much, \$20 worth of water and I am paying X amount for my rates'. You can understand.

Would you have a comment regarding the cost and the complaints that you might get, and the feeling in the community that they were promised something many years ago that it would not go up and all of a sudden it has. As I said, you asked about the type of complaint. The majority that I get in Launceston regarding TasWater is the cost.

Ald COCKER - I take your point and what it should do is ring the alarm bell if you are going to put a very political layer across the pricing structure. At the moment in the model you have with councils having ownership, we have some influence but we do not have direct control of TasWater in the sense that we can ask for things and council has done that, but we know that those decisions will be made on a professional basis, arm's length removed.

I truly wonder what will happen when pricing is seen to be controlled much more by the minister in the politics of the day, how is that going to play out. That is a monopoly situation. We have a monopoly over water and the pricing is controlled within the ministerial province. That is quite a frightening situation. In terms of discussions around water, to put a layer of politics across what is a sensitive area, will be frankly a disaster.

Dr RUZICKA - I share your issues about the tiny amount of water consumed versus the rest of the bill. The rest of the bill is the cost of upgrading the infrastructure. Now TasWater is attempting to do that over a very careful period of time. After that there will be a greater flow of funds back to councils. It may well be over that time, we can start to reduce down the cost to the consumer, depending upon how TasWater is managed.

I pay this bill and grumble a great deal, but what we are seeing reflected is the need to do an awful lot of upgrading. At least I know how much of my bill is infrastructure costs are benefiting across all of Tasmania.

I make the point that I drink water all around Tasmania. So my bill reflects not just in my local community. It reflects that cost of getting clean water and sewerage across the entire state. We have to bear that in the process of TasWater being in place and after about 10 years time it

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will start to settle down a bit. That is currently based on how Tasmania is prudently setting out its capital works plan.

CHAIR - You can accept the consumers were told when this was set up that it would not increase; they would simply be paying it to a different entity. I also told my constituents that and that is the major issue I have.

Dr RUZICKA - It is an issue but who made that initial claim? I wonder if it was the treasurer of the day making those claims. The Hobart City Council at the time looked at that, shook its head and said we do not want to be a part. Eventually we found ourselves coerced as all Tasmanians have been coerced. The point remains that water and sewerage infrastructure needs upgrading. TasWater is doing a good job doing it.

CHAIR - Thank you.

Mr FARRELL - In the Treasurer's submission, he mentions several times the fact there are 29 owners. I understand the structure and we have had many people in who understand the structure, but it does seem from that submission there is a lack of understanding. What influence does your council have over TasWater as one of the 29 owners? What influence do you have on day to day decisions or any other projects?

Mr HEATH - It is fair to say this council has a very good relationship with the senior management in TasWater. Even at the operational level the relationships are good, strong, sturdy and professional. We are, as you alluded, one of 29 councils that regularly go to the statewide owner meetings. We actively participate in the regional meetings. There is also a southern briefing. We go prepared and always attend and ask questions. It is not always jovial and happy. There are times where there are fulsome discussions.

You can be safely assured from my observations, and Alderman Ruzicka may want to add because she is the council's representative, those members go fully prepared and ask questions. It is not just a one-way session. Yes, there is a lot of information imparted at those meetings but there is a lot of questioning and challenging. It is not a quiet meeting and can be heated at times.

My observations, having been to most meeting since 2009 when it was Southern Water and morphed into TasWater, is local government representatives who attend those meetings take it seriously, ask questions and participate in meetings. Any suggestion local government has been asleep at the wheel, dormant, quiet, not active in terms of questioning TasWater and Southern Water before are farcical and wrong. The council is committed to continuing that position into the future.

In terms of the operational issues from a staffing level, I do not hear my staff complaining or criticising TasWater. There is a professional relationship. A number of the 55 staff who transferred over in 2009 from Hobart are still employed by TasWater. The relationship is strong and good. From where I sit as General Manager, I do not see any at all issues with that relationship.

Mr FARRELL - With the new bill, is the privatisation a straightforward process? What currently is in place if TasWater decided it wanted to privatise? What process would it need to go through? I should have asked TasWater, but as an owner.

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CHAIR - When they come back you can ask them.

Mr HEATH - It is in legislation, in the Water and Sewerage Corporation Act now, that it cannot be privatised. In answer to a question, before it might have been allude to that parliament controls legislation and might answer your question.

Mr FARRELL - It was mentioned about the issues with Davey Street and every local government would have, not the hidden, but the unforeseen infrastructure. We know about Macquarie Wharf and some of the bigger ones, but there are a number of small significant infrastructure problems. Do you think the Government is aware of all the secondary major bits of infrastructure that may need repairing?

Dr RUZICKA - It is fair to say the state government does not know what it is getting into. I say that having observed the asset. What was the name of the document recently out? - the infrastructure report, which indicated they were using an annual report and a back of envelope set of calculations and considerations and knowledge of what is actually out there. It continues to surprise me what is out there in terms of our assets.

Ms RATTRAY - Or what is not.

Dr RUZICKA -Or what is not, across Tasmania and simply because the state government has not been involved in water and sewerage. Local government has.

Mr HEATH - I was making the point before, we are redoing our by-laws, good governance. We have come across an issue with the Urban Drainage Act and the lack of powers in relation to stormwater connections into sewers. We intend to write to the minister asking for an amendment to the Urban Drainage Act to point out some of the practical consequences of not having that power. That might answer your question; we will certainly put some examples in.

Mr ARMSTRONG - Many of the submissions, and recently the Tasmanian Hospitality Association, raised the issue of trade waste and some of them are within your area. Have you had many people come to you raising issues about trade waste and they cannot get any satisfaction from TasWater and want you to take it up with them?

Mr HEATH - Not that I am aware of. I have no examples sitting in front of me. Rob was laughing before and I share his pain because when we did have water and sewerage responsibility back before 2009, trade waste was a complete and utter nightmare; for businesses to upgrade their trade waste it is expensive, costly, disruptive, annoying and is a pain. The standards seem to keep changing and people they have a compliant grease trap and now have to upgrade it because the EPA has changed their rules. I understand that concern because we lived that pain back in the mid 2000s and it was enormously stressful and painful. It was one of the reasons I was glad to see Southern Water formed, as we got rid of the trade waste issue. We are not getting inundated with complaints is the simple answer to that question.

Ms RATTRAY - We have a list here a mile long.

Mr ARMSTRONG - Some of them are in the Hobart area.

Mr HEATH - They are not coming through to us. From our point of view they are not coming through to us.

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CHAIR - They know to go to TasWater.

Dr RUZICKA - The key thing about trade waste is that it is still going to have to be fixed. It is impacting on the sewerage systems. The longer you put it off, the worse it is going to get. It is still going to have to be dealt with regardless of complaints now and in future. If we do not deal with it through the current process that TasWater is looking at - they deal with water first, sewerage second; they are getting onto the sewerage system, so now trade waste is becoming an issue - it will still have to be dealt with regardless of who owns the entity. It is one of those legacy issues in Tasmania that we have inherited and we have to deal with it.

CHAIR - The issue for the THA was more that some businesses felt what they had in place adequately dealt with their trade waste but they had to move up to a different system. One question I would ask you, and I have heard this from some, do you see this bill as a form of enforced amalgamation for some of the smaller councils when they lose the money they were receiving?

Dr RUZICKA - I will give an initial answer to that from a Hobart perspective. In our financials, we have \$200 million in assets that have downgraded to \$46 million, and will be downgraded to \$18 million through this process. Our dividend loss is going to be \$3.2 million, which will effectively be a 5 per cent rate increase or a 5 per cent rate equivalent decrease in services.

That decrease to \$2.7 million will add 1.3 per cent increase over eight years. That is likely to flow on to 5 per cent compounding. Over our 10-year capital works, knowing that events occur that we have no control over, and that does shove things around a little bit, we will have to add another five years in order to achieve what we set out to achieve.

The value of our assets, the 6 per cent being offered to us, at 6 cents to the dollar, is totally unreasonable compensation. If we keep it in its current entity the long-term value to councils is going to be very positive with TasWater. That will enable maintenance and building of existing and new assets.

Our dividend loss and our loss of assets results in a compounding financial impact on Hobart as a regional capital city. I have alluded to this earlier. That compounding downgrade means a loss of services, a rate increase, or, because we service the region in a number of respects, a loss of services to the region.

We are financially prudent and we are in a very good position. We have worked hard to be in that position. The Auditor-General loves us in many respects. The difficulty for other councils in the region is they are not as financially resilient as us. They have other issues with debt. They have issues with managing their services. If they find they are losing money, as I am sure Brighton has tabled a document showing the compounding loss that will occur over time to those other smaller councils, they will look around and ask, 'How can we possibly manage?'.

Right now we are in the middle of the state Government having dictated that we will all amalgamate through these various processes they have put in place. Now we see the minister standing there, having to support a resource-sharing agreement between Waratah-Wynyard and Circular Head, and between Kentish and Latrobe, as in the way those two sets of northern councils are effectively managing their loss of income.

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I do not see amalgamation as any solution because a question has not been posed. The question is, what is the role of local government in Tasmania? What is the role of the state government in Tasmania? Both of them are required to be fair and transparent and returned back to the people who put the money into them.

Ratepayers in smaller regional county areas will find access to services and the management of their assets downgraded by the loss of this dividend. They will have to find a way to deal with it. The Break O'Day/Glamorgan Spring Bay report, through the local government board, showed that amalgamation was not the answer because the financial problems are still there.

I think you will find the financial problems are still there for Circular Head, Waratah-Wynyard, and they are still there for Kentish and Latrobe. They will be there in a worse case for Huon Valley. I now own property in the Huon Valley and I am aware of the state of that council and I am aware of the state of Kingborough. God help Huon Valley should it be forced to amalgamate with Kingborough, because Huon Valley is well managed. That is my concern. Amalgamation is not an answer because a question has not been posed.

CHAIR - I do not know. Some of the issues I had heard was that they thought it may have been a way of enforced amalgamation by -

Dr RUZICKA - It doesn't resolve the financial issues. That is the problem.

CHAIR - No, I am not saying that. Thank you.

Mr GAFFNEY - One last question. You might not want to answer this, I understand. We are bringing TasWater back so it is a question I will ask of TasWater as well. Do you believe TasWater, or potentially its successor corporation such as the government, should fund the relocation of Macquarie Point and Cameron Bay sewerage treatment plants and that cost should be passed onto water and sewerage customers, as that is what would occur?

My understanding of the Macquarie Point sewerage plant is that it still has a life-span and it is still in workable condition. TasWater has a plan for it but do you think that cost should be passed onto water and sewerage customers if it becomes an issue?

Mr COCKER - I believe you should turn it back the other way and wonder if the relocation of these should be commenced for reasons other than good efficiency of those plants - because they are working efficiently. Should works of higher priority be put aside to fix a different problem? TasWater has been utterly consistent here and it has been our view that there is nothing wrong with these plants. They are doing their job. Why would they be then put at a higher priority than non-functioning assets and fixing, as Eve Ruzicka has already pointed out, the water first? There is a real problem here if TasWater was forced to deal with those things ahead of fixing non-functioning assets in future. That is one of my concerns with some of the noises being made that they will be instantly fixed. It will come at the detriment of fixing non-functioning assets. That would be a corruption of TasWater's function.

CHAIR - Thank you. There were no other urgent questions? Thank you very much for your submission and for coming along to the hearings today.

Dr RUZICKA - Thank you very much for your generous time. I really appreciate it.

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THE WITNESS WITHDREW.

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Mr PETER GUTWEIN MP, THE TREASURER OF THE STATE OF TASMANIA, WAS CALLED, AND **Mr JAMES CRAIGIE**, CHIEF OF STAFF, WAS CALLED, MADE THE STATUTORY DECLARATION AND THEY WERE EXAMINED.

CHAIR - Thank you very much, Treasurer, for making the time to come along. I know it is busy for you being a sitting day.

Mr GUTWEIN - Thank you. I introduce James Craigie, my Chief of Staff.

CHAIR - Welcome to our public hearings and as you are aware all evidence taken at this hearing is protected by parliamentary privilege reminding you that any comments made outside may not be afforded such privilege and the evidence is being recorded and the *Hansard* version will be published on the committee website when it becomes available. I am sure you know everyone on this side of the table.

Treasurer, if you would like to make an overarching statement and then we will ask some questions.

Mr GUTWEIN - Members, I am pleased to appear before you today in relation to the Government's submission to the committee and our proposal to fix Tasmania's water and sewerage system. Despite the promises of improvement inherent in the reforms almost 10 years ago, the water and sewerage sector under local government ownership has failed to meet the community's expectations. Independent report after independent report over the period has since shown that the outcomes have not been satisfactory. The performance of our sewerage infrastructure has actually deteriorated. As the head of the Environment Protection Authority said yesterday, clearly it is a sector that is under-performing and has a significant number of non-compliances associated with it.

I have consistently raised the need for increasing investment in the sector, for the local government owners to do more, prior to announcing the Government's intention to take control of TasWater. The slow progress that has been observed is due in large part to prioritising returns to its owners over investment in the modern infrastructure and clearly demonstrates these failings. Rather than invest the returns from the business in improving the infrastructure, local government has instead received over \$200 million from Tasmania's water and sewerage customers and stands to receive a further \$190 million over the remainder of TasWater's 10-year plan.

This equates to nearly \$400 million under the current model and plan that will be paid by water and sewerage customers. It is not going towards fixing infrastructure. The Government believes that we are at a crisis point; our water and sewerage infrastructure has been described by both the chair of TasWater and the Tasmanian Economic Regulator as deteriorating faster than it can be fixed.

