

THE HOUSE OF ASSEMBLY SELECT COMMITTEE INTO THE TASMANIAN WATER AND SEWERAGE CORPORATIONS MET IN DEVONPORT ON THURSDAY, 3 MARCH 2011.

Mr MILES HAMPTON, CHAIR, AND **Ms CAROLYN PILLANS**, CORPORATE SECRETARY, CRADLE MOUNTAIN WATER CORPORATION, WERE CALLED AND RE-EXAMINED AND **Mr ANDREW KNEEBONE**, CEO, CRADLE MOUNTAIN WATER CORPORATION WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR (Mr Gutwein) - Mr Hampton, would you like to make a short opening statement?

Mr HAMPTON - Good morning, gentlemen, I'm joined by Andrew Kneebone our CEO and Carolyn Pillans our corporate secretary. As you are aware, the Board of Cradle Mountain Water made a written submission in conjunction with the boards of the other water corporations. This morning I will elaborate on that submission, but in doing so following discussion with the committee chair I won't go over some of the detail, particularly the extensive detail around governance, which is across the four corporations, whereas comments around pricing and the effect of price cap are germane to this specific corporation. If you are comfortable I will take the liberty of summarising the key governance matters simply so that they are placed before this public hearing as well.

Before turning to the governance matters I would like to make some additional remarks in relation to Infrastructure Australia and our submission. Mr Hidding asked me some questions in Hobart that I was unable to answer as fully as I would have liked. As I'm sure you are all aware, funding submissions to Infrastructure Australia are handled by State governments. We provided information to the State Government and a submission was put in that included projects on behalf of the water corporations and other activities in the State.

For the water corporations the target request was \$245 million across a number of projects, significantly in sewerage, but not exclusively in sewerage. We have not yet received a formal written response to that submission. We understand the Government haven't received a formal written response, but there has been a conversation between Infrastructure Australia and representatives of the State Government, who in effect are representing us. That conversation hasn't been particularly encouraging. It hasn't closed the door completely, but an indication has been given that a number of the projects aimed at improving water supply to small communities they may find challenging, particularly because we are looking to improve the service to above that which exists in similar communities across Australia, which was an interesting position to take. That was one of the highlights of the feedback. The second highlight was in relation to sewerage generally, that where we are upgrading assets, we could well struggle.

We will try to get some additional feedback. The third point was that perhaps fewer projects would be helpful. We will revisit what we put in and see if we can, for example, identify even in the sewerage area - and in some senses it is probably a pity that the issues at Cradle Mountain have been solved because the externalities around that in

terms of tourism would have lent themselves to getting funding for a submission such as this, whereas a small town that does not have a significant iconic tourism activity will be a lot harder, is the message that we seem to have been given. My apologies for not being able to answer the questions as fulsomely as I would have liked, but we won't lose sight of it and we will keep it going.

Mr HIDDING - Let us follow up on that then, Mr Hampton. Are you telling us that it is your understanding that for applications to Infrastructure Tasmania only a State Government can apply?

Mr HAMPTON - Infrastructure Australia.

Mr HIDDING - Infrastructure Australia, only a State government can apply?

Mr HAMPTON - That is right.

Mr HIDDING - So local government doesn't have a direct line?

Mr HAMPTON - We were advised that the only way that we could apply was under the auspices of the State Government.

Mr MORRIS - Which bit of the State Government?

Mr HAMPTON - We are working with, I think, a couple of agencies, Treasury and DIER.

Mr HIDDING - Initially when this project was sold to the Tasmanian people and to the Parliament, there were funds notionally available under the NWIS scheme, and the then Government, the coalition government under Turnbull, said that it was of the view that there would be money available to essentially bring the deal together in Tasmania. Are you aware of any responsibilities that you have as a corporation, set of corporations, to go directly to the Federal Government to various schemes without having to rely on the State Government?

Mr HAMPTON - I am not aware. I am not sure if my CEO is aware.

Mr HIDDING - The State Government is correctly of the view that they don't own the water and sewerage problem anymore. If you are leaning on them they will apply on your behalf, but they do not have any single drive on their own to represent your best interests at Federal Government level. I am just wondering whether your corporations in fact are aware of all or any opportunities to go direct to various Federal Government programs.

Mr HAMPTON - Not aware, Mr Hidding. We will continue to follow up. Obviously it is really important to us, any assistance that we can get, and we have a number of spade-ready projects which we would have thought would be reasonably important at this particular point in time, but I felt a need to give you some more information on Infrastructure Australia.

CHAIR – With regard to the timing of going back to Infrastructure Australia and perhaps reworking, when do you expect to have further discussions and when might you have a final definitive answer as to whether or not any money may be forthcoming?

Mr HAMPTON - We certainly as a corporation will get onto our side of that as quickly as we possibly can, but I have no sense of the timing of an answer coming back, or indeed the timing of the State Government lodging it, but I would see no reason to believe that it wouldn't be handled expeditiously.

CHAIR - Are we talking weeks, months?

Mr HAMPTON - I would hope that we would be back within weeks. We might have a bit of work to do particularly if we are trying to maximise the chances of getting some assistance to the Tasmanian community and to our space in the community, because I think we may have to look outside the square at some of the solutions, some of the things we haven't looked at before. We may see an opportunity to put them in because they have a greater chance of success.

Mr BEST - Can I just follow up in this region, the water region? What are your urgent infrastructure needs, or what needs to be addressed urgently infrastructure-wise?

Mr HAMPTON - The bulk of the major works are in sewage, a number of sewage treatment plants that are completely inadequate.

Mr KNEEBONE - On the water side we believe that the water supplies of Waratah, King Island and the West Coast are the primary ones.

Mr BEST - I heard the West Coast was completed, it was just the pipe. They have the storage but is the pipe work there?

Mr KNEEBONE - We have a range of issues in terms of water supplies within towns like Rosebery and Tullah, for instance, where we have archaic water treatment plants, but the vast majority of our capital scheme is going to need to be spent on wastewater treatment plants and sewerage treatment plants and bringing reticulation systems up to scratch.

Mr BEST - I was thinking of Queenstown - I've had some people talk about the water and I was told or informed that basically the infrastructure is there but the pressure - there are issues with pumping because of -

Mr KNEEBONE - There is a brand-new water treatment plant being commissioned there at the moment. It's in the process of being commissioned; it's not online. It's in the order of a \$2.5 million plant that was commenced about 18 months ago. It's just on the cusp of putting treated water into that town.

Mr BEST - So the actual pipe work infrastructure is not an issue around Queenstown then? I mean, can you pump through it?

Mr KNEEBONE - I would suggest that probably we've spent a total of \$5 million down in that area and I would suggest that some substantial work would still need to be done to bring the distribution infrastructure up to scratch.

Mr BEST - What's on the list sewerage-wise for the region?

Mr KNEEBONE - You name it and it's on the list.

Mr BEST - Really?

Mr KNEEBONE - There's not one wastewater treatment plant in this area that complies with its licence and does not require work.

Mr BEST - What about the new one at Burnie?

Mr KNEEBONE - It's probably last on the list but it still doesn't comply and it's almost at capacity.

Mr BEST - What sort of compliance are we talking about?

Mr KNEEBONE - We are talking about discharge compliance; level of nutrients -

Mr HIDDING - Under contemporary standards or under the State Government Licensing Commission?

Mr KNEEBONE - Under the standards that were appropriate at the time. There is a range. They range from licences for which conditions would have been established in the 1970s through to the Burnie trap plant, which would have a contemporary licence.

CHAIR - Just so we are clear - not one sewage treatment works here in the north-west -

Mr KNEEBONE - Consistently meets its licence conditions 100 per cent of the time.

CHAIR - Whether those licence conditions were issued 30 years ago or more contemporary?

Mr KNEEBONE - We would report roughly 50 per cent compliance. It might only be one parameter that is out that doesn't comply.

Mr BEST - So even the brand-new Burnie plant - I say brand-new because it's only a couple of years old. I was at the opening and it looked pretty impressive. It looks like a restaurant.

Laughter.

Mr BEST - Are you saying that it does not comply?

Mr KNEEBONE - Not consistently, no.

Mr BEST - Right.

CHAIR - Sorry Mr Hampton, we interrupted.

Mr HAMPTON - No, that's fine. We're comfortable with being asked questions at any point in time. For the sake of the record, I'll just quickly go through the dot points to governance. It is our view that a properly functioning board should be accountable to and have a close working relationship with its owners. The present structural

arrangements mean that we are not as close to our owners as we should be. The board recommends that the present representative process be changed so that each council has an owner representative. This would be similar in operation to Cradle Coast Water, the former bulk water authority. The board recommends that the expanded representatives group should appoint the directors and the chairman. The board recommends that at some point in time, and it may well be now, there should not be a need for either common directors or a common chair. The board recommends that Cradle Mountain water should not be subject to GBE scrutiny as it creates a situation of effectively serving two masters. Finally, as regards Onstream, the board recommends that the regional corporation should be free to determine both the form and the activities of any common services entity.

I think they are the summary of fairly extensive conversation at the last public hearing.

Let me turn now to the financial performance of Cradle Mountain Water. In its first year of operation the company recorded an after-tax profit of \$922 000, which was slightly below budget. Distributions to owners in the year to 30 June 2010 were \$1.6 million, below the priority distribution level of \$4.9 million. Cradle Mountain Water is the least financially viable of the three water and sewerage corporations, due principally to two factors: firstly, on establishment council owners transferred approximately \$75 million in debt to Cradle Mountain Water. Currently total debt is approximately \$80 million. Gearing at 30 June 2010 was approximately 24 per cent, whereas at Southern Water it is 10 per cent and at Ben Lomond Water, 4 per cent.