Over the period from 2010-11 to 2015-16 the average customer's bill has increased by 51 per cent, while CPI has only increased by around 7.5 per cent. Over this period it can be demonstrated that key environmental compliance outcomes have worsened. It is not reasonable or fair that customers are asked to pay excessive price increases and yet the outcomes are going backwards. Furthermore, of the drinking water that the company produces, one out of every three litres - some 25 000 megalitres of potable water - was lost. That is the equivalent of more than 10 000 Olympic swimming pools. Noting all these failings, still in 2015-16 alone, over \$100 from the average customer's average bill was paid out to councils as returns.

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The Government's view is this is not good enough. Local government has accepted the benefits of ownership but has not accepted the responsibilities of ownership. Therefore it is incumbent upon the Government, as the representatives of all Tasmanians, to take action because the Tasmanian community deserves and demands better. Over the last six months, the Government has clearly articulated its plan to improve water and sewerage services in Tasmania. We have explained that we will accelerate TasWater's \$1.5 billion infrastructure program, complete it within five years, taking control. In addition to that, we will ensure that a further \$300 million in investment is brought forward, bringing the total investment over 10 years to \$1.8 billion.

Some have suggested that this can't be done, that it is somehow financially and economically irresponsible, and yet TasWater themselves were advocating for a \$1.8 billion spend over 10 years only last year. The principal constraint on that plan was not that it was physically unachievable and that it would drive up prices but that local government would not forgo its profit stream.

The Government's plan ensures that this constraint is no longer an issue. By providing councils with equivalent funding from the budget, the business will be able to focus on getting on with the job it should be doing: implementing the accelerated delivery of infrastructure and fixing water and sewerage sooner.

Infrastructure Tasmania has provided advice that our plan is achievable and that it will also be good for the Tasmanian economy. The highly-regarded Tasmanian engineering and construction firm, pitt&sherry, reviewed the Infrastructure Tasmania report and confirmed its findings.

I want to be very clear: the Government is not seeking to profit from taking over TasWater. The legislation ensures that the Government will not receive any dividend or tax equivalent payments. Furthermore, the legislation explicitly prohibits any future privatisation of the business. The Government's model provides local government with funding to ensure that rates will not have to rise. Not only does the Government's legislation guarantee the councils will receive the returns they were promised until 2025, it also locks in that councils will receive 50 per cent of the profits from the business in perpetuity after that date.

This provides local government with the security of an ongoing revenue stream without any of the risk or responsibility of ownership. The Government's plan will also ensure that customers will not be faced with continuing steep price hikes and by adopting a similar price regulation model to that used for the MAIB we will limit price increases in 2018-19 to 2.75 per cent and then no more than 3.5 per cent in future years. While the Government will stand behind the business financially, should that be necessary, we do not expect to have to do that. Treasury has confirmed that the new business will be financially sustainable. It is clear that the business can accommodate substantially more investment and remain profitable.

The Government's plan will deliver better infrastructure sooner, keep prices for customers lower, provide an ongoing revenue stream to councils so that rates do not need to rise, benefit the economy and improve environmental outcomes.

Having made those opening remarks, I am very happy to answer any questions that the committee may have.

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CHAIR - Thank you. The first question from Mr Valentine.

Mr VALENTINE - To clarify for me, you have just stated that the Government is not seeking to profit from TasWater, yet you are promising local government a 50 per cent dividend, of what they would normally expect. How can you provide a dividend to them if you are not expecting to profit from it?

Mr GUTWEIN - Well, the business will operate profitably.

Mr VALENTINE - You are saying including that dividend. It is not expecting to profit outside of that. Is that what you are saying?

Mr GUTWEIN - What I am saying is that the business will operate profitably: 50 per cent of the net profit would be provided directly to local government as a return. The other 50 per cent would be reinvested back into the business in respect of infrastructure investment or to keep prices low. We will take no money from the business.

Mr VALENTINE - How long will you not take money from the business?

Mr GUTWEIN - We have said in perpetuity. The legislation is clear: we will provide a guaranteed payment to councils up to 2024-25 and then past that, local government, in perpetuity, will receive an income stream of 50 per cent of the net profits of the business.

Mr VALENTINE - Given the breadth and depth of the task that TasWater had to undertake when they were first formed and the amount of disruption that there was with 29 councils, all of their staff being shunted around to be able to create this authority, all the pain that went with that, would it not be better to provide TasWater with the funding that you are wanting to put in - \$500 million to \$600 million - to fix the system? Would it not be better to provide that to TasWater to see it then able to reduce its costs and to have it on a better footing?

Mr GUTWEIN - For the last almost three years I have been arguing for TasWater to increase investment, to use the leverage that its very strong balance sheet position provides it, and it resisted that. In fact, there are media reports in 2015 suggesting that I was ill advised that they had the balance sheet strength to do more. It took the board last year, after a lot of urging from me publicly, to make the decision that they would do more.

When you consider, in the context of the eight years since the reforms began, that we are getting worse environmental outcomes, that, in large part, until last year there had been no sizeable movement forward in respect of potable water being delivered to many of the small communities that required it, the question has to be asked: under its current ownership model, does it have the will to get the job done? I think the simple answer is no.

In regard to providing money to the business, local government continues to receive a return out of the business. The way that the business is structured, they have been very reluctant in the past. In fact, even last year when the decision was made by the board unilaterally to provide for a 10-year infrastructure plan, there were some in local government who described it as being outrageous and it appeared for some time that the board might even be sacked.

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No, we have no confidence in the current ownership model. We believe what is required is new leadership.

Mr VALENTINE - Even if you look at its annual report and see how it has improved things over the period it has had to deal with major issues, and the fact that it is going to be having no boil water alerts by 1 August next year? Even though it has shown that it has made inroads into this problem, you still do not have confidence in it?

Mr GUTWEIN - I give it no credit for that. I recall last year, when Miles Hampton and I spoke at the time that he made the announcement in August, that TasWater would remove the boil water alerts and leverage its balance sheet and get on with the job. At that time, I welcomed that decision but it crystallised in my mind why there needed to be change. At that point, with a drop of ink and a stroke of a pen all of a sudden the boil water alerts that had plagued this state for decades - in fact until the last period since the reforms very little progress had been made - all of a sudden, it was able to be fixed.

Why wasn't that done sooner? Why didn't the local government owners of the business demand that more investment was made earlier and those problems be fixed? No, I don't have the confidence in the current leadership and the ownership model for the job to get done.

Mr VALENTINE - Thank you.

Ms RATTRAY - Following on from the questions that Mr Valentine asked, in your submission you talk about taking on higher debt and then still remaining profitable. Then, when I go over to page 20 and look at the graph - I am not a financial expert so I am not trying to be funny here - I am looking for clear and concise reasons why you can have more debt, spend more money and still be profitable, and not take more money from the customers who will be receiving the services. I am interested to delve down a little bit further into that because I am one of those customers, as you know - as you are and we all are.

Mr GUTWEIN - We all are around the table.

One of the things that is quite clear from the modelling that Treasury has provided, and those profiles that are included there and are graphed on a year-by-year basis, is that the business does have the capacity to take on more debt. We have made the point that that debt will be at a lower cost than what TasWater currently pays. TasWater borrows with a government guarantee fee; we will not be charging a government guarantee fee. There will be a percentage difference, 10 per cent to 15 per cent perhaps, in respect of the cost of debt. They can borrow more at a lower cost. In terms of profitability, TasWater is still able to ensure that it can meet all their costs and provide a modest profit.

Ms RATTRAY - I challenged TasWater this morning on its net debt-to-equity ratio. I had some figures because it was suggested that we need change and outlined a few areas. I challenged it, and the 2014-15 figure is 23 per cent, and the 2015-16 figure is 27 per cent. In a short answer, I was told that TasWater undertakes prudent financial management and that it would never want to get into a higher debt-to-equity ratio. How will the new model work in regard to that, or is that not a consideration?

Mr GUTWEIN - Absolutely it is a consideration. In fact, our presentation discusses gearing on page 21. For most regulated businesses like this - and this is the thing that needs to be

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understood - as a regulated business, you can basically set your watch by the revenue that you have coming in. You know what you are going to be paid. Therefore, as a regulated business, you can carry a higher debt-to-equity ratio. In fact, most of TasWater's peers across the country sit somewhere in the 60 per cent to 70 per cent debt-to-equity ratio.

Ms RATTRAY - Even 100 per cent we heard this morning for some privately owned ones.

Mr GUTWEIN - That would not be unusual. Again, it depends on the risk appetite of the owner. We believe in setting the debt-to-equity ratio at around what is seen to be the average or the norm for businesses in this space. As a regulated business, you know what your income stream is going to be; you know, broadly speaking, what your expenditure is going to be, and so you can comfortably carry more debt.

Ms RATTRAY - Thank you. I am happy to let others ask questions.

Mr ARMSTRONG - Treasurer, many councils came out against this proposal. We have heard one of the reasons was that there has been no consultation over that period. The Hobart City Council just told us a few moments ago that you were coming to talk to them but then pulled out. Can you tell me why you never engaged in a broader consultation process with the councils?

Mr GUTWEIN - Over the time, I have met with most councils. Interestingly enough, most councils that I have been to over the last three years - and as a community cabinet, we have had many cabinet meetings with councils. We have been to every council at least once and some on more than one occasion. It is not unusual to have water and sewerage issues raised at those meetings. One of the things that I found very early on in the piece is that there seemed to be quite a disconnect between what a number of councillors understood the ownership model was compared to what it actually is.

In regards to the period since the beginning of this year, I presented to councils on a couple of occasions, once in Launceston and I had a meeting down here. I undertook to provide further information once the legislation and the package was ready for this process. Some councils, and I think Hobart was one, made decisions prior to my having the opportunity to meet with them.

I am more than comfortable to meet with councils. I think there is a date set for Hobart, to be honest, to have a conversation. Councils acted quite swiftly in regards to making decisions whether they were for or against this proposal.

Mr ARMSTRONG - On the new board, I have not seen the legislation, so I am wondering about the makeup of the new board. I think there are seven on the TasWater board at the moment. How would you go about appointing a new board and how would that work?

Mr GUTWEIN - Under the government business enterprise legislation, it is four to seven members on a board - up to eight. The legislation provides for a board up to eight. My intention and the Government's intention would be, subject to the legislation passing, to have a discussion with the current board. I am certain there would be some board members who would be interested in continuing. We would normally go through a process and we would advertise and select a skills-based board to run the business.

Ms RATTRAY - Treasurer, one of the submissions focussed a lot on governance into the future and changing the model. They were very keen to see any reform of the structure that

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strengthened rather than diluted the level of operation and managerial independence of the entity. Given that the treasurer of the day would have the ability to directly give direction under the new legislation, can you walk me through how you would see that unfolding and not seeing that there could be political opportunity taken for - maybe a Macquarie Point issue being resolved because it is prior to an election - that sort of thing.

Mr GUTWEIN - The simplest context to provide an answer to that question is to talk about what the current powers of direction are with our current businesses. For example, in all of our state-owned companies, as part of their constitution, the shareholder ministers can provide a direction to the board. As long as that is a lawful direction and what is being asked to be done is lawful, then the company has to do what it has been directed to do. In the current government business enterprises that we have, there are certain powers of direction that already exist in terms of dividends, the returns that the business will pay to the state in regards to community service obligations; also, in the management of the company, through the corporate planning process and the expression of the shareholders' expectations, those matters of direction are already captured. I don't think that this will provide anything different to what we are currently seeing. That power of direction is exercised only under advice and only when necessary.

Ms RATTRAY - If you do not see any real difference, then why is it so important?

Mr GUTWEIN - Because it is already included. If I use the state-owned companies, this is a government business enterprise as opposed to a state-owned company. In effect, what this provides us with is a similar level of direction that we have over a company like Aurora, or TasNetworks I think is a state-owned company, TasPorts, TT Line.

Ms RATTRAY - Some would argue that there is opportunity for Estimates scrutiny or GBE scrutiny once a year and the Legislative Council gets its half and the other place gets its half. We have a day where we ask questions and receive some answers but nothing ever changes. In that respect, can we have confidence as direct stakeholders that if there are some concerns, there would be changes when it comes to delivery of water and sewerage services?

Mr GUTWEIN - You can have absolute confidence. We are not going through this for the fun of it.

Ms RATTRAY - I didn't think there was much fun in it for anyone.

Mr GUTWEIN - No. We believe there is a job that needs to be done and so, as a government, we want to get on with that job and get the job done. Whilst at the moment TasWater, as a result of a - can I call it a historical hangover? I think Michael Aird suggested that the upper House would have TasWater before Estimates hearings on the basis that it was not a government business but in the first couple of years after -

Ms RATTRAY - We did try. It didn't go very well.

Mr GUTWEIN - At the moment, if there are issues with any government business, then in the lower House questions can be asked on a daily basis. It will be the same with a business like this. The level of scrutiny will rise exponentially as a result of government ownership of a business like this compared to the level of scrutiny that it receives at the moment, which broadly speaking is once a year before government business scrutiny committees.

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Ms RATTRAY - My final question is: in a transition model it has been suggested that the establishment of a new entity would cause a period of disruption of up to four years, losing momentum. It has been cited by people giving evidence over the last couple of days that there was momentum lost, certainly in the transition from the four entities to one, of around 18 months. At the very least, you might see that again. Can you give some response to that?

Mr GUTWEIN - Absolutely. Obviously there will be a transition period before 1 July of next year, but what has to be understood is that we are not merging a business here, which is what happened with the four entities into one. This is a takeover. Employees will transfer on their current salaries and with the rights that are associated with those. It will be under government ownership but it will still be the same business. The amount of disruption will be minimal. It will be a business that is provided with a direction and with the ability to invest more. It is not a coming together of four different businesses or a merger, it is a change of ownership. The disruption to the business will be minimal.