All other things being equal, if Cradle Mountain Water undertakes the capital works program that we have before us, debt will rise to an unacceptably high 50 per cent given current restrictions on price increases. This level of debt is unsustainable and to ensure that it is not reached we will have to either significantly reduce capital expenditure or dividends or substantially increase prices, or a combination of those three. There is really no other option. A 50 per cent level of debt in this sort of industry is simply not sustainable.

Mr HIDDING - Is your debt to assets 'geared'?

Mr HAMPTON - Yes. Indeed, it may be sensible for our council owners to consider an equity injection to retire debt in order that the company be more financially sound.

CHAIR - Have you had any discussion at all with your council owners on that issue?

Mr HAMPTON - No, we haven't.

Mr MORRIS - Do you think they would welcome it?

Mr MORRIS - The discussion I suspect, yes.

Mr HAMPTON - I don't know whether they would welcome it, but the reality is in the long term they might actually be better off by doing it.

Mr HIDDING - Their ratepayers would be.

Mr HAMPTON - On a collective basis, they own us, yes.

Mr BEST - What about in Burnie's case where you have the National Foods expansion?

Mr HAMPTON - In respect of what?

Mr BEST - The infrastructure needs there. You have a 50 per cent debt ratio.

Mr HAMPTON - That doesn't include the potential for doing the works for National Foods.

Mr BEST - That is what I'm saying. What is the benefit for the community in such an industry?

Mr HAMPTON - That today isn't in our space.

CHAIR - That is over and above the difficulties you have just talked about?

Mr HAMPTON - It is over and above the difficulties I've talked about. I would like to talk about our role in economic development later on, if I can, which touches on the National Foods issue.

Mr HIDDING - Just take a step back and just unpick, some of the numbers you have just given us are pretty big numbers. Ben Lomond has a 4 per cent gearing?

Mr HAMPTON - They started with a 4 per cent gearing; Southern Water, 10; Cradle Mountain 24.

Mr HIDDING - Where did 50 come in?

Mr HAMPTON - If we undertake the capital works program -

Mr HIDDING - That you are expected to.

Mr HAMPTON - and have to borrow most of the money to do it, we will go to 50 per cent.

Mr MORRIS - So your current level of debt is about the maximum that the corporation probably should take on, approximately?

Mr HAMPTON - That is our view of the world and indeed in the other two corporations, if they undertook their capital works program and paid out the agreed proportion of dividends, they would end up in that 23 per cent to 25 per cent range.

Mr HIDDING - So you are not claiming that the 24 per cent is unsustainable as it sits?

Mr HAMPTON - No, not as it sits.

Mr HIDDING - The corporation can wash its face at 24 per cent gearing?

Mr HAMPTON - The corporation can wash its face. It would be on the border of a reduced credit rating, which would ultimately increase funding costs, but if that was our starting point and our ending point then it would be sustainable.

Mr HIDDING - You made the point that it is because \$75 million of debt was transported into the corporation. Was any of the debt created at the last minute or was any of the debt in any way - surely the debt existed.

Mr HAMPTON - The debt existed.

Mr HIDDING - Nobody made it up. So essentially where were the big numbers of the debt? Was it the big Burnie plant that - Mr Kneebone might be able to just assist us with some history there rather than me having to go back over it.

Mr KNEEBONE - The due diligence estimate of the debt to be transferred to Cradle Mountain Water was in the order of \$68.9 million. The actual opening balance when transferred was in the order of \$75 million. So we knew that there was a reasonably high debt level coming. It ended up being \$6 million higher than originally estimated for a range of reasons and they range across all of the council owners.

Mr HIDDING - The due diligence ensured that no other debt was leveraged in. It was all genuine debt related to sewerage and water.

Mr KNEEBONE - I was not here at the time of the due diligence.

Mr HAMPTON - Indeed, Mr Hidding, that actually was not part of our remit. Effectively the debt was transferred to us by way of a signed transferred order.

Mr HIDDING - Indeed. Thank you for that.

Mr HAMPTON - The debt is the starting major issue. The second reason why Cradle's financial position is the least viable of the three corporations relates to rebalancing of revenues that was undertaken by some councils on the coast prior to transfer to us. Andrew may be able to expand on this but I think our estimate is that on a first year basis that rebalancing cost us \$2.25 million.

Mr HIDDING - How did this occur?

Mr KNEEBONE - I understand that the assessment of the sustainable earnings was done up until 2006. The councils had the opportunity in the intervening year between when we commenced operations and the end of that due diligence period to effectively rebalance tariffs. There has been a movement to the general rate away from the water and sewerage rates.

CHAIR - In simple terms, has your corporation picked up all of the debt but less of the revenue and some of that revenue now is being recovered by councils through their general rate?

Mr KNEEBONE - Yes. The rebalancing has meant that the prices that customers were paying for their water and sewerage rates effectively went down, the general rate went

up, their total bill was within a proportion of what the rate increases would have been for that year. So that gave us not only a lower starting revenue but the opportunity cost of that is significant as well.

Mr HAMPTON - For our first three years we were only able to apply a specified maximum percentage increase so we could not readjust them so we had to take what people were previously paying and then apply, if we chose, a maximum increase factor to it. We could not remedy the situation.

Mr MORRIS - Yes, I see. It looks like the Burnie Council was the biggest in terms of pure dollar numbers and of course the biggest population base as well. From the information I have here, the impact on your revenues in the first year was approximately \$1.262 million just in the Burnie council area alone. That amounted to roughly a 17 per cent reduction in the water rate from what was anticipated that you would start with to where you actually started. That is clearly a huge problem for you.

Mr BEST - Especially if it is not working to the standards.

Mr MORRIS - No, no. This is to do with the income to the corporations rather than to the operational side.

CHAIR - I think Mr Best is making the point that they have less money to run something -

Mr BEST - that is not working properly.

Mr KNEEBONE - The Burnie one was a particular example of where they have tried to strip out. They had a combined stormwater and rebalanced that.

Mr HIDDING - How valid is that?

Mr MORRIS - Was it ever in?

Mr HIDDING - I should not ask you to comment on something that was not within your remit and you were not about at the time, but you have now looked at other councils. To your knowledge, have other councils done that same exercise based on the stormwater?

Mr KNEEBONE - I understand that there was a stormwater rate introduced to the west coast as well at the same time as the rebalancing that occurred down there.

Mr MORRIS - Did that take up the difference?

Mr KNEEBONE - I do not know.

Mr MORRIS - Okay, you do not have that. Clearly that is a problem from the due diligence information which gave an expectation to the corporation about its income level compared with what actually happened. I have no idea whether there was an agreement by the State Government that it was appropriate or not to do this. Do you think that stormwater was ever included in the water and sewerage rates for councils? As far as I know, and I was on a council, it was never even thought of as being included. They were specifically for water supply and sewage removal, and that was all.

Mr KNEEBONE - In some cases the two are combined, and on the West Coast and some of those areas we have a combined system. Queenstown runs a combined stormwater and sewerage system, as does Launceston for instance, so the effluent that we take is a combination of stormwater and wastewater.

Mr MORRIS - Did you end up with the responsibility then technically for stormwater?

Mr KNEEBONE - No, not for the stormwater assets, only what comes through to our -

Mr MORRIS - But if they are combined? Did you say you have joint responsibility with the council?

Mr KNEEBONE - Council retains responsibility for dedicated stormwater assets. If we use the same pipe and pump stations to transport it in a combined sense then we are responsible for it.

Mr BEST - What is technically the most efficient? Is it better to run stormwater through, or separate?

Mr KNEEBONE - No, separate. Stormwater inflow and infiltration is the bane of our existence when it comes to wastewater treatment.

CHAIR - We might come back to your remarks, and then I would certainly like to have a few more questions in regard to this issue of the rebalancing.

Mr HAMPTON - I will move from financial performance to operating performance, and while these comments are made I think I would like them on the record from the corporation. They have been made from your questions in a sense. Cradle Mountain Water has inherited what in many instances are underperforming and poorly-maintained sewerage infrastructure treatment plants at 50 per cent compliance with current licences. Many current licences are out of date and do not reflect current standards. A backlog of desludging of sewage lagoons and bio-solids management; sewage pumping stations prone to overflow due to design or lack of back-up power; high levels of inflow and infiltration exacerbating the volumes of wastewater to be transported and treated. On a positive note, with the exception of areas on the West Coast, Waratah and King Island, as mentioned, water infrastructure and supply capability is generally in a good condition. We have commenced the capital works program to upgrade the infrastructure, and in FY10 total capital expenditure was \$18.6 million.

If I could turn then to the subject of developer charges, a major point of difference between Ben Lomond Water and Southern Water and Cradle Mountain Water is that on the north west coast there were not developer charges. Under the legislation that established Cradle Mountain Water, we have no choice but to apply cost recovery to all our charges, and by definition that includes developer charges. In determining the charges, a standard approach has been applied across the State. The approach reflects the methodology used in New South Wales and is approved by the Tasmanian Treasurer. Many developers on the coast have objected to the imposition of developer charges either in principle or in quantum or both, and in some cases have appealed against same. To date I think no appeals have been successful, but the charges have become a source of

considerable angst in the community. Under the legislation that applies to Cradle Mountain Water, we do not have a regional economic development role. The above being said, we have phased in the charges and introduced the third payment terms and other measures to ease the burden on developers. It is equally clear that in some cases we have inherited trade waste agreements that are either out of date and/or not cost reflective. As we seek to move to full cost recovery, undoubtedly a number of significant trade waste customers in the region will complain about price increases.