Ms RATTRAY - Excuse me if I am just a tad cynical, I have been around here a while now. We have seen a lot of restructure through departments, and I do not say that this is going to be exactly the same, but there is never a smooth transition. That has been my experience.

How do you guarantee that you do not have that loss of momentum and that potential speeding up of getting that infrastructure work done, which has been a bit of a carrot to the broader community, won't be lost? I hear what you say, that there won't be, that it is a takeover and it is not the same, but I am hesitant in taking that on board.

Mr GUTWEIN - We have a transitional period and we would hope that the business would work cooperatively with us through that period to minimise any disruption should that arise. I point to TasNetworks and Aurora and the change from Transend and poles and wires and the way those two businesses were able to be transitioned quite comfortably, with no loss of momentum, no loss of service and, at the end of the day, a significant infrastructure program still continuing.

Ms RATTRAY - I could probably challenge you on that at another time. It is not appropriate now but if I asked somebody locally about what they might be able to do in regard to TasNetworks, they will say, 'No, that's has been outsourced now and we can't do any of that.' There are some challenges around that.

Mr GUTWEIN - That is a method of either business procurement or contracting as opposed to a bringing together of an entity. In this case, the thing that changes is the owner and the attitude of the owner to getting things done.

Ms RATTRAY - I appreciate the opportunity. Thank you.

Mr FARRELL - Treasurer, one of our witnesses stated that Treasury has had its eyes on taking over TasWater for many years. You might like to reply to that. Were other options looked at, such as a cooperative way to work through with local government on a takeover process?

Mr GUTWEIN - In regard to other options, for nearly three years I have been making the Government's position perfectly clear; that is, we felt that the business could do more. The owners of the business continually resisted that. Last year, when that decision was made unilaterally by the board to do what I thought was a good thing - and I have said it publicly that I thought that was the right thing to do at the time - it crystallised in my mind the thinking of why

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has this not happened before? Why hasn't the appetite for investment and the appetite to get on with the job been evident within the company?

I spoke with local government earlier this year and outlined a range of options. We have always been of the view that we needed to get on with this. The point of the business being at a crisis point is a valid one. It was only last year at Estimates, the business itself explained the assets it was responsible for were deteriorating faster than they could be replaced. The Economic Regulator's report indicated one-third of the potable water it produces does not get used, it disappears. If this were a milk factory and it was losing one-third of the milk it produced, you would shut it down.

These questions have been raised by regulators year after year. I am sure you have copies of these, but the last couple of EPA reports from the last two years, the last two Economic Regulator's reports, I am happy to leave them with you. I have marked up the statements and the parts of these reports whereby the regulators continually make the point progress has not been satisfactory.

After a period of time urging local government as owners to do more, then it being demonstrated by the board in the absence of the will of local government not to do anything. That something more could be done crystallised in our mind and we needed to get more investment into the sector. We talked to local government about what those options might be. They had no appetite to do more themselves and so the state government decided it needed to.

Mr FARRELL - You have mentioned the legislation does not allow privatisation of the asset. Have there been any approaches made to the Government by private operators who are keen to take on the TasWater and sewerage?

Mr GUTWEIN - Nobody has turned up with a proposal to buy TasWater. There has been a lot of interest from those in the industry sectors. Many of them currently do work for TasWater in regards to what we are doing. We have made it perfectly clear that the provision of potable to a household and its sewerage services is something that should never be privatised.

Mr GAFFNEY - Treasurer, you have mentioned that for nearly three years you have been raising the question about TasWater's role and function. Could you provide us, please, with the first piece of correspondence or media report where you mentioned that? TasWater itself has only been in existence for four years? Here we have a fledgling company coming together in 2013 and you have mentioned 'nearly three years ago'. If you can provide that, not immediately, but at some stage, that would be handy.

Mr GUTWEIN - Mr Gaffney, I have brought for the benefit of the committee all the public statements that have been made. I engaged first back in late 2014 with TasWater. The first public statements are early in 2015 and then they run through for the last few years.

CHAIR - Are you happy to table that?

Mr GUTWEIN - I am happy to table it. The tab marked up is in relation to the speech I provided to the LGAT conference last year.

Mr GAFFNEY - It seems the Government believes it is far closer to the state of the industry than those who have been directors of TasWater and its corporation. When you look at the list of

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those who are or have been directors it is an extremely well credentialed list. Indeed many still have or continue to hold senior government board roles.

Does the Government believe it has more knowledge and a deeper understanding of the issues and the complexity than this group of highly capable and experienced people? Does the Government really think these directors would not have acted differently if they considered the sector was in crisis? You have mentioned the word 'crisis', which directly reflects upon the capacity of the board and I am interested because a number of those members are still on other government boards.

Mr GUTWEIN - To describe the circumstance the company is in as 'a crisis' is fair. When both the independent Economic Regulator and the chair of the business itself, describe a circumstance whereby the assets of the business are deteriorating faster than they can be fixed, that signals a crisis. When Tasmanians have had increases of up to 50 per cent since 2010-11 in the price they pay yet CPI has only been at around 7.5 per cent over that period, they are paying well in excess of the cost of living increases occurring and we are getting a worse environmental performance than back in 2009-10, that is a crisis.

You would have to ask the directors on the board their views about the performance of the business. If we, as a Government had been managing this corporation and turning up each year with an independent economic regulator report saying performance was not satisfactory, it was going backwards, and not sufficient investment, we would have been held to account on a daily basis in the Parliament. There is a crisis and for whatever reason the directors of the business are happy they lose a third of the water they produce. It sort of runs off the tongue quite easily - 25 000 megalitres amount of water lost. If you consider the cost of employment, chemicals and electricity to produce that water, yet one litre out of every three the business loses, then surely there is a problem there.

Mr GAFFNEY - You believe the skills of the board are not good enough to be able to go forward.

Mr GUTWEIN - Mike, what I am saying is you have to ask the board why these things are so clearly apparent and why they continued to pay dividends to the owners at the level they have.

Mr GAFFNEY - Clearly the board will need to be replaced, or members. You said some might go over. Why does the Government believe it can transfer the ownership and then everything will be okay? That is the issue. Transfer the ownership and we will not be losing a third of the water. A broken pipe that comes out in the bay over here, do not worry the Liberal Government will fix that. That was on Facebook the other day. I was quite surprised and amused that a member of parliament would say that: 'that would not happen under the Liberal Government'. How do you see that working?

Mr GUTWEIN - Mike, there has to be increased investment. That is a given. As a Government we are saying that we will get on with it and will invest. We will accelerate and bring forward the program. That is the commitment we are making because that is what should have happened over past years and it has not.

Mr GAFFNEY - Why was this not a policy? We often hear the Government had a mandate to do this because it is a policy they took to the 2014 election. You came out three years ago and stated you did not think it was doing a good job. It was not an issue at the 2014 election. Why do

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you not leave it to the 2018 election and have it as a policy issue there and have it as a mandate? Why are you trying to push this through now and not wait until after the next election? It is not that much of a crisis, Peter.

You would have to agree, Treasurer, that 99.2 per cent of the people in Tasmania get good drinking water. EPA has discovered two Environmental Impact Assessments in the last two years. The returns to councils were passed by Parliament in the last legislation, the dividends, and those returns are used by councils to provide lots of other services. I always get the impression when you go in the media on the attack that councils are squirreling away the money and not doing anything with it. We have heard from Hobart this morning that nothing is further from the truth.

Why you are trying to push this legislation through now? Why can't you let it wait until after the election? Then it will be a policy issue. Is that a risky strategy?

Mr GUTWEIN - You tell me. I am sitting before an upper House inquiry. You tell me what is risky. Something needs to be done about this. You can point to the -

Mr VALENTINE - The 0.8 per cent that cannot drink water?

Mr GUTWEIN - You can point to drinking water but you know that it took until last year, with lots of public urging, before the board unilaterally made a decision that annoyed all of its owners, or the vast majority. Last year the board unilaterally made a decision because the owners would not step up to the plate. You know that. It is too little too late. When you look at some of the problems we are facing, if you look at the regulatory discharge of waste water and that since 2009-10 it has become worse.

Mr GAFFNEY - The guidelines have not changed? The EPAs have not changed?

Mr GUTWEIN - If they have changed it is because that is for good public health reasons. That is something we all need to face up to, there will be changes over time. I believe the message you received from the head of the EPA yesterday is that it is not satisfactory, and that to some degree they are taking a light-touch approach because TasWater will not put the investment in. That was the sense I took from what was reported. I will read the full transcript with interest. I am not sure if you were there. The sense I had was the EPA was suggesting things were not satisfactory and they were not where they should be. I will not say they were having to turn a blind eye, but they are taking a very light-touch approach to some serious issues.

That is not good enough and we need to deal with it. A third of the water is just disappearing. The equivalent of 10 000 Olympic swimming pools of drinkable water does not reach customers.

Mr GAFFNEY - If it transfers to the state government, what timeframe will you offer for that to be fixed, that you will solve that? You think you have people around that will be able to magically make that happen -

Mr GUTWEIN - Mr Gaffney, what I am suggesting and have made it perfectly clear is that TasWater has a 10-year plan. Upon taking ownership of them, we will accelerate the investment and we will complete the final seven years in five. We will deliver the 10-year plan three years earlier than what has been proposed. We will also invest a further \$300 million. One thing is evident with TasWater's 10-year plan. I will provide context; you would all remember Michael

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Aird when he was first speaking about these things back in 2008-09. He said \$1 billion-worth of investment had to happen. There has been about \$700 million to date, I think.

TasWater is proposing \$1.5 billion over this current 10-year period. At the end of that there will be \$425 million-worth of renewals backlogged that they will not have begun work on. It is a \$2 billion problem now.

Mr VALENTINE - Give them money.

Mr GUTWEIN - They have had the capacity to do something for eight years. They have had the balance sheet to do something, whether as a regional corporation or as TasWater, and they have not.

Mr GAFFNEY - With all due respect, Treasurer, the amount of work that has been undertaken to get them to that point in the eight years has been exceptional. As the Minister for Planning and Local Government, I am surprised you would use that approach and say the local councils have not been working together as a group in going from what they had in 2006 to 2007 to what they now have in 2017.

TasWater presented to us here earlier and has very thoroughly set out documentation of what they have been doing and where their 10-year works will be. All we are hearing now in the last 15 or 18 months is that a few people have spoken to you about not being satisfied. We saw the member groups, the THA, the Property Council, the TCCI, come out to say they are not satisfied with one aspect, perhaps it is trade waste, and they are the people you regularly roll out to reinforce the Government's position.

What worries us is the minister of the day taking on board political persuasion about projects that may need to be put into place: Macquarie Point, Cameron Bay or the Tamar River. TasWater is at the stage that they could do all that but they do not believe they are a priority. Under the new bill, you, as minister or minister of the day, will be able to say this is a priority and this is where our funding is going to go. That is a concern.

Mr GUTWEIN - We have made it perfectly clear that we will accelerate the current 10-year plan and that those additional projects sit outside of that. We have added an additional \$300 million, which can either be used for further work on the backlog of renewals or could be used to begin work on those projects. We have an issue here. I find it perplexing you would argue for the status quo. The independent regulators have explained, and I have marked up the documents so you have them available, that their progress has been unacceptable. We have not had the outcomes we would like. We are going backward in many cases. If that is not an argument for increased investment and a new way forward, I do not know what is.

Mr GAFFNEY - My last question. We received information from the Australian Water Association yesterday. They were worried about the governance structure and your potential to consider the advice from the Economic Regulator, as on page 16 of your report. You can reduce the percentage return after considering advice from an economic regulator. That was a concern to the AWA. You, in your capacity within this framework, have the ability to determine the Economic Regulator's input or to consider his advice.

Mr GUTWEIN - The price setting: let me provide some background. This is the advice I have, to set your minds at rest. First, you understand we have a similar price setting arrangement

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with the MAIB, which has worked very well. We have seen premiums held at their current levels and a very good outcome for both customers and the business. What we are talking about is similar to models of price regulation in other states and territories.

In Western Australia, there are three government-owned water corporations established by legislation. The Western Australian government reviews and sets prices each year, which are prescribed in regulations. In South Australia, prices are regulated and are set by the economic regulator, the Essential Services Commission. When making the price determination, the commission must comply with the pricing order issued by the treasurer. Prices in Victoria and New South Wales are set independently. They have a similar system to us, but this is not unusual.

Western Australia does it, South Australia does it and we currently do it with MAIB. The beautiful thing about the process we have outlined is that it will be transparent. There will be a prices investigation over a period of time. That will be made public and the government of the day, the treasurer of the day, will set the price and it will be transparent. If there are things you the sector or consumers are uncomfortable with, it will be a fully transparent process.

Mr GAFFNEY - Thank you.

CHAIR - We were asked this morning if the state Government know what they are getting themselves into with TasWater. That might be interesting.

We had the THA join us to clarify their thoughts on trade waste. They were of the understanding that the Government might be able to change the goal posts and I am sure you cannot. Could you please elaborate on what changes there would be for the different people who have raised concerns if Government were to take over? I have had a few small businesses, takeaways and bakeries, concerned with what they can put in. Can they put a grease guard in or whether they could put something else in to meet the requirements of the regulator? The EPA is happy with putting a grease guard in, but they are not sure whether that meets the regulator concern.

Mr GUTWEIN - I have been very concerned with the trade waste circumstance. When you hear of businesses that outline reasons for closing - and there were two very well-known businesses in Launceston that recently closed - one of the reasons they took into account was the fact they had to invest in a grease trap; they could not afford that and then they closed.

I do not believe TasWater should put any business out of business. I have been hearing that it has not been prepared to engage in a collaborative way with businesses and become an enabler of business as opposed to an inhibitor.

We have said that we would like TasWater to stop the current process now and to engage with business to look at what other alternative technologies might be available. I have spoken with the EPA on a couple of occasions about this and I am comfortable that the EPA is satisfied that as long as the outfall into the system is treated and meets appropriate standards, the EPA doesn't mind what actually treats it. It just wants to be assured what is going into the system meets acceptable standards.

I have heard of small businesses that have looked at the Grease Guardian or other technology that is available and has been recommended by either their engineers or plumbers, when faced with a \$15 000 cost for a new or larger grease trap, had been told that for \$1200 to \$2000 they

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could put one of these alternative technologies in and get the same outcome. We have to be flexible to work with businesses to arrive at these more sensible outcomes. It does not seem that difficult to do that.

I picked up one comment from one of the people who was here this morning saying they heard TasWater say some of its staff might have been 'overzealous' - I think that was the word.

There are a lot of businesses out there feeling they only have the one option, albeit they have been provided with some time to look at that option. When provided with cheaper alternatives that can produce the same outcome, they are very frustrated they are not able to get more positive outcomes.

CHAIR - Thank you, I appreciate that.

Mr GAFFNEY - On that point, this is where it is a bit interesting. We have been informed by TasWater that trade waste is the biggest single contributor to sewage treatment plants' non-compliance. You come in here and argue, justifiably, that because they are not compliant, they are not doing their job. The national approach is what TasWater is using now to fix the problem and then, suddenly, you say it should be able to massage that and come to a better arrangement. In saying that, they are still going to be non-compliant. That is an interesting one.

Mr GUTWEIN - Mike, I didn't say that and I can't understand how you heard that. What I said was: in discussions with the EPA, it is concerned with what the outfall is, what is actually going into the system. Regarding the technology used to treat that wastewater, I think there needs to be a degree of flexibility. If there are cheaper options that businesses can use that will provide the same outcomes into the system, then I cannot see what the problem is.

Mr GAFFNEY - TasWater said about 2000 businesses complied and in that they had 10 complaints. That is interesting. Now there are 1500 others it still has to get to. Some who have been presented to us do have issues but if they do not pay for that, who does pay for that creative solution to their problem and issue?

Mr GUTWEIN - Mike, if a business is faced with a \$15 000 cost for a one-size-fits-all grease trap and can do something in line in their business with a Grease Guardian or some other type of technology at a much cheaper cost but still provide the appropriate level of treatment that meets the standards and regulations set, then what is wrong with that?

Mr GAFFNEY - TasWater said they had a Grease Guardian in some of the places. It said that was the solution for some of those issues.

Mr GUTWEIN - The point I am making and members around this table have heard from a lot of businesses that have not been able to have that sort of conversation with TasWater, and that is troubling.

Mr VALENTINE - TasWater, if I can come in here, understands that the Grease Guardian exists and can provide certain solutions at certain times but it has to be maintained properly. They have to make sure that those other facilities we talk about that might be a slightly cheaper option are actually going to work. Listening to them this morning, they were saying they have considered some of those aspects but what occurs at the bottom of the line is the real issue. That

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is where the EPA is down on TasWater to make sure it makes its plants compliant. The only way it can make its plants compliant is to make sure the facilities upstream are going to do the job.

Are you sure you understand how deep some of these problems and issues are when you want to take over? That is the big question I have. It is a complex thing. You would have to agree with that.

Mr GUTWEIN - The grease traps and trade waste is one issue, but it is symptomatic with some of the challenges that businesses feel they have with TasWater.

In regard to the solutions that I understand are available, what I know of them and from the discussions I have had with the EPA, the effluent, if I can call it that, the wastewater that flows into the system would be treated to a similar standard as that which would flow out of the grease trap. My understanding of some of the technologies is that if you do not appropriately clean them, then it backs up into your own business and therefore you have a real incentive to make certain you are keeping on top of the filtration arrangement that you put in place.

The point that businesses have been making to me in regard to this is that, in many cases, they have not even been able to have the conversation about alternative options. It surprises me that they have only had 10 complaints because I can assure you I have had more than that.

Mr VALENTINE - Is changing the ownership going to necessarily fix that? It might give them some comfort in the short term but in the long term they may still have to put the facility in because the EPA regulations require it. Are you going to see the solutions being able to be brought on line any faster?

Mr GUTWEIN - I would have thought, from what I understand about some of the technology that is available, that you would be able to implement that in a business in most instances quicker than what you could a grease trap, certainly in some of the locations that have been proposed. I can only speak about direct feedback that I have been getting from businesses in regard to these issues, and they have been frustrated. I do not know whether you have had any representations.

Mr VALENTINE - We have been through it. I remember years ago when I was mayor we had many issues with trade waste. I can understand the problem from top to bottom because we have had to deal with it. I guess the question is how fast you can make this happen.

I heard from TCCI representatives this morning, who said fast-tracking can create a boom and bust cycle. They were not in favour of the fast-tracking. They did not want to see that because of the fallout in the industry that you end up with a boom and a bust. Do you have a comment on that?

Mr GUTWEIN - I do. In our submission, we model the infrastructure spending that is occurring across the government businesses, the general government sector and the increased acceleration that we are looking for from TasWater. I am convinced, and Treasury has provided an assessment of this, that our economy can stand it. In fact, it would be good for the economy.

One of the things that we have is a very strong general government sector infrastructure program over four years. In the next couple of years, it is held up at around \$650 million as a result of the Royal Hobart Hospital. That will come off. From the point of view of our

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infrastructure, we have a target that we will increase spending to about 20 per cent above the long-term average but it will still come off from those highs currently. There is space within our economy for this to occur.

The other thing is in regard to the way we have structured our infrastructure plan. We accelerate the current 10-year plan and complete that in the five years post taking them over next year. We then ensure that there is \$100 million each year for additional investment for the following three. That also provides the space for looking at what the solution might be for Macquarie Point, the combined system and Camerons Bay. The combined system in Launceston has gone round and round for decades.

CHAIR - There were 9120 houses.

Mr GUTWEIN - We have put in place a task force where, by Christmas, based on the work already been done and solutions already been offered we will receive recommendations from the task force led by Infrastructure Tasmania as to what is the most appropriate way forward. We will be able to then strategically lay out a plan to do that. That has not been done before, but already we are able to reach into that space

CHAIR - I have been approached by a couple of employees with concerns if their jobs would be safe if there is a takeover; whether the current redundancies would still be in place or whether the Government would look at changes. I appreciate you looking at a different board structure, but with regard to administration and management, would everything else be staying the same? Would the current employees be the same and the current redundancies would still be in place? That has been asked of me by concerned people working within TasWater.

Mr GUTWEIN - The clearest statement I could make is no employee will lose their job as a result of the change of ownership.

CHAIR - If there are redundancies in place that will continue, there will not be changes and will be looked at later down the track?

Mr GUTWEIN - The current business is working through whatever programs and managing staff as it sees fit. The Government is very clear about this: there will be no job losses as a result of the change of ownership.

CHAIR - So it is board structure change?

Ms RATTRAY - It has been suggested Tasmania has not had any support for water and sewerage infrastructure reform from the federal government. Perhaps because all the water money has gone into irrigation while certainly welcomed, is why we possibly missed out. Do you see any better opportunity for sourcing some funds from the federal government under any new model?

Mr GUTWEIN - There will always be opportunities for us to work with our federal colleagues to get grants for a whole range of things and I see the opportunities in water and sewerage.

I have heard there have been some comments made that the Government did not try to get money out of the federal government last time and favoured the university. We had money in the

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budget for the university from 2015-16 on and at the last federal election the federal government was able to make its commitment and we were able to match it with funding we had.

In regards to water and sewerage we took forward the plan Miles Hampton had proposed for \$1.8 billion. To explain it very clearly two things happened: one is we had a \$500 million writedown in GST before the budget of 2016-17 and we had to manage our way through that. The flexibility we thought we had no longer existed. I spoke to a number of ministers and colleagues on the other point made by the federal government and to put it bluntly, you are asking for \$300 million for TasWater over a 10-year period but the owners are going to take \$300 million out and dividends over that period. It sounds a bit like an ATM.

Ms RATTRAY - What would be different if you are going to give councils a dividend for the next seven or eight years anyway? Wouldn't the federal government say, 'well, do not give the councils a dividend; fund what you need to out of the funds'. How will it be any different?

Mr GUTWEIN - The key point will be with one owner, rather than 29 to deal with, the federal government can have the confidence if it were to invest, that that money would be invested with state government support if necessary. I make the point, post the federal election cycle, there has been no appetite at a federal level for additional funding. Their budget circumstances, as we all well understand, is not as strong as Tasmania's in terms of surpluses and bottom line. We had to either kick the can down the road and say the feds will fix it, or we can get on and fix it ourselves. We have taken the view we need to get on and fix it ourselves.

Mr VALENTINE - It is virtually one owner now though people keep saying 29 owners. There are 29 owners but they have a single model and are shareholders. It is operating like any normal shareholder company would. The 29 owners is really a bit of a furphy in that sense?

Mr GUTWEIN - The 29 shareholders all have a view. Let us be clear, even in terms of this they are divided. They do not have a uniform position.

Mr VALENTINE - Divided? There are only four that have not backed it.

Mr GUTWEIN - That sounds like a division to me. It is not unanimous and you well understand that. I urge you to look at the evidence in respect of the independent regulators. What we want to do is get on with the job and fix a problem costing Tasmanians more and they are getting poorer out of it.

Mr VALENTINE - Thank you.

CHAIR - Treasurer, thank you very much for the submission and for coming in. It has been appreciated.

Mr GUTWEIN - Thanks for having me.

THE WITNESSES WITHDREW.

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Mr ALLAN GARCIA, CHIEF EXECUTIVE OFFICER, AND **Ms ALISON TURNER**, DIRECTOR INFRASTRUCTURE, REVIEW AND EVALUATION, DEPARTMENT OF STATE GROWTH, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR - Welcome and thank you very much for coming along. All evidence taken at this hearing is protected by parliamentary privilege but I remind you that any comments you make outside the hearing may not be afforded such privilege. A copy of the information for witnesses is available if you have not read it or are not aware of the process. The evidence you present is being recorded and the *Hansard* transcript will be published on the committee website when it becomes available.

If you would care to make a short statement to your submission and then we will have questions afterwards.

Mr GARCIA - Thank you. Our submission provides a covering letter with an update to a report we did on the acceleration of the TasWater program. I will speak about the covering letter a little later.

There were two parts to our investigation. The first element was the re-profiling of TasWater's 10-year capital plan as per its 1 January 2017 10-year financial plan and the identification of risks and constraints to achieve any acceleration. The re-profile was a desktop exercise to bring forward three years of expenditure without creating issues with project sequencing and delivery of capacity. The risks and constraints piece was informed by consultation and engagement with industry participants and experts. That included both local and national parties. There were some who work for TasWater, some who worked with TasWater in the past, and some who would have liked to be working with TasWater. We tried to be balanced in the responses we got. They ranged from engineering, pure contracting and consulting firms - the various layers of procurement in relation to TasWater operations. We also consulted with firms with extensive experience in the Australian water industry and who also operated internationally, and other firms with extensive experience managing and delivering large capital programs.

Our consultation led us to conclude that acceleration is possible and there are precedents in the water industry and other industries. We acknowledge that in our analysis we did look at other water industries, and we appreciate that there are differing levels of maturity in that process. Again, we were trying to find like-for-like comparisons and benchmarks. There are so many important fundamental things that need to be considered carefully; for instance the delivery model, the procurement strategy, the engagement with industry and the provision of information and certainty to the supply chain. The feedback indicates that industry has some current issues and frustrations in all of these areas.

We have engaged pitt&sherry to review our work and they supported the findings we had. They were engaged as a local firm with extensive experience in the industry. They are a firm that presently is not working with TasWater and we were seeking to find someone who was, if you will, independent from that.

The update was provided in recognition that we had interpreted some of TasWater's data in a particular way and made some assumptions, particularly relating to capitalised interest and programs. It was not fully articulated in the July report. The update that we provided to you

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seeks to provide some additional context on those matters. In large part, we treated capital interest in a particular way and we deviated from the 10-year numbers associated with TasWater. What we sought to do in the update was to bring it back to the TasWater numbers and demonstrate how we would treat capitalised interest in particular. Hopefully that clarifies it but if you have any questions on that, we are more than happy to respond.

Mr GAFFNEY - You mentioned the pitt&sherry report. I will read a section from it and am happy to hear your response. The Government has claimed that pitt&sherry has endorsed your report, but pitt&sherry say -

The plan is reasonable but with a significant caveat, given the amount of information provided while warning that the plan is not without significant risk and underscoring the importance of planning approvals and scoping.

Then they say -

... which takes significant effort and resource prior to delivering the works.

Would you call this a ringing endorsement? Or it just that pitt&sherry, as they would want to be, would be guarded? Yet the Government has come out and said that it is a ringing endorsement of it.

Mr GARCIA - I suppose a 'ringing endorsement' is hard, Michael. I think what pitt&sherry have professionally done is indicated that, with the access to the information they had available, their view was it was a reasonable proposition that the program could be accelerated. What they did not have, and what we did not have was access to if you will, was the pure data. We were really operating off publicly available data. In how those projects were delivered and the sequencing associated with them, we made various assumptions as to how we thought those projects would come on line, the planning that would be required in advance of that and how they would sequence beyond that.

In fairness to pitt&sherry, they have looked at the assumptions we have made, counted over the top of that and said: on the basis of what we see and what we know, the assumptions appear reasonably fair. On that basis, they could endorse the fact that the acceleration was possible. Is that a fair summation?