Let me turn then to compliance obligations, because this is where the out of date licence issue comes into play. We have prepared and submitted to the Environment Regulator a compliance implementation plan that sets out our plan for achieving full compliance. This plan has us spending \$25 million a year for over 10 years. We have recently received correspondence that suggests the need for immediate compliance with respective current licence limits and seeks to suggest that we tackle the works program at a faster rate than we have proposed. I make these remarks by way of example of the new approach that our regulators seem to be adopting compared with that which existed in the past and it creates a real challenge for us. For decades, I would suggest, regulators have turned a blind eye to council non-compliance. Now they are seeking to rectify all of the non-compliance situations in a relatively short time - and ten years over the history of Tasmania is a relatively short period of time - without any consideration to the resource capability to undertake the works let alone the community's capacity to absorb the enormous price increases that will be necessary to achieve same, let alone the corporation's financial position and ability to do so.

CHAIR - You have said that the regulator has turned a blind eye. What we are affectively talking about here is the general health of the public. Why have they done so over the last ten years? Why has it been the way that business has been done here on the coast?

Mr HAMPTON - I don't think it is the last 10 years, though, I think we are talking -

Mr MORRIS - Decades.

Mr HAMPTON - decades, where regulators may well have advised the council that you need to do this and the councils simply didn't do it. What their reasons were, were their reasons. Maybe they had other priorities. What I am really trying to flag is, we don't have a difficulty with moving but in our situation to be expected to fix everything overnight is an unrealistic expectation.

Mr MORRIS - You could do it if you had the resources.

Mr HAMPTON - If we had the resources. If the judgment call was that our customers could afford the price increases. If the balance sheet would let us carry the debt. With all of those getting a tick you could do it, but not many of them get a tick.

Mr MORRIS - You have a few more things.

Mr HAMPTON - Not on compliance but if you have something -

Mr MORRIS - It is the public health department in DHHS that you are dealing with in relation to compliance and the EPA. As we know, their track record is abysmal for

enforcement and compliance so I wonder why it is that they have now decided, or are suggesting to you, that you should be instantly bringing them all up to scratch rather than sitting down with you and working through what is a logical process given the resources that you have.

Mr HAMPTON - Certainly we have come up with our own priority list. They have looked at our priority list and put their priority on it. What I sought to flag with you was that the intensity of focus from their point of view on our moving quickly to solve all of the significant problems creates a real challenge for us. If we were to choose to comply, and were able to, the flow-on effect in terms of pricing to our community would be extremely challenging.

Mr MORRIS - Price shocks.

Mr HAMPTON - And it is a matter of trying to negotiate a sensible path through and maybe ten years to try to fix everything is too short a period.

Mr KNEEBONE - If I may, the compliance issue is not with drinking water. Drinking water and the DHHS compliance is generally very, very high. We have two minor towns that are on permanent boiled water notices, one of which we are about to remove. So it is not the drinking water, it is not public health from a drinking water perspective, although we have some areas that are challenging for us. The primary area is sewage treatment and we have a process where, under the compliance implementation plan, we have to agree on a wastewater quality management plan, which is in essence our plan to bring all of those plants up to compliance standards and up to contemporary compliance standards and that has to be agreed with the regulator by June this year with the EPA. So we have already had our drinking water quality one, that was agreed with the regulator last June and the interim wastewater management plan was agreed last June. We are now in the process of attempting to agree and this is where we got this feedback.

Mr BEST - Just on the compliance issue: I remember being an alderman on the council and arguing to upgrade sewerage and getting laughed at because of the cost, and the fact that putting up or improving sewerage works to the level that they should be without pricing a particular council out of the market with developers, so there has been that argy-bargy. I'm not defending it. I'm saying that was the situation was and that was what the climate was. I remember being told in particular as an alderman if I wanted to make everyone pay more, they would make sure everyone knew about it. Anyway, I was outvoted on the day. The question I am going to ask you is this: what difference has been put on this authority in relation to compliance that would have been put on local government? Obviously the authorities would have written through to governments saying you should meet this level of compliance and that hasn't happened. Are you saying you are getting threatened to be, what, taken to court?

Mr HAMPTON - I think the polite pressure that is being put on us to move faster to fix the problems is significant. My general belief across the State is that the regulators see three new corporations with, in their view, perhaps stronger balance sheets than councils might have had. That might be arguable in relation to Cradle Mountain Water, but you couldn't refute such an argument in the case of Ben Lomond Water and in the case of Southern Water. They may have the view of a greater capacity to pay and a greater capacity to move forward. Equally as much we are structured as a corporation with a board of

directors. The obligation of the board of directors to ensure that we comply with the law is, I suspect, more severe than the obligation on councillors.

We have a slightly different circumstance so, indeed, if a requirement is given then there will be an expectation that we comply and of course as directors we would have to see that the corporation did seek to comply, which is why we actually have to reach agreement because if we are just told to do something we are not in the position that we can ignore it. We have to try to negotiate a path through because we can't ignore in the way that it was ignored in the past.

Mr BEST - You are suggesting that the level of accountability is greater on Cradle Mountain Water?

Mr HAMPTON - I believe by definition it has to be because you have a board of directors that have all of the obligations that directors have.

Mr HIDDING - Yet you are owned by the councils that have this lesser -

Mr HAMPTON - That seem to have.

Mr MORRIS - A bit of opportunity for political comeback at least if nothing else. Back on the issue of reaching this agreement: the thing you need to know about is your income because if you know what your income is going to be then you can reach an agreement over a certain time frame. You've provided some additional information after the last hearings which shows that you got an average income for this area from residential of \$790, yet your average cost of providing is \$1 198, a gap of \$400 between the cost of what you are charging now and what you need to charge, and I don't think that necessarily covers everything, in order to meet the decade-long goals that are set.

Mr KNEEBONE - Those figures only cover today's operating costs, today's depreciation and today's interest costs.

Mr MORRIS - But not a capital works program other than the one you are running at the moment?

Mr KNEEBONE - They are the minimum. If we were to charge that \$1 198 it would only cover our operating cost and depreciation, so we would be able to fund our depreciation and pay our interest bill.

Mr MORRIS - What would the total cost per resident approximately need to be in order for you to bring all the sewerage treatment plants up to compliance within the decade? Assuming that you are not being pushed any harder than that, but that you have a decade to do so, what pricing are we looking at, on average?

Mr HAMPTON - If the level of capital expenditure were for \$250 million that's been planned, there's a rough rule of thumb: every \$10 million of capital expenditure will add a million dollars to our funding/depreciation. If it's \$250 million increase in our cost of operation just on that factor alone.

Mr BEST - Which is what we said at the start. You're saying that's why you've come up with this plan at 24 per cent ratio. Is that right?

Mr HAMPTON – The 50 per cent is a different number. It's what the gearing would end up with.

Mr BEST - Oh, okay.

Mr HAMPTON - Mr Morris asked the question as to what increase in expenses/revenue would be necessary and I think I've answered that question.

Mr MORRIS - So the 50 per cent is on top of the \$1 198, not the \$790.

Mr KNEEBONE –Yes, and that's still not earning a rate of return on the assets -

Mr MORRIS – No, that's another matter; we can deal with that one separately. So, to achieve what the Government has set out for you to achieve in its big vision -

Mr BEST - Parliament.

Mr MORRIS - Well, Parliament or government - we're looking at approximately \$1 800, on average, per residential lot across the board for the next decade.

Mr HAMPTON - But by the end of the next decade that would be the level that we would get to because we simply couldn't do the \$250 million expenditure.

Mr MORRIS - That's true.

CHAIR - Just on the comment that you made at the southern hearing, you quantified the price increase that each customer would need to bear over the next 10 years to achieve the goal, I think - I'm not sure whether that was in regard to the southern corporation or the situation statewide - there was a 10 per cent per annum increase per customer compounding each year over a 10-year period.

Mr HAMPTON - If we were indeed setting out to achieve everything that all the key stakeholders have flagged that we should be setting out to achieve, in that hypothetical situation it would be that at least.

CHAIR - On that basis, as we discussed in Hobart then, with the rural 72, that's effectively doubling the cost for water and sewerage services roughly in seven years' time.

Mr HAMPTON - Yes.

Mr HIDDING - I just go back to absolute raw numbers here. Average residential customer bill for both water and sewerage in this area of Tasmania is \$790 or should be \$790.

Mr KNEEBONE - Is.

Mr HIDDING - Is; that is the average across all -

Mr KNEEBONE - That ranges between \$360 to \$4 143.

Mr HIDDING - So the price shocks are going to come as that balances out to about \$790 per residential -

Mr HAMPTON - That's the first of the price shocks.

Mr HIDDING - Yes. Just hold that thought for a moment. The average residential customer bill for both water and sewerage is \$790 but the calculated average cost when you build in the real costs is \$1 200.

Mr KNEEBONE - That's on the residential side so what it's showing us is that there is a significant cross-subsidy between the non-residential and the residential sector because we obviously make our current revenues but, as I said before, that only recovers a portion of the operational expenses depreciation accounting and the interest only. That's only on accounting asset values; it's not on the -

Mr HIDDING - Does your corporation have a view as to how you will manage the price shock - change of the balance from the business sector to the residential sector? We notice down south that the Property Council down there had a view that they would altruistically assist.

Mr HAMPTON - I don't think it's altruistic - I think it's realistic.

Laughter.

Mr HIDDING - I'd call them neither of those. I think they're mad. I don't think they represent their constituents.

Mr BEST - What - should you get is for free and then expect everyone else to pay for it? Is that what you reckon?

Mr HIDDING - No; the precise opposite.