Ms TURNER - I might add to Allan's point. In the information that was available on the 10-year capital plan, we were going from a list of projects and programs without any detail about what is involved in each of those. I think that is where pitt&sherry are coming from: to say, without having detail on each specific project and what is involved, the extent of works and planning and the current status of each program, this is the best we can do at this point of time.

Mr GARCIA - Since the publication of our report, TasWater has brought forward projects we would not have anticipated would have been done until some years' time. They have their program. It is not year 1, year 2, year 3 through to year 10 absolute. Clearly, as opportunities have arisen they have brought forward projects. We have had a bare piece of paper. We did not consult with TasWater, for obvious reasons. Yes, that is the basis of that, Michael.

Mr GAFFNEY - Okay. Your report makes a clear statement that in considering the speeding up of the TasWater capital program, the Government told you that your report was to be

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based on the presumption that there was no financial constraint. Do you consider such an approach as an appropriate use of taxpayers' money?

Mr GARCIA - I think so, in the context of what that financial constraint means. We were judging that to be in the context that in order to procure the program there may be means by which you have to adjust the way the organisation or the business operates, whether that is processes or procedures or personnel or systems. It was not about throwing more money for capital at projects. It was more about the way in which you procured the delivery of the program.

If we were constrained by the current resources or a current element that is at TasWater without looking at what best practice might be to deliver that project, then I do not think we would be providing the right advice. In going to people who have expertise in the procurement of these types of capital programs and some of the ways you would deliver, our belief was that you would have to adjust certain things at TasWater. We did not name up pricing but that would come at a cost.

Is it a good use of taxpayers' money? The important thing is, if it delivers the projects on time or quicker, that then allows you to put your funding into other projects, then I suggest it is a good use of taxpayers' money.

Mr GAFFNEY - Your report suggests that the EPA is too risk-averse. Surely, from the position of Tasmania's clean, green image, you would want the EPA to be risk-averse? You sort of said that through your report. Isn't that what you want?

Mr GARCIA - I think the issue here is, the important thing for the EPA and TasWater is to work together and work early, and to get a good understanding of the process. I think there is frustration possibly on both sides as to how that relationship has worked. I think the EPA would prefer to have an earlier knowledge of what it is that TasWater is going to deliver and how it anticipates to deliver. Once you are going down a track, is that the path you are going to stay on?

This is a space where innovation is possible. We are not suggesting that the EPA become so risk-adverse that we just go down the experimental line. The risk element is probably more around the relationship. We are not saying that the EPA should throw away our clean, green image or take a huge risk but the reference around the relationship and how they work together is probably the more important component. I will pass to Alison because she has had the most engagement with that process.

Ms TURNER - I would add that we have not had feedback that the outcomes from the EPA approvals-type of process are wrong in that sense; it is more that we have had feedback around the time it takes to navigate the EPA approvals process. That might be caused by a number of reasons. In discussion with the EPA it has said it had some documentation issues between it and TasWater. They have now entered into an MOU to try to progress some of those things. Outcomes aside, if you want to accelerate the program, the time it takes at the moment to navigate the approvals process might be a constraint to achieving that.

Mr GARCIA - It is based a lot on the feedback we are getting from the players involved in these processes that there appears to be such a long time in the process. Should the EPA compromise on the outcome? No, probably not. Should we look at a more efficient way to make the system work? Probably so.

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Mr GAFFNEY - From a distance it looks as though local councils and TasWater and the four corporations that started it have navigated it and done the hard yards. When it first started up, there was a whole raft of issues they had to deal with and then it went to TasWater and it has been in existence for three or four years. It was getting runs on the board; compliance is quite good. There are some issues with the EPA but there have been two environmental infringement notices in the last two years; it is working through those. It has a 10-year plan that is manageable. It has stayed within its remit. The return to councils was legislated and passed by the parliament and yet that seems to be thrown in their faces. Why are they taking a dividend? Because they deserve a dividend and it is less than 2 per cent of the revenue.

With all those things, I can understand why local councils are feeling they have done all this hard work and now, when they see that it is heading in the right direction, the state government of the day comes over and says, 'We are going to take it over now; we have had a few complaints'.

Mr GARCIA - Staying within my remit, Mike, my remit is that we provide a report on the acceleration program of TasWater and whether it is possible. The answer is, our report believes it is possible.

Mr GAFFNEY - Thank you.

Ms RATTRAY - Can I take you and Alison to the risks and constraints in your submission? The TasWater representatives were challenged about the time it takes to roll out projects. They gave examples of where it gets started on something and then something else comes up and it has to stop, reassess where it was going for a more cost-effective outcome, and the like. Do you see that could well be an issue for any other entity as well, that you might think that you have a project ready to go, get started and then the wheels fall off, something else comes up, you find unintended or undiscovered consequences?

Mr GARCIA - In fairness, Tania, that is business as usual and it would be silly to accept that a change of ownership is going to overcome that. The reference to our delay factor comes again from the feedback; the feedback being the length of time in the procurement process even once a contract is granted, the time to get started on a project. We have had feedback from contractors having to forgo other tasks, waiting to be put into play and it has not come, and then they may have missed out. They may have even arguably sought to withdraw had they been able to do something else. What you say is valid.

There will be issues arising, whether it is an emergency or a disaster or a higher priority issue that comes up and of course you are going to have to change business as usual. That would not change under a change of ownership. That is not our reference here. Our reference here is more the feedback and the frustration from parties - not just contractors but consultants as well - about being involved and working through a process, having to go a long way back and go again. That may be new data, it may be new information, it may be a new circumstance, but I present to you what has been presented to us: the level of frustration about the lengths of those delays.

Ms RATTRAY - That brings me to my next point. In relation to using external contractors from outside the state, we also challenged TasWater on that. Most of us have heard complaints that locals miss out on the tender but end up getting the work under a subcontract. They are effectively doing the work and yet they were not good enough to give the tender to; somebody else takes the cream and does not do the work. The information given back to the committee was that they are building capacity within the Tasmanian community around that. I am interested in

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your feedback given that you did speak to some of those contractors who probably shared the frustration that we have heard of as elected members.

Mr GARCIA - It is a really hard one. In the consulting space there would be many who would say they would like to have the opportunity to build their capacity at the level rather than a sublevel in the contracting space. This is not a new phenomenon. We have the same problem in the roads area where locals are beaten by a mainland concern, a bigger concern, and then they find themselves subcontracting. It is not a new phenomenon in Tasmania.

There are ways you can go around capacity building. You can do capacity building in a very overt way. You can engage with the industry, you can bring the industry in, you can share the knowledge, and you can build the knowledge. Or you can put things to market and hope they get a fair swag. Again, the feedback is that perhaps the relationship with industry has not been as close or as team-building as the industry would like it to be. Those that are winning work - I won't say they are few and far between, but there might be a greater capacity for competitiveness if there were a more overt relationship with industry.

Ms TURNER - I think that is right. Following on from that, there are two aspects to having more certainty or transparency around a forward program of work over a longer period of time. From a local industry perspective, that allows them to make decisions about when they might want to gear up, potentially. Equally, we have heard from some of the national players who operate in this space that giving certainty to the supply chain and transparency around that forward program of work is essential to successfully delivering a program in a cost-effective way. The more information you can provide earlier, the better for the overall delivery of the program.

Ms RATTRAY - Can we touch on the workforce? Do you see that there will be that reform fatigue that was referenced in the report? If this goes forward and government does take over, do you see that that will be an issue? Or do you think, as the Treasurer said, not much will change except that there will be that acceleration of projects and more money coming in, with strong government support? Do you see that being an issue?

Mr GARCIA - The Treasurer can speak for himself on that.

Ms RATTRAY - He did.

Mr GARCIA - He did, but for the activity we talk about, there would be a sliver of the organisation that would be impacted more by what we are proposing in terms of the acceleration; with the procurement piece, the contracting piece and certainly the service delivery piece there would be people affected. Is it reform fatigue, or is it just a new process for delivery? I am not sure. We all go through change, and this organisation has probably been through more than most in more recent times -

Ms RATTRAY - The Education department might argue it has had its fair share.

Mr GARCIA - Sure, and Health might as well. With the piece we have had to provide, there will be an arm of the organisation that would come under scrutiny in terms of the mode of operation currently but, like most organisations, you would probably treat this as, for want of a better word, a business improvement activity. In that regard, everybody should be endeavouring to get the best out of their organisation. As to the notion of reform fatigue, this is not about

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reform. This is about getting a better outcome. I do not think that is reform. That, to me, is business as usual.

Mr VALENTINE - In reading your front letter, there is a whole heap of observations made about the data you have used and where you are getting it from and all those sorts of things. Sewerage and water is a very complex area, as you no doubt have come to understand through previous iterations of your life. Is it possible for you to give some degree of understanding as to how achievable this is in the time frame that is being put forward? What degree of confidence can we have in this report before us? Is it 95 per cent? Is it 75 per cent? Where would you place that line?

Mr GARCIA - Rob, we have not put our finger up in the air with a lick and hope it might happen.

Mr VALENTINE - It is more than that.

Mr GARCIA - We have consulted with people who we believe have more expertise in this area than us. It is complex in terms of the type of project, the size of the project, the sequencing and reliance of certain projects. All that aside, the advice we have had is that looking at what we understand to be that 10-year program - I will probably be castigated later on - I would say a 90 to 95 per cent certainty if you want a number. We would be in that order. On the basis of the expert advice and the input that we have had, we would be confident that the delivery can be there. Remember we make some assumptions here and I do not want to assume that number away. We do make assumptions about the fact that you will have to change the organisation in how it currently operates. Given the fact that you do put into place the things that are required to be put in place in procurement, contract management and service delivery, the likelihood of that being achieved goes much higher. Do not do those things and it may not happen as well.

Mr VALENTINE - I appreciate your honesty there. Obviously, you have a job to do and you have done it to the best of your capacity with the resources you have available to you.

This morning TCCI representatives made a statement that 'fast-tracking can create a boom and bust cycle' and they do not support the fast-tracking component of this. They support the overall takeover but they do not support the fast-tracking because of that boom and bust cycle. Do you have a comment on whether that is a real issue that needs to be considered, or do you see it as one of those lower-level concerns?

Mr GARCIA - Knowing this sector as I do and I have over the last decade, I do not think there is a bust factor in this. It is all boom. We know what has to be done over the next decade; if we make that happen in seven years and we have the resources available to do it, we know that in the three out years we still have the same annual spend, so the boom does not stop.

Mr VALENTINE - It is just on the backlog. Is that what you are talking about?

Mr GARCIA - Yes, so you can then turn your attention to some of the other backlog issues or some of the strategic issues that need to be resolved. I get the fact that if we were accelerating for, say, three years and then we were not quite sure after that. We are saying there would be a consistent ramp-up over seven years but we would anticipate eight to 10 years and beyond would stay at the same sort of levels. There may be a slight drop-off but I would not anticipate that. This is not like injecting money into, say, a housing industry to get us over a hump or to get us

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over a hollow to create a hump. This is basically a 10-year flat-out spend to catch up to where we need to be.

This is not a boom and bust sector. This is a boom for a decade and then, probably in about year five or six, you would be seeing what you would look like 10 years out, and it may come off because ultimately we should reach a threshold where a lot of the back work has then been completed.

Mr VALENTINE - Thank you.

Ms RATTRAY - I am going to ask a question that I have been thinking about for a while. You may not be able to answer it, or may choose not to. Is there any need for an alternative entity to be a GBE? Could it just be a department and we save a lot of money? If there is a plan of projects, do we actually need a board to oversee it? It is a significant amount of money. That is a criticism I have heard around the traps - look at the cost of having that board. If you are prepared to have a view, does it need a GBE or can it be a department?

Mr GARCIA - I am happy to have a stab. What the board should bring to the organisation is that we are talking about the utility and a commercial operation. You want to have commercial people running it at the executive level. What the board should and hopefully does bring - this board does and a future board would - is a level of business acumen that would add value to the delivery. The GBE provides an arm's length relationship with government. For those who would be concerned about political interference, it would be -

Ms RATTRAY - About which there is a view.

Mr GARCIA - There is a view. It would be reasonable to assume that that interference is much less likely and more difficult in a GBE context than it is in a departmental context. In a departmental context, fairly much the minister can intervene or choose to advise or ask questions about order and the like. In a GBE process you have a higher degree of public scrutiny and a higher degree of reporting. There is a higher degree of scrutiny, ideally through the parliament, as well. There are ups and downs but for this type of activity it is a big budget. You would probably want to put it in a place where the board was not just seen to be adding value but was adding value; and you also have that accountability and arm's length from government in the transparency associated with the delivery of the program.

Ms RATTRAY - Thank you. We heard this afternoon from the Treasurer that the model where government sets the pricing is quite evident around the country. That part of it is that the government could set the price, just like he cited MAIB as being something where the government sets the price and then the organisation looks after it from there. If there is going to be so much government involvement, do you necessarily need to have that structure? I appreciate the answer and I acknowledge that you have made some very valid points.

Ms TURNER - Tania, in the discussions that we have had with the capital program management experts with extensive experience, the key things that they have said to us as well about critical success is having very strong governance and leadership that sit over the top of these types of programs. That relates to decision-making and really allocation of roles and responsibilities and allocation of risks. That ties in with Allan's points on leadership.

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Ms RATTRAY - We heard that from the Australian Water Association who provided some very strong evidence exactly in that line. I thought I would take the opportunity to challenge somebody who has a lot of understanding and history of both local government and where you sit today.

Mr GAFFNEY - The minister or the Treasurer or whoever is going to have power - governments can change every four years. Ministers change quite often because they go from portfolio to portfolio. The one thing about what is happening in TasWater at the moment is there is a consistency of the board members and the leadership capacity there. They are experienced so there is some continuity in what they are doing and in what they are aiming to do. The government of the day could change every four years. So the priorities of that organisation could change. It says here 2024 and 2026 we could bring Macquarie Point ahead a little bit earlier because it is one of the things we want down here in the south, or we could do the Tamar River because that should have been done years ago and nobody has been doing anything. TasWater said if they had unlimited and unrestrained finances, as in the model, they could have done that as well. They have been responsible managers of the funds they have had in an effective way.