Mr BEST - You can't have it both ways.

Mr HAMPTON - Because of Cradle Mountain Water's more difficult financial position, it is almost certain that the people who might be beneficiaries, in other words who are presently paying too much, will have to wait longer to receive that benefit or that reduction.

Mr HIDDING - Just to get that on the record again, that decision that the policy change should deliver a genuine break to the business community from day one, but the decision to actually implement it slowly over a period of time to manage a price shock is a political one on the one hand. On the other hand you have a GPOC commissioner who needs to manage price shocks.

Mr HAMPTON - Indeed there is not much point in us recommending a price and services plan that doesn't seek to manage that because if we don't it will be imposed upon us, so we might as well try to work on a plan. We should have the best knowledge of what our

customers are paying and not paying, and what our costs are and the extent that we're getting cost recovery. Trying to find that path is the challenge.

Mr KNEEBONE – There's the additional complication with rebalancing the water tariffs in particular, that we have significant free water allowances built in to a range of the tariffs in this area. They range from Burnie where it is \$245 a year for a water service and for that you get 400 kilolitres free, to Sheffield at \$711 where you get 300 kilolitres free, and then there is everything in between.

Mr HIDDING - Over what period of time will that balance?

Mr KNEEBONE - We don't have the pricing regulations from Treasury yet to understand what the rules are. We have some views about how we might do that, but we haven't been able to land a position at this time.

Mr HAMPTON - We all understand the price cap so I won't go through the background. It was going to be 10 per cent for three years, the price cap came in at five. The State Government committed to make up the difference for three years. In 2009-10 the rebate to Cradle Mountain Water was \$1 million; for 2010-11 we estimate it to be \$2.8 million and for 2011-12 we estimate it to be \$4.7 million. We have been taking this into account in our forward planning for the business that we are charged with managing.

If the price cap rebate is removed in its entirety from 1 July 2012 when it officially comes to an end and price increases are limited to 10 per cent, it is almost certain that the company will trade at a loss.

Mr HIDDING - You mean limited to 10 per cent post that period?

Mr HAMPTON - Post that period.

Mr HIDDING - Is that the current environment that you are in, because the cap expires in 2012?

Mr HAMPTON - That is right, so I'm just presuming that the 10 per cent continues. Of course the regulator may say it has to be 8, he may permit it to be 12 or 15, but I just gave you an example of it.

Mr HIDDING - If it was to continue at 10, what would occur?

Mr HAMPTON - And we did not have any assistance in the immediate out year, we would almost certainly be in a loss position.

Mr MORRIS - Unless the 15 per cent cumulative that the State Government is paying in that year were added to the bills, which would mean a 25 per cent increase in the following year.

Mr HAMPTON - Which would be a very significant price shock.

Mr MORRIS - Yes.

Mr HAMPTON - In that circumstance if we're making a loss our owners won't receive any tax equivalents or dividends. The adjustment process would be much easier to manage if the price rebate is removed gradually over a number of years. If the corporations had a choice between receiving the \$30 million that was in the forward estimates for the financial year ending 30 June 2012 and no phase-out beyond that, or stopping the price cap at the end of the current financial year and taking the money that was in the forward estimates for the third year of the intended price cap, and giving the three corporations, say, \$10 million a year for each of three years -

Mr MORRIS - Winding it out.

Mr HAMPTON - winding it out, then in our view it is unlikely that Cradle would end up in a loss. While it may not be able to pay the priority dividend, which it is not paying now, at least we would not be facing the circumstance that we would be, in fact, eroding our owner's equity.

CHAIR - What discussions have you had with Government at this stage in regards to that as an option?

Mr HAMPTON - Our first choice would be to have the full three years and then have a phase-out.

Mr MORRIS - You have recommended that in your financial report too, haven't you?

Mr HAMPTON - But if that option is not on the table then we would prefer to bring it to an end as I have described, and we have indicated that to the Government.

CHAIR - That would be \$10 million next year, 2012-13 and 2013-14.

Mr HAMPTON - So what was planned to be spent in the third year gets spent in the third, fourth and fifth years.

Mr MORRIS - We understand.

Mr HAMPTON - We have indicated that, if there was a desire to target some of that assistance, as I indicated in the south, the price cap was not targeted so we had some commercial customers who benefited very substantially, \$140 000 is the example I gave in the south whereas the average southern customer benefited by \$57. We don't think that is what was intended so if the Government wish to target some proportion of that \$10 million assistance to those in the community particularly in need we would not be averse to that.

We genuinely hope that if the ideal option is not on the table there is a preparedness to look at what has been put in place.

I think we have covered a lot of the ground that I intended to cover on the adjustment process. We covered it at the last hearing but the issues are just as significant here. We have, for a range of reasons, a need for increased revenue for the businesses, the cap ex program, the desire to improve the rate of return; as I flagged at the hearing in the south the targeted rate of return has a huge impact on likely price rises. I quite openly

challenged the assumption that that was the right rate of return and I think that needs to be challenged because it has a monumental effect on the likely price rises going forward.

Mr MORRIS - You mentioned right at the outset that you are very much in favour of the councils having a single representative each on the board and being able to select the board. How would you, in the circumstances, manage the potential conflict from the councils who are going to say, 'We would like to get the maximum return out of these corporations that we possibly can'? At the moment they are somewhat removed and really at the regulator's behest, or Treasury's behest, as to what return they might get, as inappropriate as it might be. But if they have more direct control over the corporations and there is not a handbrake available by the State Government on the rate of return wouldn't the temptation for them to be to say, 'We'll have a 12 to 15 per cent return out of these corporations, thank you very much. We'll continue to hold the rates down, let the corporations put the water and sewerage price up and take the flak'. Meanwhile, the councils keep the rates down and get the credit yet cause the pain through the water and sewerage arrangements. Isn't that a likely outcome of having more direct control by the councils?

Mr HAMPTON - It is a possible outcome. Remember there is a board between the councils and the board will have certain constraints on it. For example, in any circumstance I would have thought that the board ought to determine the dividend.

Mr MORRIS - Right.

Mr HAMPTON - At the moment, for example, under our shareholders' letter of expectation there is more prescription than existed with the former bulk water authorities, if I recall it correctly. In the case of the former bulk water authorities the board recommended the dividend and the authority could not increase it. They could reduce it, if my recollection is correct, but they could not increase it; it was at the discretion of the board - which appropriately it ought to be because they have to take into account the long term financial position of the corporation. Of course, if for whatever reason a target rate of return dramatically increased the surplus of the business then you would have to say logically you would increase the dividends if you didn't need the cash because you would give it back to your owners. But isn't that in a sense, as you have suggested, just going round in circles? I think it is.

Mr MORRIS - So we have a model that we can look to which is in the past that would give appropriate governance but not unreasonable authority to the councils to direct a board.

Mr KNEEBONE - The additional protection for the customer is the independent Economic Regulator. Their remit is to ensure that there is no greater gouging of the market from a natural monopoly perspective than is acceptable and they will determine what our revenues and what our prices can and should be and they are there to protect the public interest.

Ms PILLANS - I would like to clarify the difference between the authority and the current structure. As corporations under the Commonwealth Corporations Act, there are particular duties and roles that the directors are required to undertake. Comparing that to the old joint authority structure under the Local Government Act, what we had then was the joint authority so the representatives of all member councils at that stage had quite a

number of policy issues but they tended to be negotiated with the board so that nobody forced the board into a position whereby it breached its duties but an understanding of both sides of the coin was sitting in place and it really worked quite well. There was high-level policy and then there was the board able to fulfil its duties and its obligations under the act.

Mr HAMPTON - There is one additional piece of information: I think in the south I gave you an indication of our preliminary assessment of the extent of the cost subsidy between commercial and industrial versus residential customers. I said at the time, everybody had to be in excess of \$10 million. We now think that that's probably closer to \$20 million in the south. In this region our preliminary view is that is between \$3.5 million and \$4 million. So again over time, on a cost-recovery basis, that cost will be transferred and Andrew Kneebone touched on that earlier.

Can I turn back to the matter that I said I would in relation to the economic development role? The interpretation that the boards of the corporations have taken is that, both in terms of the legislation and the regulations that define and constrain our operations, we don't have an economic development role. I think the question to be asked is, should we? If we should, how will it be properly managed? The infrastructure that we manage and may well extend and will spend a lot of money on, is very important to development in the State and to, in a sense, be quarantined from that - in some senses I'm a little bit nervous even opening this door but the reality is that the past 18 months have shown us that we actually need to be working with the Government and with the councils to, if at all possible, assist in the development of the economy in the same way that the councils help make things happen. I would suggest that maybe there needs to be, but given the regulatory constraints and the cost-recovery application to our business model, we don't see ourselves as formally having a role there. I'm raising the question, should we? If we are to, maybe there needs to be a look at that constraint.

Mr BEST - That then goes into the question of what the situation is with the National Foods development. That's quite a difficult one.

Mr HAMPTON - It's a very difficult one and, as mentioned earlier, the -

Mr BEST - Obviously you're saying that Cradle Water is not going to be able to wear any additional infrastructure costs.

Mr HAMPTON - Obviously we've met with National Foods. We have some idea of the cost of providing them with a solution, which is \$15 million. We think we have other priorities ahead of that in our own space. If we had an economic development role that was specified, we may have a different view but that may well mean our owners will pay a price in the lesser dividend for a period of time to achieve certain outcomes. If our owners are happy to do that and unless you are at the table formally involved in that engagement, then you can't try to find a way through. We've identified the operating costs for that facility and we've given that information to National Foods. We would like to play a part, but firstly our balance sheet is very constraining and secondly, the constraints that sit around our operations mean that if we do something that involves a significant cross-subsidy, we are going to find ourselves challenged by the regulators who very largely control what we can and cannot do.

Mr MORRIS - The only mechanism at the moment is for the council to make a direct contribution to effectively offset the cost. If they choose to want to have the National Foods there, they could say, 'We'll stump up some money towards the costs that have been identified as a development package to attract them.'

Mr HAMPTON - If indeed the issue that I've just raised is taken on board and the restrictions that apply to us are loosened, the opportunity for councils, our organisation as a major infrastructure provider and the State Government to jointly find ways to find solutions that work would be significantly enhanced, but we see ourselves as constrained.

Mr BEST - How would that engagement occur? For instance, would National Foods contact Burnie Council or do you talk to the council? How would that progress?

Mr HAMPTON - I'd see it as probably no different as to how it progressed in the past when a company like National Foods approached Burnie council and Burnie council made its decision whether it sought to get some assistance from elsewhere. Now because Burnie council don't directly control this infrastructure and can't put in its own infrastructure to solve National Foods' issue, it obviously does involve a dialogue with us. If everyone is prepared to share some of the, hopefully, short-term cost for a longer-term gain then maybe we all win. In our circumstance we don't see ourselves at this point in time mandated to play in that space.

Mr BEST - This is in relation to economic development and development charges, and you explained areas of local government where there were no development charges and how that makes that - you haven't used these words - but that causes issues between local government as to how they compete for developments. I think you mentioned that you are making some sort of contribution at this stage towards some of the development charges; is that right? Did I hear you correctly on that one?

Mr HAMPTON - No, I said that we have put up a package of measures around development charges to try to ease the burden on developers to give them time to pay, to stage developments.

Mr KNEEBONE - We have capped charges and are introducing them over a three-year period and we've just recently put out a range of deferred payment options.

Mr BEST - We've had some headlines about the charges. Has that prompted a rethink about all of those things?

Mr KNEEBONE - The issue is that the IPO is quite prescriptive. It says we must have developer charges and they must be cost reflective. We have no space to move. It is legislative, it is in the regulations, that is what we must do.

Mr BEST - It creates an even playing field, I suppose.

Mr KNEEBONE - The other option is that the general community subsidise it. This is part of the way of us managing the impact and the price shocks that need to go through the general community. If a certain portion aren't paying their fair share, paying towards the increased costs of the organisation, the increased investment required, then somebody

has to, and in the past it has been generally spread across a general rate base, and the legislation and the regulations have changed. We must have them and they must be cost effective.

Mr BEST - When you set these headwork charges or developer charges, you are saying that is within a regulatory framework and it is based on the real cost. What I receive and I guess other parliamentarians receive is complaints from people saying that they are paying all this extra money to prop up Cradle Water and that those costs are not really water use.

Mr KNEEBONE - They are. They have been audited.

Mr HIDDING - Transparent.

Mr BEST - I think it is important that it is put on the record because there is a lot of debate in the community along those lines and I think it is important that we state that.

Mr HAMPTON - I think in fairness we should acknowledge however that in the early days of our operations we are obliged to respond very quickly when development proposals do come forward and if we do not have complete information but we have to comply then obviously we would err on the side of the at worst scenario, so it is a headline number. When we get more details about the proposal and we are able to more accurately cost, the cost comes down. We have been putting in a lot of work over the last six months to try to work with developers before they put their application in so that we can give them a more realistic assessment. That has also been one of the issues but in a sense it is not of our making. By working with the developers we can hopefully get away from the scary headline numbers before we get all the details.

Mr BEST - You are saying that you are not choosing to charge a profit on developer charges. Is that right? You are doing it as cost.

Mr HAMPTON - All of our charges are meant to be cost reflective, cost being getting a return on the assets as well.

Mr BEST - Is that determined by you? Can you go outside of that?

Mr KNEEBONE - Subject to the same pricing regulations as all of our other regulated prices are and we will be overseen by the Economic Regulator.

CHAIR - A very clear recommendation I think you provided this committee with is that we need to ensure that the regulatory constraints that you currently have in regard to considering matters of economic development be considered by this committee.

Mr HIDDING - You made the announcement in the last couple of weeks about the new deal available for developers to be able to offer them options. Is that the same for all three corporations and will the same responses be given in this part of Tasmania as down south? I recall when you gave evidence a couple of weeks ago you spoke about - it might have been another committee I was on.

Laughter.

Mr HIDDING - I will give it a try. It is the same issues. There was a land development on the Eastern Shore, and I think the developer cost was about \$5 000 per block. If that does not ring a bell with you then it was the other committee.

CHAIR - No, no, that was one of the southern councils we spoke to.

Mr HIDDING - That's right it was. In fact Clarence council. That is a very substantial developer charge. In the interests of Tasmania being open for business but the same level of business everywhere, does a developer get a different answer in this part of the State than he does in Launceston or Hobart as to developer charges relating to sewerage and water?

Mr HAMPTON - I would expect in the fullness of time they will get the same answer, but remember that developer charges have largely been in place in the south on a comprehensive basis for a number of years.

Mr HIDDING - What is stopping you from implementing them here, given that - if you have a raft of proposals on the table now that is one thing, but a proposal that is not yet before you? Why wouldn't that be dealt with on the same basis as in Hobart?

Mr KNEEBONE - It is. The interim pricing order says that if the charges existed under a council you must levy those. In the absence of that if there were no charges you must charge on the basis of cost reflection. If a council had previously levied a developer charge, which they did across many areas of this State and some quite large amounts per lot, then the corporations have no option than to apply the charges that the councils previously charged under the regulations that we exist with at the moment. If they don't, and as in the case that they haven't here in the north-west coast, we have adopted a statewide approach to determining those charges, but the level of the charges depends on the inherent capacity and the costs associated with each individual system.

Mr HIDDING - That is what I wanted to check through. If a developer from the mainland has some money to invest in the State, he wants to do a 50-lot subdivision and he has a proposal to do either Ulverstone, Launceston or Brighton and each of the land parcels is around the same value, if he goes to the three is he going to get three different developer contribution quotes?

Mr HAMPTON - At this point in time he will.

Mr HIDDING - Vastly different?

Mr HAMPTON - Not vastly different because the assistance that is being offered in the north-west is really at the edges to try to make it easier for them because the fundamental principle has to stay the same.

Mr HIDDING - For how long?

Mr HAMPTON - Well, the fundamental principle has to stay the same forever.

CHAIR - You were saying that the assistance that is being provided here, which is the options -

Mr HAMPTON - That Andrew was -

Mr KNEEBONE - The capping and the options?

CHAIR - They were in the newspaper the other week.

Mr HAMPTON - To answer your question directly, we haven't put a time frame on it but at the end of the day, it's ultimately a decision for the board of Cradle Mountain Water. There has been no discussion in the other boards about introducing the same flexibility that we have here and the only reason we have it here is that it has been such a shock - because they were not here before.

Mr HIDDING - But, for this new person who hasn't developed here at all, when he looks at the three options, he still faces three different developer charges.

Mr HAMPTON - He'll find reasonably similar developer charges but some fringe benefits up here to ease the pain, given that these developer charges weren't here.

Mr HIDDING - But he wasn't here either.

Mr HAMPTON - He wasn't here either. I'm certain that ideally, we would simply have the same charge everywhere.

CHAIR - Or the same flexibilities.

Mr HAMPTON - Or the same flexibilities. At this point in time we don't. My expectation is that the flexibilities that exist on the north-west coast will ultimately disappear.

Mr MORRIS - My understanding is that the problem exists around historical situations and expectations and that is certainly the case for local developers who have had a situation where, by and large, they haven't paid headworks charges and then a new developer comes along, especially a local developer who wants to do a development and gets a headworks charge put on. He goes, 'Hey - he developed two years ago and didn't pay a headworks charge; I'm now wanting to do a development and you're now putting a massive charge on me' - what he deemed a massive charge, and therefore notionally he'll have to pass that cost on so he becomes uncompetitive in his mind compared with the one who developed two years ago. We've just got to wash that out of the system.

Mr HAMPTON - That's right.

Mr MORRIS - People have to understand that it is appropriate to have headworks charges and it will flow through to the cost of land, which historically up here has been cheaper than elsewhere.

Mr HAMPTON - To wind up on developer charges, in our first full financial year, our profit before tax was \$1.1 million and the contribution from developer charges was

\$1.3 million. So almost everything that we look at, we have to look very closely, at the ramifications for the business because it's so marginal.

CHAIR - Can I come back to one of the things that we began discussing earlier on and that was the initial transfer of the debt the corporation picked up but also the issue in regards to revenue. Whilst you made the point that the level of debt that you carry is disproportionate to the level of debt that is carried by other corporations, there is also this concern with regard to the amount of revenue that was transferred over. Have you quantified the level of revenue in total across all of the councils in this region that perhaps should have been transferred over if there hadn't been some rebalancing? What's your loss?

Mr HAMPTON - That was the \$2.25 million, the number I mentioned earlier.

CHAIR - Have you had discussions with your owners in regard to this?

Mr KNEEBONE - Yes.

CHAIR - Are those discussions ongoing? We have Devonport up shortly; he is here now. Based on the advice that was provided after those questions that we asked in regards to this issue in a previous hearing in Hobart - and I'll just quote from the advice in front of me - in regards to Devonport council, it is rebalancing its service sewer charge in 2008-09 from \$300, which was the price that was charged in 2007-08, down to \$273, a 9 per cent decrease, yet at the same time the general rate increase for Devonport in that corresponding year was 10.5 per cent and therefore the revenue in 2009-10 - I presume this is to the corporation as a result of this rebalance - was approximately \$265 000.