I am still a bit concerned about having the brief to go out and change things. Will this work? Don't worry about the money, but will this work? As you well know the first year they were supposed to go into operation there was the cap put on by the Bartlett government at the time which totally threw out their 10-year plan. So government interference has not always been beneficial to that organisation. They are probably getting to a time now where they are the masters of their own destiny and then suddenly the government of the day is coming around again and making changes. I am concerned about the capacity of leadership change and also unreserved funding for projects.

Mr GARCIA - To your first point. The issue of governments changing, if we were concerned in this regard with TasWater we would be as concerned - and maybe you are, I am not sure - with Hydro, Aurora and other GBEs that are operating. Governments come and governments go. Ministers change. The boards do not change at the same time. I do not believe I have seen in my time a government change and then a board of a GBE changed overnight. So in terms of that arm's length value of having your strong leadership being your board of a GBE, the minister can set goals and ideally provide the expectations as councils do currently with TasWater. The TasWater charter effectively is based on a GBE. Changing from government to government, the opportunity comes around when it does. These are my expectations as minister - or these are the government's expectations - and then it is up to the board to make those judgments as to how it can deliver it.

Any direction by the minister, the formal direction, has to be tabled in parliament and is available for scrutiny. If you contemplate the fact that you are going to get a potential direction from one owner and an expectation from one owner at one level that might be a bit easier than having to balance 29 owners in an expectation level. Ideally that expectation is a single voice because you have gone through your sifting in the beginning so that should not make any difference whatsoever. You know and I know that outside that room there are many people who are the owners with a number of ideas about what they would like to see.

I do not think in terms of putting it into a GBE model you have a circumstance where you will necessarily obviate government interference and I would cite the GBEs that exist at the present time. I do not imagine that we are seeing the likes of the Hydro, or the energy companies and others, being dictated to by the government and the minister of the day every board meeting.

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Mr GAFFNEY - Do you think the Tasmanian community should be concerned that the remit of the current TasWater was to ensure that they worked with the EPA and the DHHS to ensure that areas of most urgency, or the greatest need, should be dealt with first? They had to prioritise where they spent money, what projects they undertook. Do you believe if that is the case going into the future that TasWater has said there is no need, for example, on a safety EPA value for Macquarie Point to have any more than a bit of money spent on maintenance because it is doing the job that it is supposed to do?

One of the concerns is if the government of the day or the minister says, 'this Macquarie Point is a very big item for us so that has priority' and some of these other ones that TasWater had to look after as their remit will be put on the backburner because that is more important for the government of the day than some of the other issues that have been identified beforehand. I suppose that is one of the concerns that has been raised, that this is just a smokescreen to be able to get those couple of projects up and running.

Mr GARCIA - The Government has stated that Macquarie Point is a 30-year vision and in that horizon you would anticipate maybe something would happen to the Mac Point treatment plant. I am very much aware of TasWater's position that this is a plant that now is operating at a level you would say is all but compliant, if not compliant. They have invested the funds. There has been some changes of operation up the stream in terms of Cascade, in terms of the old tannery, so the trade waste is not going to where it was so it is a much easier task for the treatment plant. Ideally it would be a good thing to have it away from Macquarie Point to allow that site to reach its full potential. In future, a business case may demonstrate that that is a good scenario. At this point in time the business case does not reflect that. I think its time will come potentially but at the moment I am very much aware of TasWater's position that it is a plant that, with an investment on management and maintenance for the next decade, potentially two decades, from their perspective it is a valid operational element.

Mr VALENTINE - I was checking out the table just in front of the letter and I found a couple of mistakes in the tables so I am not sure whether it is the Excel spreadsheet's problem or what. It is only small so I guess it is not going to make too much of a difference.

Mr GARCIA - If you would like to question it I am happy to provide you with some information out of session. More than happy.

CHAIR - Thank you very much for coming in and thank you very much for your submission.

Mr GARCIA - Thank you for the opportunity.

Mr VALENTINE - It was about \$3000 out, Allan. I just thought I would let you know that.

Mr GARCIA - Thank you.

THE WITNESSES WITHDREW.

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Mr BRIAN NEIL WIGHTMAN, EXECUTIVE DIRECTOR, TASMANIA, PROPERTY COUNCIL OF AUSTRALIA AND **Mr ROBERT STEPHEN ROCKEFELLER**, TREASURER, PROPERTY COUNCIL OF AUSTRALIA, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR - Thank you very much for coming along and for putting your submission in. The evidence taken at this hearing is protected by parliamentary privilege but I need to remind you that any comments you make outside the hearing may not be afforded such privilege. A copy of the information for witnesses is available if you have not read it or you are not aware of the process.

The evidence you present is being recorded and the *Hansard* version will be published on the committee website when it becomes available. If you would like to make a short comment or statement, then members will follow up with questions.

Mr WIGHTMAN - Thank you very much, Chair. I will invite Robert to make an opening statement.

Mr ROCKEFELLER - When we started preparing for the presentation of the select committee, I thought I would present the London Economics Report from 1995, various submissions to the National Competition Council from 2000 to 2003, submissions to LGAT and GPOC over the last 20 years, and various letters to local councils, boards of inquiry, as well as the state government and House of Representatives standing committees in Canberra. Then I thought of a quote from Steve Jobs: 'Let's go and invent tomorrow instead of worrying about what happened yesterday.'

Personally, I feel that it is a sad state of affairs when major Tasmanian infrastructure assets are being argued over by 'he said this' and 'you said that'. It has all become personal and political. The question that needs to be asked is: what is in the best interests of consumers and the state for the next five, 10 and 50 years?

That is the question, and that is what you, as leaders, need to ask yourselves. What is in the best interests of the state and consumers? Who should be responsible? Who should be accountable? If you were creating a new state, what would the structure be? The experiment of local government being involved in water and sewerage has not worked. We have had it for 100 years. In the last decade, we have had four water corporations, then three and now one. There have been tens of millions of dollars of waste incurred in this restructuring. The mission of these restructures has always been to try to protect vested and political interests without thinking about what is in the best interests of consumers or Tasmania.

Who has the financial capacity to fix the problems? Who has the financial capacity and ability to fix the unforeseen issues over the next 50 or 100 years? It is time to finish the experiment. The consumer has had enough, the environment has had enough, and Tasmania needs a clear path. Does anyone today really think doing nothing and keeping the status quo will result in these issues going away? They were supposed to 10 years ago, with the commitment when the four water corporations were created. The answer is, they have not.

We have wasted 10 years because we did not have the right ownership and accountability structure, and we did not have the right regulatory regime. Selling assets or raising money from third parties to fund infrastructure to private sector monopoly providers is a recipe for disaster.

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You just have to look at the gaming by monopoly private business providers to see how the consumer is being ripped off in the electricity sector.

Thank goodness the state owns the electricity assets in Tasmania. When things go wrong or investment is needed, the state can step in. The under-investment in water and sewerage assets, and particularly wastewater, is mind-boggling. In my opinion, the numbers will only be larger in the future than what has been estimated by government. They always are.

The capital required in the borrowing capacity of the state will be needed to meet capital shortfalls. There will be no dividends; there will be no rivers of gold. The amount of capital investment required will result in more capital being invested year in, year out. They are never paid in little miserly dividends. This is a furphy by snake oil salesmen and needs to be dismissed.

Some may ask: is there a crisis? Our answer to this is yes, and it is on a few fronts which might be different from the Government's perspective. There is a compliance crisis. There is an accountability crisis. There is lack of capacity and willingness to spend capital and fix problems. Above all, the real crisis is the pricing of water and sewerage to residential users. There is a philosophy of TasWater protecting revenue and gouging the common residential user by having high fixed costs and low variable pricing. The Property Council has been on the record, over many years, saying the residential user is being ripped off. There is a lack of will to price ETs appropriately. The attitude and philosophy of managing the legacy trade waste issues and using an iron fist with small- and medium-sized businesses that have little capacity to pay is unconscionable. If any of you had to deal with TasWater over the last 10 years, you would know exactly what I mean. It is our opinion that the Crown would be far more understanding and a compassionate owner of TasWater for all Tasmanians.

It is critical that you as leaders in the Legislative Council lead. We believe that you saying no and just refusing the legislation is unacceptable. You would not be leading and it would demonstrate that you do not have the answers and are just road blocks. It does not solve the problem of what is in the best interests of Tasmania. If the Legislative Council is not happy with the changes or the oversight or the powers of the minister in the legislation, then put forward changes. Add in the Ombudsman, compliance requirements or requirements to come before the Legislative Council twice a year.

There is only one issue which may be of concern regarding the reduction of dividends, and that is how it affects low-revenue-growing councils. By 2024 or thereabouts, the major regions where there is growth will have had a significant increase in their revenue base. Losing dividends or dividend guarantees will not affect their business. Revenue from property taxes will more than offset any declines and, in fact, the investment by TasWater will only enhance the revenue. This is applicable to areas like Brighton, Launceston, Devonport, Burnie, Sorell, Kingborough, Clarence, Huonville, Hobart, Glenorchy and Latrobe.

The areas which might suffer are the smaller councils with low growth, such as King Island, Flinders Island, Circular Head, the west coast, Central Highlands, Dorset and Kentish. These are the ones which, in our opinion, the Legislative Council should be concerned about. Therefore they may like to consider compensation through other avenues such as the Commonwealth Grants Commission.

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In our opinion, the councils have been given a 'get out of jail free' card. How long can GPOC, the EPA, the government and the public tolerate non-compliance and price increases whilst shareholders take up dividends and the under-investment continues?

It is irresponsible for members of parliament, the regulators, to keep allowing this to happen. This non-compliance by local government and associated entities would never have been allowed to occur if they were private sector entities over a period of decades taking up dividends and not investing capital. The company and directors would have been fined and sued for non-compliance. Brand Tasmania and Tasmania deserve better. It is time to move from a broken model with limited accountability to a model with accountability and the ultimate arbiter not being the EPA, not being GPOC, but the electorate.

It is in your hands. As Steve Jobs said, 'Let's go and invent tomorrow instead of worrying about what happened yesterday'.

CHAIR - Thank you. The first question is from Mr Valentine.

Mr VALENTINE - If we were starting off with a blank sheet, a lot of what you are saying would make sense, but we do not have a blank sheet. Let us say we had a number of private individuals who had put investment into certain infrastructure and the government said, 'We want to do this better. We want to come in over the top and create an organisation that is going to deliver better services to the people of Tasmania'. What sort of process would you see being put in place to make sure that you, as a private developer, received your value back out of what you had created, which the government is now about to use? How would you see that being handled by the government?

Mr ROCKEFELLER - There is a business today which is under-invested in and non-compliant. If I was the government today, I would force the shareholders to put in the appropriate level of money and comply. If they did not, I would put them in jail for non-compliance. They have breached and broken the laws for years. Everyone in the political realm has allowed it to happen. Whether it is the Environmental Protection Authority, the Government Prices Oversight Commission, the Legislative Council, whether it is Local Government Association of Tasmania - everyone has been in on it.

The first thing I would do is make the people put back the money they have taken out. If you go back you would know these businesses should have been ring-fenced. You know the money was actually taken from the actual businesses. They were supposed to be corporatised. The state government allowed them breaches in the National Competition Council. It has been a continuation and has been gained and is time to be changed.

If you want to go back, I would say make everyone compliant. Enforce the rules. Make the councils put in the money instead of taking it out.

Mr VALENTINE - Those who have put in the money invested the money in the first place, and you know it has happened at different levels across the state. Yes, there were 29 councils doing their own thing. We all understand that. This one organisation is then developed. You have 29 owners that have had various levels of input in terms of asset values being put into that one set of assets now handled by TasWater. How do you make sure those people, like Hobart with originally \$430 million, then revalued to \$236 million and now down to \$100 million get back the value back they put into it?

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Mr ROCKEFELLER - I will explain something: it is not worth anything. The contingent liabilities in relation to the business are in billions of dollars. In the next 10 years to 15 years, Hobart is going to have to spend anywhere between \$500 million and \$1 billion in relation to sewerage treatment plants. They have been given a 'get out of jail' card.

Mr VALENTINE - Sorry, are you saying Hobart or TasWater? TasWater own it now.

Mr ROCKEFELLER - Hobart is a shareholder, so they are going to have to put up capital. The Property Council says should be capital calls in relation to these businesses. You cannot be taking out dividends, when in fact the problem with this business is hundreds of millions of dollars shortage of capital.

Then the other aspect is what people fail to understand. There is a limit as to how much the consumer can pay. This is the thing which is significantly forgotten about. The only person who can step in, limit increases and provide protection is the state government. You see them doing that today in relation to electricity prices. That is really important. The consumer cannot keep on affording to pay the cost of these increases. TasWater has made higher and higher components of fixed cost to protect their revenue sources. They have made it impossible for low users to reduce their water bills.

What they have done to business in relation to trade waste is an absolute disgrace. You cannot separate these little things out in terms of what is actually happening. If I was any of these councils, I would say take it because I do not want the future contingent liabilities. This is the biggest 'get out of jail' card because I will tell you what is really going to happen if you do not deal with the problem. If you do not think the EPA is going to take a much harder line. If you do not think the Government Prices Oversight Commission has had enough and is going to say enough is enough, lift your game because we are not going to be the bunnies.