Mr KNEEBONE - There were no rules to say that they couldn't do that.

Mr HAMPTON - We are not in a position to cause them to have changed that.

Mr KNEEBONE - It is what it is.

Mr HIDDING - I don't think anybody is alleging that anyone broke any rules, but is it not so that from your memory, then Mr Chairman, that the Treasury first looked at council's annual reports to figure out the valuation of their assets as according to their annual reports, what their income was from certain things? Then over about a two-year period while all this was getting together, councils changed a few things in their structures because they knew about these dividends. You have called this 'rebalancing'. If it was in private enterprise and you valued something two years later and you finally settled two years later and you ended up with that compared to that, it wouldn't be called 'rebalancing', it would be called something else entirely. I just want to look at this rebalancing issue. There are two issues here, aren't there? In some circumstances you are paying higher rates of annual dividend, which affects your bottom line, but in other circumstances you have forgone revenue. Is that true? Am I seeing that correctly? The impact on your business comes from two things: one is the level of dividends as negotiated under a complex arrangement; and the other, a loss of revenue under-recovery - that is what you call it. I guess it needs to be hyphenated there, but revenue under-recovery that comes about because of what Burnie did with its stormwater, for instance, or notionally called it the stormwater rebalancing.

Mr HAMPTON - As a broad generalisation, I think it would be safe to say that to the extent that rebalancing occurred, if it hadn't occurred it probably would have led to a higher priority distribution. So in a sense the councils have given themselves control of their dividend distribution by the rebalancing. That is a broad-brush approach to it, it gave them absolute certainty. I guess what I am flagging is, if that \$2.25 million had been there then the priority distribution would have been higher.

Mr MORRIS - But not \$2.25 million higher, presumably.

Mr HAMPTON - I don't know the precise detail of the calculation of the priority distributions.

Mr HIDDING - Let's bring this right down to a residential customer of your corporation here at Cradle Mountain Water. I think everybody generally accepted, through their elected representatives at least, that it was a good thing that there be one water corporation up here and that everybody share relatively equally on a certain public policy model, the cost of water and sewerage services in this area. But do you believe that as a result of the dividend structure or revenue under-recovery that, for instance, a Burnie resident - let's make it in the middle - an Ulverstone resident is paying in his or her water rate a contribution towards Devonport City Council's general rate?

Mr HAMPTON - The short answer to that question is we just don't know.

Mr HIDDING - Through the dividend is there an element of not actually paying for water, you are paying a contribution towards a general rate somewhere else?

Mr HAMPTON - We were not privy to the detailed calculation of the priority distribution and so we're not able to form a view on that. The surmise that I gave you a moment ago I think is a logical surmise, that if they had been making more money and that revenue stream was transferred to us, then some people, I would have thought, would have got a higher priority distribution. Which ones? I don't know. To what extent? I don't know. But I think it is a logical surmise.

CHAIR - Just coming back from that level of debt that the corporation carries and the future capital works program. Because of the level of debt that is carried and the gearing at the moment, and allowing for there not to be massive price shocks in regard to what customers pay, over the medium to long term can Cradle Mountain Water provide relatively the same level of improvement in asset that other corporations will be able to provide over a similar period of time, or because of Cradle Mountain Water's debt level and its financial circumstances, will the amount of investment in this area fall behind the other two regions?

Mr HAMPTON - One of the levers has to give. If the price increases in this region are the same price increases in the other regions, if the dividend payout ratio is roughly the same as it is in the other regions and therefore the only principal lever that you have is the capital expenditure, then we are going to have to go slower. It might not be unfair to conclude, however, that given the amount of debt that did come to us, should our focus be on maintaining the dividend – and there may be some councils in the back of the room that might not like to hear me say that -

CHAIR - I think there are.

Laughter.

Mr HAMPTON - You could take the view that the debt has come across to us so maybe the dividends are going to have to stay relatively low for quite some time. I would have to say that in my conversations with councils - not councils on the coast because I have not had those conversations yet, but around the rest of the State - they are not unrealistic about that view of the world.

Mr HIDDING - I want to go back again to some history because it is our job to be a little forensic in this to understand how it is that we got to where we are. Devonport City Council's pre-reform sustainable earnings was much higher than all other member councils in this area - in the vicinity of \$1.7 million annually profit from its operations. The underlying ethos there was that Devonport City Council had got it business to such a good position that here was essentially a Rolls Royce model because it was actually generating \$1.7 million worth of profit and so therefore that is what we are contributing to the thing so we want our money for that circumstance. The question is: in the cold light of day on the Monday morning, was it a Rolls Royce that you got because you are still paying the dividends on that, or was it a Hyundai? Mr Kneebone, was what you took over fairly represented? Did the assets that you took over that generated this \$1.7 million profit a year genuinely reflect what they should have done?

Mr KNEEBONE - In Devonport City Council's case - and I can talk in terms of the value of their assets when we revalued them - they were appropriately valued. In terms of the profitability from an enterprise though I cannot comment because I do not know what level of maintenance was being undertaken at that point. I do not know what degree of cost deferral was being undertaken at that point or what level of investment in opex was being put in. As my Chairman has said earlier, in general terms across the board we are finding that the assets that we have taken over have not been properly maintained. We have a backlog of desludging of wastewater treatment plants of which we absorbed \$1 million in our first year of operations and that was just to keep one sewage treatment plant at marginal operational capacity. We have a backlog of just about every lagoon system and some of our other wastewater treatment plants that still require that work. It is a significant investment and drives up our operating costs. We are in a purely reactive maintenance phase. We are not in a proactive maintenance phase. We do breakdown maintenance essentially at this point in time.

Mr HIDDING - Thank you for that. I think it is a very comprehensive statement as to where you are with your hardware, I suppose. In terms of the valuations, you said that Devonport's was, you believe, around the money. Now that I have raised one particular council let's go through the list. Burnie City Council?

Mr KNEEBONE - I do not know the details but I can say in general terms we got a range, but it is generally reflective in the movement of the relevant priority shares out of the new allocations audit that came out yesterday that some of the asset books that were transferred across to us required significant revaluation. The revaluation that we did was on a depreciated and optimised replacement cost basis, so there were some that we had to

make assumptions about in terms of level of manholes, those sorts of things, that that detail was not in those.

Mr BEST - When you say 'optimised replacement' you are talking also about the standardisation?

Mr KNEEBONE - Yes.

Mr BEST - Is that initially more expensive?

Mr KNEEBONE - No, we're talking about replacing old technology with equivalent technology to deliver the same result as that would have delivered.

Mr HIDDING - Which still isn't good enough in a contemporary setting.

Mr BEST - But don't you have a plan to want to standardise?

Mr KNEEBONE - Yes, exactly, but it was a matter of valuing assets as what they were in our opening balance sheet.

Mr HIDDING - So this revaluing of assets that you said a document came out on yesterday, has that an ability to make any difference to your operating numbers at all?

Mr KNEEBONE - No.

Mr HIDDING - It doesn't adjust any dividend?

Mr KNEEBONE - It is simply the relative residual shares. It is just a share in the distribution of those.

Mr HIDDING - Give us a clue as to which councils were well out with their valuations.

Mr KNEEBONE - The West Coast would have been one that we probably moved a fair bit on. There are some major movements. I don't have the detail, but I know that West Coast was one that we did a bit of work on and Kentish Council is possibly another one.

Mr HIDDING - That manner of detail you do have back at the office?

Mr KNEEBONE - Yes.

Mr HIDDING - Could you provide it for the committee at some stage, please.

Mr HAMPTON - Could I just go back to Mr Hidding's comment about the pre-reform sustainable earnings. If indeed the pre-reform sustainable earnings were correct, we would probably be earning them today.

Mr HIDDING - Yes. And why aren't you earning them today?

Mr HAMPTON - We're not.

Mr MORRIS - Because you are having to spend more money than the council previously was on maintaining and upgrading of assets.

Mr HAMPTON - We haven't moved very far down that process yet. I had a question mark at the end of my statement. That is all history. We are stuck with the corporation. We think it is better to have a regional model. We are convinced that rather than having the number of councils doing it separately, we are slowly seeing tangible benefits coming through by looking at them on a regional basis. To sum up, there is no doubt that some of the assets that we have inherited were not in particularly good shape. Some of the maintenance programs in fact in some cases were completely missing and yes, we had a lot of debt transferred to us that makes our position very difficult. I would not want to convey the impression that the board see the business as a basket case. Directors don't go onto boards if they believe it is a basket case.

Mr HIDDING - It is at the higher end of the challenges of the -

Mr HAMPTON - I think that is very well put, Mr Hiddings.

Mr BEST - You are probably not going to enjoy this line of questioning, but there have been a lot of inferences made about the watch that was given to employees, this sort of thing, that created a fair bit of turmoil in the community and these changes now that you have just put in evidence about additional costs and so forth, as to what it is really costing. There is a view that the corporation is just not efficient, you don't have the same skills base that previously existed. I am raising these things because they have to be addressed, so I am not trying to have some personal snap. How would you reply to those assertions?

Mr HAMPTON - In relation to the skill sets, we were obliged to take the employees that councils nominated should come to us. I think there was some rebalancing that went on there.

Laughter.

Mr HIDDING - Rebalancing; who came up with that dreadful saying?

Mr HAMPTON - It's a wonderful word, isn't it? You may interpret my word of 'rebalancing' in that context as you wish. We did not get all the skills that we should. We did not necessarily get the best of the teams that we should have and that is probably natural. If you were running a business and a division was being moved away from you, you would probably want to keep the skills. So that created some operational issues for us, it created some management issues for us and in the short term because we are not able to make those people redundant or change their remuneration basis, it probably added in the short term to our cost structure because we had to get some skills on board.

Back to your introductory comment about the gold-plated watches. Most organisations choose to recognise the efforts of their employees in one way or another. Whether they be councils who give \$100 vouchers for 25 years' service or whether they be private corporations that take their employees out for a meal, unfortunately we are in an unpopular space and anything that we do people will get hold of and criticise us for. With the benefit of hindsight perhaps the watches were not a terribly good idea. If we

had spent the same amount of money in a completely different way, we may not have got the same outcome.

Mr BEST - How do you feel about efficiency then? To be fair to you or to be fair to the corporation, it has been a massive task, hasn't it, let us be honest about it. It has been a huge task to get where you are now and we have heard about even just getting the bills sent out, all those sorts of things, how do you feel and rate your efficiency? We know how you feel about the efficiency of the infrastructure, but how do you feel about your efficiency in terms of your corporation itself?

Mr HAMPTON - It is very early days to respond to that in a definitive way because I think our general expectation is that in the fullness of time we will become more efficient. Let me say to you what the boards of the three corporations are saying to their management team: 'We want a productivity bonus'. We are looking to costs to come down as a proportion of revenue.

Mr HIDDING - Exactly.

Mr HAMPTON - We think that is the right approach to have. At an appropriate moment, once we have settled the organisations down, we would almost certainly look at a robust external review of the costs of our operations and whether we can do it smarter, but you have to do these things in a managed way. The difficulties of bringing together the workforces, getting the infrastructure that we needed to house the workforces, getting the teams organised to work in teams, sorting out the billing which we haven't touched on today because we probably spent enough on it last time, all those sorts of issues - they are the headline issues and some of those are still in front of us. But we have an expectation and indeed I am happy to say to you that the three boards have indicated to their management team: 'We are expecting to see productivity gains over the next three years in real terms'.

CHAIR - Gentlemen, time is up and thank you once again.

THE WITNESSES WITHDREW.

Ms LYNN LAYCOCK, MAYOR, Mr IAN McCALLUM, GENERAL MANAGER, AND Mr MATTHEW ATKINS, ASSISTANT GENERAL MANAGER, DEVONPORT CITY COUNCIL, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Mr Gutwein) - Mayor and gentlemen, we will make a start. We have obviously received your submission and had a look at it, but if you would like to speak to it briefly then we will move into some questions from there.

Ms LAYCOCK - Thank you Mr Chair and welcome to Devonport everyone. What I have done is make dot points of the submission to save going through it all because I know obviously you would have gone through it with a fine-toothed comb. What we wanted to just comment on under the governance structures, of course, is that Devonport council strongly support the retention of the three regional corporations. At no time do we want to see them become one corporation within the State. Corporations we feel would be better served with different directors in each region, rather than the current common directors and that is something that we are talking about within our council in the very near future and as one of the owners' representatives it is my job then to take that forward when I meet with Andrew Kneebone and Miles Hampton at our regional meetings with Cradle Mountain Water.

Through a lot of discussions happening regarding those quarterly meetings, we realise that with only the three owners' representatives at these meetings it is very difficult to get that information back to the other six councils. There has been a lot of work done on this and we feel that we should have a representative from each council and that is then a much stronger body to come together with the CEO and the State chairperson and the flow of information would happen a lot more easily and it would be more beneficial to everybody involved. So that is something that we are working on at the moment. I unfortunately missed the last quarterly meeting as I was interstate and of course at this particular moment with the passing of former mayor Mike Downing and the resignation from public life of Kevin Hyland, I'm currently the only owner representative. So what I'm waiting on, if there are any changes here for us to do, is of course to get the other two owners' representatives elected in the very near future. I was just speaking to Carolyn when she was leaving; she is handling that election for us. That is when as councils we will be able to really get stuck into this and see if we can have some control by putting these ideas forward.

Mr MORRIS - You don't have any substitute or you can't delegate to anyone else to represent you?

Ms LAYCOCK - Not at the moment, no.

Mr MORRIS - So even in the short term that is really a necessary thing just to maintain the maximum representation?

Ms LAYCOCK - Yes, it is. That is right. But of course the meetings are only quarterly, Tim, and so it hasn't been too bad, but because I missed the last one if I had been able to go to that to review the quarterly report, I would have been the only person there. Hence, in that meantime I've got the election process started and hopefully this won't ever

happen again and we are looking at proxies, from memory, on that. That won't happen again.

Our fourth dot point under governance structure is about the current structure with water corporations, the CEOs, being both customers of Onstream and also the directors. We feel it is not in the best interests of either the water corporations or Onstream because, as you know, we have Andrew, Mike and Barry on both of those and there has been some discussion amongst the councils that perhaps this isn't the way to go. That is one of the other issues, that once we have our full complement of owners' representatives back on board we will be pursuing this. It is six months since we have had a full meeting when you look at quarterly reports, so you can see how the time factor comes into this, how long it is going to take to get it bedded down.

CHAIR - As one of the mayors, but also as an owners' representative, do you feel like you are an owner of the corporations with all of the rights and responsibilities that ownership would normally prescribe, or not?

Ms LAYCOCK - I suppose you have to say you do feel like the owner because you are continually told you are the owner, but the question is whether you have any control, I think, and that is the thing that I find a little bit interesting at the moment, because basically at these local meetings with Cradle Mountain Water we have never had a vote on anything. Or role there has been to take back any worries and concerns from the six other councils and raise any issues with Cradle Mountain Water.

As yet I haven't seen some of the things and I can't give you those issues off the top of my head, but I haven't had a chance to see if any of those have evolved. But the only time you have ever really had a voting right and can make a difference, of course, is when you come together as a statewide body of owners' representatives and you have input into the appointment of the new chairperson. Geoff Willis left and we appointed Miles Hampton and there was some really good debate and opportunities there to make sure we had the right person. It was good. I know just nominating locally through Cradle Mountain Water our two directors, or board members, you fight to make sure you get local people with the knowledge in that area and I think we've come up with a very good mix with the two directors we have currently on Cradle Mountain Water to represent us, so that side isn't a problem. But it is very difficult to feel as though you own it when you are really coming to a meeting, 'There's an annual report,' and I say it nicely, and they listen to your issues, but at the end of the day that is the report and how many changes can you make? I think that we are far enough into this new corporation now that people have had time to absorb all this. There are a few issues there that I know that we are going to take on board as a council and as an owners representative take on for all the other councils. If we can, probably on the next point I have there, we would like to have an owner representative from every council. That would make it a stronger body and I really think that is the way to go. I think if that is all we get out of that for a while that is pretty good because that communication, that flow of information will come back down a lot easier to their councils. I have to admit sometimes I sit back and think what else can I do. I can e-mail on the information to other councils but my diary does not allow me to visit every council. We are a very busy council that have lots of projects on the board and we are here, there and everywhere, like yourselves. I think that it would be a much fairer representation if there were the nine.

Mr MORRIS - The owners representative would be entirely responsible to their own council.

Ms LAYCOCK - That is right. The theory is then that we could meet probably prior to that quarterly meeting to raise our issues, to get ourselves organised to go in. I am not saying that we need to be more organised in lots of ways but if we are going to do something it needs to be uniform and I think that is probably a good way to go.

Mr McCALLUM - Taking up your question and what you said, Tim, about that ownership issue, I think there is a level of frustration about ownership and whether as owners the council or the aldermen or the elected members have the ability to influence the direction of the authorities. It has been a learning experience for everyone. It has been quite a significant change to how things have worked. My observation with the former Cradle Coast Water was that the owner reps have been set up for a fair period of time. Each council had two reps on the owner reps model. It has been a learning experience for the hierarchy of Cradle Mountain Water, about how to involve the owner reps. There may have been a thought that the owner reps should have been organising themselves whereas Cradle Coast Water used to organise the reps and provide that secretarial support. I think that the owners at the time felt that they had an opportunity to influence the direction of the then joint authority. I think as this evolves it will give them an opportunity and that is where these discussions across the north-west have happened recently about the importance of having representatives from each of the councils on an owner reps committee in order to give them all the opportunity to have some sort of ownership and ability I suppose to help steer the direction of the corporation.

CHAIR - Can I then just ask a question on governance again? Mr Hampton I think put it very well in Hobart. He did not use the same words today as he did in Hobart but he said that upon being appointed Chair he recognised that there were some conflicts that were difficult. In Hobart he would be sitting as the Chair of Southern Water, today he was here as the Chair of Cradle Mountain and he will be seeing us tomorrow as the Chair. The competitive tension that sometimes exists between regions, looking at services, planning for where things have to go is very difficult. Today he mentioned that there should be a change to a similar representative model from each council, as you have just suggested, but also that there should be an independent board. How would you feel about that?

Ms LAYCOCK - That is what we are saying.

Mr McCALLUM - Our council has been firmly of the view and it is in our submission and they have resolved this position, that they really do have trouble with the common directors situation and would suggest that there would be three separate boards for the three regions. That is their position because of those potential conflicts.

CHAIR - Mr Hampton certainly articulated that this morning.

Mr McCALLUM - We support that.

Ms LAYCOCK - Yes, we do. Speaking from what I understand from the other councils, they would certainly be supporting that too.

Mr MORRIS - Hypothetically, if this were to happen now, what would be your three highest priorities that you would want from your perspective as the Devonport City Council for Cradle Mountain Water to address?

Ms LAYCOCK - Pricing.

Mr MORRIS - What do you think needs to happen there from this perspective?