Mr WIGHTMAN - Can I make the point you said, 'we are not starting again, we are arriving at a different point'. I still make the point in 2008 and my understanding of a GBE, it would have been the optimal decision at that time to create the TasWater GBE. That would have been the way they would have gone about it. Obviously there were some discussions had and not the way it eventuated. For example, you would not split Hydro between the councils. This is the most basic service provision in the state, and the people who should be providing that is the government. The government should own and manage TasWater.

Mr VALENTINE - If the government had stumped up the cash in the first place, they could have actually paid that infrastructure money back to the councils and then taken it over. The Labor government refused.

Mr WIGHTMAN - The infrastructure is non-compliant, so when you are talking about an asset, you are talking about an asset class. You are talking about it like it is a Rolls-Royce. It is not a Rolls-Royce, is it non-compliant.

Mr VALENTINE - No, I understand.

Mr WIGHTMAN - Look at the regulatory issues right across the state: 953 effluent spills into the Tamar River out of the Margaret Street Pump Station. What more example do you want of compliance?

PUBLIC

Mr VALENTINE - Go to the TasWater annual report and see they have made huge gains in that regard. They have reduced the spills and increased their performance in all sorts of ways, understanding they have had it for a certain period of time and inherited it. It was not a perfect system when they took it over.

Mr WIGHTMAN - They took it over because we had raw sewage on Salamanca, if you recall.

Mr VALENTINE - Yes, I do recall. That was not a sewage problem. That was a stormwater problem which local government runs. You are still going to have that happening.

Mr WIGHTMAN - Which turned into a sewage problem.

Mr VALENTINE - You are still going to have that happening. There is a group of organisations, councils in this instance, that have put in a certain amount of money to put the pipes in the grounds. Yes, there are compliance issues. I would not deny that for one moment. How do you recompense those costs of putting that infrastructure in the ground? Compliant or otherwise, it is still there and you are still able to work with it. How do you do that effectively?

Mr ROCKEFELLER - I can answer that. As a ratepayer of Hobart, I was paying water and sewerage fees. Those water and sewerage fees never went to the assets. They were siphoned off.

Mr VALENTINE - Under national competition policy?

Mr ROCKEFELLER - It was rorted. There is no corporatisation of the assets. They were siphoned off.

Mr VALENTINE - And put into -

Mr ROCKEFELLER - General revenue.

Mr VALENTINE - No, but they were put into projects.

Mr ROCKEFELLER - They were put into general revenue. They were not put in and reinvested into the water and sewerage assets.

Mr VALENTINE - That is right. I agree with that.

Mr ROCKEFELLER - That is exactly right. As a ratepayer, I would like the councils to actually bring the money back they wanted for other activities. As I presented to the local government association over 15 years ago, too much time in local government was spent on spending money and not investing money. Not enough time was spent on their core business.

One of their core businesses and single largest asset was water and sewer assets, and they spent very little time on that. They were more interested in fares, overseas trips and a whole range of other activities. As a ratepayer, which is where this started 20 years ago, I was asking, where is my money being spent? I have service fees and rates, it is not being spent where it is supposed to be spent.

PUBLIC

If they did the right thing over the last x number of years, we probably would not be in this situation, but unfortunately we are. I go back to what Steve Jobs said, 'It is time to move on. Let us invent the future.' Let us get it right. Let us get the accountability. The one thing about the accountability is the state government, or any government for that matter, is going to be making promises to the community of Tasmania. If they break those promises, they can get turfed out at the next election or the election after that. That is the true accountability of this system we are talking about.

Unfortunately, with TasWater and when 29 councils owned it, there was no accountability. You could not turf them out. You cannot turf out 14 or eight councillors. You cannot have a total mandate. In my opinion, and I could go through the history, the Local Government Board, GPOC and the National Competition Council never did me a service. The Treasury of Tasmania wanted to fight against the national competition because they wanted their national competition payments.

The place has been gained for far too long. Let us do what is in the best interests of consumers. Let us do what is in the best interests of Tasmania. I am about growing Tasmania. I am about giving my children opportunities in Tasmania. I am about improving the education standards. I am about giving job opportunities and I want to thrive in Tasmania. I will tell you what: leaving it the way it is will not deliver economic growth and environmental compliance.

Mr GAFFNEY - In the context that your membership is commercial, property owners and developers, do think they have been beneficiaries of the reforms to date with lower water and sewerage charges as TasWater has moved away from pricing from property-based values and the removal of headwork charges?

Mr WIGHTMAN - Our membership is far broader than that. It is often talked about that it is just property developers or investors. We actually are right across the property sector. It is not just those who invest. It is those who provide services to those investors. It could be planners, architects, lawyers -

Mr GAFFNEY - Do they sign up to the Property Council?

Mr WIGHTMAN - Absolutely. I will give you a little background.

Mr GAFFNEY - I have to say I am not very impressed with the aggressive nature we have taken across the table at the moment. I am a bit concerned that as a committee we are sitting here listening to presentations and I am a bit concerned about where this is going. I want to have a conversation. I do not want to be talked at.

Mr WIGHTMAN - Mike, I am not an aggressive character. I was not trying to be aggressive in that instance. Sorry, honourable member.

What I was saying was that the Property Council is far broader in its membership base than you would probably think. So it does not just include the investors and the developers; it includes all those companies that provide services right across that.

Mr GAFFNEY - I saw 13 000 Tasmanians.

Mr WIGHTMAN - Yes, that is right across the property sector. From real estate to planning, engineers - people right across the sector.

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Mr GAFFNEY - Can you go back to the question regarding lower water and sewerage charges?

Mr ROCKEFELLER - You are exactly right. They have received windfalls because there has been massive cross-subsidisations and councils did not price their services appropriately.

The submissions of the Property Council over the years have always stated that too much money was being transferred to property owners. If you read the submissions to GPOC and you also read the submissions to TasWater, they have always said they should not be giving as much money back to commercial property owners. Those submissions have fallen on deaf ears. We, myself personally, am extremely concerned about the low income per se and that there needs to be equity within the system.

Unfortunately, both the pricing regulator and also TasWater and the previous corporations have not taken that into consideration. So in relation to meters for example, there should be much higher fixed costs in relation to larger size meters. The higher water users, like my own residential house, should pay a much higher usage fee. Water in equals water out. If you are a commercial building what has happened is the fixed costs have gone down and because they are pricing water at \$1 a kilolitre if they were charging it at \$2.50 the buildings would be paying 2.5 times more.

This is all the different types of things where we feel - I personally feel - the system is seriously broken. The poor residential person is getting seriously ripped off and no-one is willing to listen.

I could take you to the other side where small- to medium-sized businesses with trade business is getting done over like you would not believe. When they started their business they were compliant. Councils gave them the approvals. Then other people came and said it is okay. Now they come back and say you need three times the size and you have to re-do it. They say we are going to shut you down. The cost is prohibitively high. There is no equity in their business. No-one is willing to listen.

Mr VALENTINE - It is the regulations doing that though. It is not the councils.

Mr ROCKEFELLER - If I was running TasWater, I have told them many times before, there are better ways of doing it than what they are doing.

Mr VALENTINE - It is not TasWater's call. This is what I am saying.

Mr ROCKEFELLER - It is TasWater's call. It would be how you fund it. How you actually make it. What they ended up doing is, they have one obligation with the property owner, which is where the bill is, and then they are trying to enforce it with the business. You say, 'The bill actually goes to the property owner, not to the business'. Then you say, 'Well, how should you finance this when you gave compliance or your predecessor - the Hobart City Council, the Latrobe council, the Burnie council - actually gave you approvals?'. I sit there and say, 'I actually think it is the Burnie council that should be paying for it, or the Hobart City Council, because I did the right thing. I complied originally. I should be grandfathered'.

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The point is, this thing is seriously broken. The people running it, TasWater, are not willing to listen. They do not need to listen. Doug Chipman says, 'You have problems, come and speak to me' and I am thinking, speak to Doug Chipman? Where does he fit into this process? Who is he representing? Is he representing the council as a 3 per cent shareholder and he is just the mayor? He has no authority in relation to TasWater. He does not sit on the advisory committee as a shareholder rep. What am I seeing Doug Chipman for? I have a better chance of going into an electorate office of a member of the House of Assembly and talking to them, and that is where it should sit.

Mr WIGHTMAN - To go to your point about headworks charges, we were very supportive of the Government's stimulus around headworks charges. They funded it from 2014 to 2016 with a \$5 million grant. Then the ongoing headworks holiday, as it was called, was funded out of administrative savings found within TasWater, and we have been very supportive of that. The network is limited in regard to receiving those headworks holidays but we called for the headworks holidays to start with and, as I said, we have been supportive of that.

We have also worked well with the TasWater employees, you could say, at a local level with our developers and investors in particular and all the services that come from those people. We have maintained an outstanding relationship with them. This has never been about the individual workers. This has been about the structure of the corporation.

Mr FARRELL - I do not know if you have any thoughts around this, but as often happens in politics, and you would be well aware of that, do you feel that maybe the whole process has been happening the wrong way around? We are now looking at it at the end of a process that has been somewhat, well some consider, quite aggressive from the Treasurer towards local government. The way it has been handled has caused a lot of division in the community. There has been a whole lot of personality issues brought into it and, in that, the whole issue of the ownership and the process of TasWater may have become a little lost.

Would it have been a much better process to have a collaborative approach, a discussion with TasWater - bring them in on it - and then override the political issue? It has happened at the last moment before a state election, so it is naturally going to be a political situation.

Mr WIGHTMAN - I would say, first, nice try, but I am not going to comment on the politics of the matter at all because that is not my role to comment on the politics.

Mr FARRELL - I would not expect you to.

Mr WIGHTMAN - As the Property Council we have been completely focused on trying to find a solution. The relationship between the Treasurer and TasWater is a matter for them. It really is a matter for them. What we have tried to do is be proactive and find a solution for the woes of TasWater and the concerns. That is why we have tried to be a commentator, to make sure we get our point across most effectively.

Mr VALENTINE - Under this model that has been considered with the bill, you will have a minister who has the capacity to be able to pay favour to certain projects maybe they see as politically important to go forward, as opposed to projects that might be best for the state as a whole. What is your comment in regard to the way the bill is structured at the moment?

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Mr WIGHTMAN - I think yes to the minister, but you have to think they are accountable to the parliament. They are accountable to the people of Tasmania through the House of Assembly. They are also accountable via an Estimates process, which is a mature and sophisticated way to deal with the budget, as I would well know, as you obviously know. Those mechanisms in place actually provide a far more sophisticated way to look at TasWater than we ever have done before.

Mr VALENTINE - But it is injecting politics into it, don't you think?

Mr WIGHTMAN - No.

Mr VALENTINE - I would be interested in Robert's view.

Mr ROCKEFELLER - I look at something which is probably the saddest thing I have seen in recent times. That is what has happened in Glenorchy in relation to the caravan park. I find it extraordinary that a council operated a caravan park. They decided to close it. They then went out to tender. An organisation - and other organisations - put in a tender. MONA was successful, which is fantastic. It could only be the best outcome. They put their plans together. It could only be a fantastic development. Now they are made to comply.

I look there and say, one is the council-owned the asset. One is they had an interest, or they had the water and sewerage treatment plant for years and years. No compliance there. Then all of a sudden a third party goes in; they do their best thing, never expected this. They have probably been one of the key generators of Brand Tasmania. We can only be thankful for them; and they get done over.

Then TasWater says it should not be us funding it - and they are playing politics. That is what is pure and simple, whether at Macquarie Point or whatever it is.

Mr WIGHTMAN - The sewer system in Launceston.

Mr ROCKEFELLER - They said, 'we are not going to fund any of this stuff. That is someone else's responsibility.' I say that is all going on but we forget about MONA. This is why having a water and sewerage authority owned by the government - they need to make the decisions. They need to make the hard calls. They need to be accountable to the people.

In my opinion the best investment that could be made is to move that and for TasWater to fund it because the economic activity will be created - the additional revenue to the city of Hobart with more hotels. What people forget is that where councils get money from is property taxes. That is their single biggest source. If you do not have water and sewerage you cannot get property taxes. You need to grow the base. They are the biggest winners. Consequently, you get this myopic thinking about TasWater when they are actually an enabler to local government growing their revenue bases.

In my opinion, the problem with this takeover is not about Hobart getting compensated; they are getting compensated many times over. It is not about Clarence. It is about Circular Head. It is about Kentish. It is about the smaller councils that are losing an income stream. How do they get compensated? Hobart is going to do very, very well. You just have to look at their revenue streams and how much their revenues are growing each year. It is the smaller ones which have the issues.

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Mr VALENTINE - To get back to the real question about inserting the politics into the board, if I can put it that way, wouldn't you be the first person to say that having a skills-based board that has good commercial capacity to run the business is far preferable to inserting the politics into it. Would you agree with that or not?

Mr ROCKEFELLER - If I was a board member of TasWater I would resign today. I could not pay dividends to shareholders when I am not complying. I have stated on the record, I have stated also to the chairman my thoughts on that. I have stated to members of the public -

Mr VALENTINE - You would have received some responses no doubt from the chair.

Mr ROCKEFELLER - He says I am trying hard to reduce the dividends. I understand what you are saying. I go to the government pricing regulator, I go to the EPA. I say how can you possibly allow dividends to be paid when you don't comply? It is scary. The only example I can use, and I was told not to use it -

Mr VALENTINE - Sounds like you are about to, Robert.

Mr ROCKEFELLER - is James Hardie.

Mr WIGHTMAN - Can I just make a point about the GBE and the minister? Ministers do have statutory powers, that is why they are ministers, and they do make decisions. I tell you what, there are 79 pet projects if the minister wants to make a significant difference.

Mr GAFFNEY - Can you give me an example anywhere in Australia where there is a water body or a corporation that is 100 per cent compliant?

Mr WIGHTMAN - The mainland bodies - Werribee - my understanding is that their average is around 95 per cent compliance on the mainland.

Mr GAFFNEY - Their compliance ratio and measurements are the same as ours?

Mr WIGHTMAN - You are obviously leading me to say that they are different there, but -

Mr GAFFNEY - No, I am quite happy for you to say that as long as you understand that there are different compliance measures for each of the states. What might be compliant in Queensland may not be compliant here or vice versa. I see that 100 per cent compliance is what we want, but is it possible? No, it is not. The EPA or TasWater today said, yes, people say that out of our 79 sewers, only one of them is totally compliant, but they also pointed out to us it only takes one KPI on one day of the year for it not to be compliant. That could be a whole range of factors. I am not supporting them, I am just making sure that people do not think that 78 of our 79 are not 100 per cent compliant because there probably would not be a water corporation in Australia where that is a fact.

Mr WIGHTMAN - When talking about compliance, what I can tell you is what I just said about the mainland and 95 per cent. I take your point. I also make the point that Werribee services 1.3 million people, and its debt to equity ratio is far higher than what happens here in Tasmania. Tasmania's debt to equity ratio for TasWater is about 30 per cent. The mainland counterparts is 70 per cent.

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They are working their balance sheet hard because they have significant infrastructure issues; not compared to us when you look at it. Yet we are borrowing at 30 per cent and we are not providing compliance right across the state. Port Sorell is 27.1; Campania is 37.5; Kempton is 39.6; Ulverstone is 41.7; and Bridport is 45.4. We say measure it any way you like; those numbers cannot be considered good. Port Sorell is on the beach; Bridport is on the beach; and Ulverstone is on the beach. We have numbers down around under 50 per cent compliance. That is far more than one instance of missing a KPI.

Ms RATTRAY - I hear what you say and take on board your strong conviction for councils not taking dividends. Can I just share with you, and you may have read the submissions - I am not sure about that - but this is just an instance of one council saying that they get a dividend of around \$600 000. They spent \$70 000 on playground replacements; \$30 000 on community grants; \$48 000 on new services; \$15 000 on a community hall upgrade; and \$20 000 on a renovation of a stadium change room. They spent \$105 000 of that \$600 000 on tourism industry support; \$60 000 on regional tourism; \$25 000 on a business enterprise centre; \$70 000 on natural resource management activities, and then it goes on to list about 10 community events that they spend that money on. They have made it very clear to the committee that if they do not get their dividend they certainly will not be able to fund those projects in their community.

Does the community then have to accept that water and sewerage is more important than those things, or do they end up having a general rate increase? That is the conundrum I am grappling with.

I cannot speak for other members of the committee, and I certainly cannot speak for other members of the Legislative Council when it arrives there, but can you see what we are getting as well from the other side of the argument?

Mr WIGHTMAN - I certainly can see that. I would say though that, and I hate to use the term, the dividends are actually fake profits. They do not actually exist because all those dividends should have been put back into compliance. They have spent money and all that \$600 000 should have gone back into fixing the water and sewerage infrastructure. It is not actually a profit when you have 82 per cent compliance across the state. That has been the whole problem they have had there. Their thinking needs to be flipped around that those dividends do not belong to councils; they belong to infrastructure. That is the argument I make to that.

There is no doubt that savings would have to be found. In saying that, dividends are secured for the next number of years and then 50 per cent after -

Ms RATTRAY - In your submission you argue that the Government should reassess that.

Mr WIGHTMAN - The reason why I have said that is we believe those dividends are not actually profits. To term them 'profits' is wrong. I would term them 'profits' if you had 95 per cent compliance across the state. We do not have anywhere near that sort of number, so that money should have gone back into infrastructure.

Ms RATTRAY - Following on from that then, could the community that we are saying needs supporting with upgrades to water and sewerage infrastructure simply pay in another way? Would it be fair to say that the general rate at all councils will have to increase, realistically?

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Mr ROCKEFELLER - There was a study done, and it was a fantastic report, which was shelved. I always call it the June Monroe study, which was into southern Tasmanian councils - the STC. What it really talked about was larger councils helping smaller councils in relation to sharing of services and trying to keep the smaller ones independent, how they provide tremendous benefits to the local community and those types of things. This has always been the case and we all know it.

Water and sewerage has been used to hide a lot of structural issues in Tasmania. What you are facing today is a demonstration of those structural problems. If these reforms do not proceed, it is another shelving of micro-economic reform in Tasmania and holding us back another 10 or 15 or 20 years, when we all know it needs to be done.

It is not necessarily about amalgamation. It is about providing services to the community at the lowest possible price - value for money. What we have with TasWater at the present time and the way it is being funded is not value for money.

If you look at it from a financing perspective, the best financier of infrastructure in Tasmania is the Tasmanian government. It has the lowest cost to capital. There are huge savings in relation to the state government financing that. Even if TasWater has to borrow money, it is borrowing it off the credit rating of the Tasmanian government.

Ms RATTRAY - We heard that today from the Treasurer, probably 10 to 15 per cent less.

Mr ROCKEFELLER - Yes. Wherever it is sitting, whoever is financing the asset is where the asset has to sit. It is pure and simple. They are the ones taking the risk on the asset. They are the ones guaranteeing the asset. Then the question is: how do you deal with whichever council it is? Then it is how you split the pie. In my opinion, the Hobart City Council is a fat cat. It should be sharing the pie more because it is getting a lot of the benefits of all the infrastructure being funded - whether it is the hospital or the university or the hotels. Its revenues are increasing far faster than every other councils, yet its actual area is relatively small. It should be helping out other areas.

Mr VALENTINE - It is though, isn't it? By taking a 50 per cent dividend cut.

Mr ROCKEFELLER - I really do not want to go there with what happened with Hobart City Council in relation to that. What I am saying is, other councils are not necessarily getting the benefits of economic growth. The question is, how are those benefits shared amongst the community? Are they shared through the grants commission and changes in that area? Is it under this act because there are changes in relation to funding? There are minimum dividends after 2024. If you look at it, the top seven or eight councils do not actually require the money. Their revenue bases are growing faster. If you look at the revenues of Hobart City Council, they grow faster than what its rates increases are because you have in-built new development going on. It is actually hidden; people do not notice that. I would notice it.

They do not actually contain their costs. The point is, it is these smaller councils. Maybe in the legislation there should be minimum guarantees to help the smaller ones. It might be that every council is going to get \$400 000, whatever it might be. Do not stop the reform, which is in the best interests of consumers, in the best interests of the state. Amend the legislation, make it better. That is what the goal and objective is.

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Mr VALENTINE - But doesn't the grants commission not do that through its grants? The Hobart City Council does not get much from the grants commission, but the smaller councils that are struggling get a lot more. Isn't that what the grants commission process does?

Mr ROCKEFELLER - What I am really trying to say is, utilise levers you have, utilise this legislation to pass money to the bottom 50 per cent. The top 50 per cent of these councils do not require revenue.

Ms RATTRAY - I am pleased I asked that question.

Mr ARMSTRONG - On page 7 of your submission, you have a list of the Tasmanian Economic Regulator of water and sewerage in its industry report - and it quotes a lot of rates there where we are not compliant and everything, but from what we have heard from TasWater today, a lot of those have actually been rectified or improved.

Mr WIGHTMAN - I think they would be referring to boil water alerts and do not consume alerts.

Mr VALENTINE - There is a whole heap there if you want to look at them. You can look at every one of those and you will see how they have improved the situation dramatically. I think that is what Robert is talking about. If you look at these, one or two have gone in the wrong direction over the last couple of years but you will see that they are saying everyone is saying they are non-compliant, but compared to what they started with -

Mr WIGHTMAN - It is what the economic regulator is saying, not us.

Mr VALENTINE - No, I understand that. What they have started with, and it is not a clean slate they have started with, they have started with a significant -

Mr WIGHTMAN - Understood.

Mr VALENTINE - They are delivering on that. That is their complaint, that they are being undersold on what they have achieved.

Mr ROCKEFELLER - I do not think anyone would say they have had it easy. It has been very difficult over the last 10 years. We have gone from four water corporations to three, then to one. All the restructuring has not been easy because there is an enormous number of legacy issues. We are here today as the Property Council just to say, what is in the best interests for the future of Tasmania? There is an opportunity to make it much better.

There is an opportunity to make a government and the parliament accountable for water and sewerage in the state. There is an opportunity to fund major infrastructure in the future. If MONA needs the water and sewerage plant to be moved, who is the best party to consider it? If something needed to happen up in the north-west of the state because there is major dairy activity or whatever, who is the best person to fund it? That is what we are on about. Whether there is a crisis or not a crisis, whether there is politics or no politics involved, is totally irrelevant. It is all about what is in the best interests of the consumer? What is in the best interests of Tasmania? Then the question is how do we protect the weak? I am not worried about protecting the City of Hobart, the City of Clarence, Kingborough or Sorell. I am interested in the smaller councils that do not have a growing revenue base, that are struggling every day to make ends meet, to create a

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good community for their people. They need to be protected by the legislation and have secure income. How it is done is for members of the parliament to figure out.

Mr WIGHTMAN - From a broader point of view, the TasWater plan over the next 10 years does not pick up on the dual system in Launceston, Macquarie Point or Cameron Bay. From our understanding of those issues, a GBE showcasing it can utilise its balance sheet would be the best position to be able to provide or at least facilitate the funding for those significant matters.

Our concern is the Launceston City Deal is very significant; I cannot underestimate how important is the university's relocation. It is the perfect opportunity for water and sewage issues to be dealt with. There has been task force put in place that will come up with recommendations and a plan. To have TasWater under a GBE lobbying to the federal government for funds is the most coordinated approach.

Mr GAFFNEY - Going back to your comment, Robert, about the situation at MONA. Could MONA now ask the state government for assistance to move the plant?

Mr ROCKEFELLER - The council owned the water and sewerage plant. Who owned the sewerage plant? They passed it off to TasWater. They are a shareholder of TasWater. They have never complied. Then they sell it off. They never put it in any of their reports and then they go and do something like that. Then TasWater says you are non-compliant and you go through this process.

This is what the private sector deals with. You say where should that problem lie? It should lie with the state government because in the end they are being asked to fix the problem.

The problem with the shareholder aspect is if TasWater has to fund it. If I was a shareholder I would be saying, why should we fund this? What is the benefit? All the other ratepayers are contributing to it. The actual component does not make sense. We see competing interests all the time with everything we deal with.

It is only the state that can say to the GBE, we are not going to put up the prices, they are only going to be at 2.5 per cent, we are going to change the fixed costs or a more variable system. The problem of the directors on the corporation is they are trying to act in the best interests of the shareholders. They have all the different stakeholders. One minute Brian Wightman at Property Council is asking, what is in the best interest of Tasmania? Then you have other people like maybe the Government Prices Oversight Commission with what is the best interest of the consumers. The directors are suppose to be doing what is really in the best interests of shareholders.

I would be feeling so conflicted as a director; I think I should be compliant. They are being told the shareholders expect this sort of dividend. Well, we are going to provide that dividend if I want to stay as a director.

Mr VALENTINE - He did cut it in half. He did stand up in front of his shareholders and say 'you need to take a cut'.

Mr ROCKEFELLER - Right. If it was me I would have said 'you do not get anything otherwise I am resigning', and that is the difference.

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Mr VALENTINE - It is what it is.

Mr ROCKEFELLER - The board should have walked out. That is the difference. Fundamentally, we need to have the right system, but also protect the disadvantaged. It is the disadvantaged consumer not getting a fair go. Read my submissions on this. Commercial property owners have it too good. Here I am saying and putting it in writing.

Mr VALENTINE - I will fall over in a minute, Robert.

Mr ROCKEFELLER - I have put it many times in writing. That is the first aspect. The second aspect is the disadvantaged are not getting a fair go. The other thing about this legislation is disadvantaged councils are not getting a fair go. That is where this legislation can be improved.

Mr FARRELL - That is an interesting point. A lot of people are saying this legislation is a pathway to council amalgamations, but you have a different view.

Mr ROCKEFELLER - Where I was 10 or 15 years ago and where I am today is totally different. I looked at the June Monroe study and that enlightened and opened up my eyes to a better model. Something like that, whereby in some of the metropolitan areas amalgamation makes total sense, but from a community perspective a de-centralised model makes absolutely perfect sense. Smaller councils must have enough funding to operate and I stand here today and say I was wrong.

Mr VALENTINE - That is a whole other argument though.

Mr WIGHTMAN - There has not been a political appetite for amalgamation. It was a matter where we can make the most impact and difference and have the most influence. We have certainly seen our influence and used that with water and sewerage to try to educate with regard to the community conversation. As I said from the outset, we are not particularly interested in the politics of the matter.

Mr VALENTINE - I was not trying to stitch you up.

Mr WIGHTMAN - I understand you would not, but we were not interested in the politics. That is why we have tried to say this is the way forward and these are the reasons why. To enlighten the community about why that is occurring. Politically, water and sewerage is not sexy. It is not great to open a new water and sewerage treatment plant. I turned on fresh water at Lilydale in 2012 and it has not been seen as a major issue in that regard by politicians.

What we have tried to do is talk to the community in a way they understand about these issues. How having a more sophisticated and mature structure like a GBE can actually unlock investment and development. Trying to have that conversation around the Launceston City Deal and the potential Hobart City Deal has given us leverage into the community. That is why the amalgamation debate has not been front and centre of our advocacy agenda. There is no political appetite for it. Whereas there is a political appetite to fix water and sewerage and it is now far more understood in the Tasmanian community than it ever has been. That is very positive and obviously a great opportunity for decision-makers such as yourselves.

Ms RATTRAY - I think you are right in that respect.

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CHAIR - We appreciate and thank you for your submission and coming today.

THE WITNESS WITHDREW.