Ms LAYCOCK -As we put down in one of our dot points here, with capping the price at 5 per cent what's going to happen when that finishes in July next year? That's going to be an awful shock to the Tasmanian people because it's going to go up considerably; it has to.

Mr MORRIS - So you accept the need for the price rises to achieve the regulatory compliance?

Mr McCALLUM - Reluctantly.

Ms LAYCOCK - Yes, reluctantly. It shouldn't have happened; it shouldn't have been capped in the first place because I think what it has done is hamper what Cradle Mountain Water is trying to do and I'd say that, knowing there are members of government sitting here -

Mr BEST - We all voted on it.

Ms LAYCOCK - Yes, I can't apologise about that but it's just that it really interfered with what Cradle Mountain Water was trying to -

Mr HIDDING - It's their job to make mistakes.

Laughter.

Mr McCALLUM - Lynn just mentioned the word 'interfere' and certainly our council has a concern that there is potential interference from the State. The body should be allowed to be autonomous and run their own race to a degree and with the ability of the owners to influence that.

Mr BACON - You did say that you wanted to stay with the regional model rather than a statewide model earlier on.

Ms LAYCOCK - Yes.

Mr BACON - Is there any concern about the financial position of Cradle Mountain Water relative to the other two bodies that -

Ms LAYCOCK - Scott, it's not in the same position as the others, which is unfortunate, but I still think it's early days and I think they're managing it as well as they can at the moment.

Mr BACON - Is there a negative for people in the north-west - are their prices going to have to rise more of the financial position?

Ms LAYCOCK - The standards will be affected because you have to have the money to do it, and you haven't, so yes, there would be a concern there.

Mr BACON - Do you think there could be an improvement if it was statewide for the north-west?

Ms LAYCOCK - I'm not so sure about that.

Mr McCALLUM - Potentially, I suppose, in the theory behind it. Certainly our council, from day one when this was proposed, had the sense that if it went ahead they supported three regional bodies. They weren't prepared to support a statewide body. A lot of that was from a parochial point of view because, as being one of the bigger centres, they were prepared to see cross-subsidy for the smaller centres in the north-west but weren't prepared to see cross-subsidy for other regions within the State. I know it's a parochial view but they were very strong on that.

Mr BEST - The difficulty for you is that it is the constituency that you're representing with that position, isn't it?

Mr McCALLUM - That's right. Some years ago this council went through a fairly traumatic time, before my time and I don't know if it was in your time Lynn, to introduce two-part pricing for water.

Mr MORRIS - Yes; one of the first councils to do so.

Mr McCALLUM - Yes, and it was traumatic as I understand it for this community and certainly for the council. The council supports two-part pricing and would like to see that uniform certainly across the north-west but certainly as a principle for the State. The issue of water meters - this city is metered and metering is something that this council does support as a way to manage this resource. That's our position.

Mr MORRIS - So at least in part there is a relationship between the fact that you've gone to two-part pricing across the north-west coast pretty well already and the fact that you've expended on meters and the corporation has a higher debt level. But then it doesn't have to do metering so it has some work it doesn't have to do.

Mr McCALLUM - That's true.

Mr MORRIS - The other thing is that, clearly, in not supporting a statewide corporation, which I didn't either - it's actually financially a bit of a negative because this debt would have been levelled out so the positive of having more local corporations is balanced by the negative of having to wear the debt with it as well, so there are pluses and minuses. Obviously the councils here made a decision that the pluses of having a local corporation outweighed those negatives.

Mr McCALLUM - They did. One more thing about pricing is that the council really supports a common pricing regime across the region.

Mr MORRIS - Postage-stamp pricing, yes.

Mr McCALLUM - Rather than having a price for Devonport, one for Burnie, one for Ulverstone, they would support that regional pricing approach. That does lead to cross-subsidisation, but this council sees that as still a way by which the smaller communities can benefit to get their facilities up to date. In the long term they see that we can benefit by that as well over the long term because each and every one of us will be helping each other.

Ms LAYCOCK - Just one more point on the governance we had in our submission was that we felt that Onstream should be wound back from a full-scale operation and become -

CHAIR - Wound up or wound back?

Ms LAYCOCK - Wound back, did I say wound up?

CHAIR - No, other people have said that.

Mr BEST - You are being verballed.

Ms LAYCOCK - I can see that and I did very well. At the end of the day we didn't ask to be here in this position. Councils didn't want this to happen, so we just need to make the best of it. We've gone so far down the track now we need to make the best of it. Tim said a moment ago that if it stays as the regional corporations, we would feel more like we have ownership, but we need to improve that, and that is what we will be heading towards in the next few months with the councils. There is a little bit of work to do there.

Just back there on to Onstream to be wound back from a full-scale corporation, become a joint authority or a business unit of the three corporations to retain the efficiency through the provision of shared services without the need to perform as a commercial entity with its own right.

Pricing, we've covered a couple of those, that was the concern that the 5 per cent cap will lead to those shocks on the public, which it definitely is. I am not looking forward to when that happens, that is going to be just dreadful, but anyway that is the way it goes. The second point that we had down under pricing was that time frames of the environmental compliance could be reviewed to assist with the controlling the price increases to ensure financial viability of the corporations. Do you want to add anything to that, Matthew, to help me out there with this one?

Mr ATKINS - The terms of references that came out with this asked for ideas on how the price shocks could be minimised. I guess we see that as rather than trying to meet the ultimate environmental standard overnight, we are suggesting possibly a phase in and work on the priority areas, to stretch that over a longer period of time.

Mr MORRIS - But currently overnight is 10 years, so what time frame are you thinking of?

Mr ATKINS - It would be a matter of working through those priorities and looking at some of the lower population areas and so forth, whether there is an opportunity to push those out or whether a review of those standards and is the bar too high in some areas. We put that forward as just an idea for consideration in ways of minimising the price increases.

Mr HIDDING - You as an owners rep know this as well as anyone else in local government that Cradle Mountain Water labours under a couple of business settings which are very challenging. One is that it has very high levels of debt compared to the other two, but it also pays very substantial dividends that are mandated upon them. One of the dividends is to the Devonport City Council and that is related to the fact that Devonport City Council made a pre-transfer sustainable earnings figure at \$1.721 million per year. The chairman of Cradle Mountain Water put the rhetorical question back to us and I would like to now put that to you, which is, how is it that they were making \$1.7 million out of their assets and we no longer are? Do you have a view as to why that might be so? Considering that they are paying dividends based on that \$1.7 million, why are they not making the \$1.7 million?

Mr BEST - They have had a lot of changes too, haven't they.

Ms LAYCOCK - It is a good question. I will just get some help here.

Mr McCALLUM - Rene, we have not examined that fully so we are really not in a position to adequately answer that question about why that is not the case. I noted the Chairman also mentioned the idea of the councils potentially not taking a dividend. That is not something that we have put to our council but it would be quite concerning to our council to have agreed. There was a proportion of that \$1.7 million that did go towards the overall operation of the council and we have had to pare our operation back to balance our budget, so to speak, from the loss of water and sewerage. That has been a significant and a traumatic time for the council. The council, to my mind, may be reluctant, and I am speaking on their behalf without them making a decision on it, to forgo any potential dividends because of that fact because of the potential that it could have on their own operational budget.

Mr ATKINS - Just adding to that, it is not that Cradle Mountain are just running the council area in isolation any longer. When council operated it it was just in our municipal area and we made that return or average over those last few years. Now that is part of nine other municipal areas.

Mr HIDDING - But for all that, it is still a cost centre. Devonport operations are a cost centre and Cradle Mountain Water has advised this committee that it is no longer making the \$1.7 million profit that this cost centre used to make. That is a challenge for us now to understand why that might be the case considering they are being forced to go on making the dividends and share that impost over everybody else in the Cradle Mountain Water area. Do you understand the issues there?

Mr McCALLUM - I do not think we are in a position to answer your question about why that is the case at this stage without further information ourselves.

Mr HIDDING - There were some rebalancing issues as well. The sewerage service charge dropped down from around \$300 to \$273, a 9 per cent decrease. That is in the period

from when you were first assessed and then when it was taken over this cute word 'rebalancing' has come in. I make the point that in private industry it would be called something else entirely, but there was in fact a reduction in the sewer service charge of 9 per cent and there was a general rate increase for Devonport at that time of 10.5 per cent and so a revenue loss in 2009-10 from this rebalance is approximately \$265 000 a year to Cradle Mountain Water. There are a few issues there with what was going into the business model and what has ended up and it is our job to look at that to try to understand why we are where we are. On the face of it you cannot answer the question why Cradle Mountain Water does not make the \$1.7 million profit it used to?

Mr ATKINS - No. I think that is a question for them really. We do not know. We are not up with their business.

Ms LAYCOCK - I will just jump down a couple here to asset revaluation. They have just, as you know, recently done this revaluation and that is a \$250 000 loss in dividends to our council. Things are getting tighter and tighter every day in local government and that is a big loss for one council to make. They are just the things that we have to work through with that so we were extremely disappointed in that valuation in our share that we received.

Headwork charges. I think you will see that is quite clear in our submission there. We understand the principle behind the headwork charges but we feel that a lot of people in the community don't understand it. They don't understand it. I have already spoken to Andrew Kneebone about this at one of our meetings that we need to market that better with the people out there because it's really hard when you are only handling it once every three or six months. As a small developer, say you or I, doing a couple of units in a yard, all of a sudden you are faced with an \$8 000 account from this and that through Cradle Mountain Water and they're up in arms about it. But when you sit down and it is explained to them properly they understand that that goes towards the bigger infrastructure such as our Pardoe treatment plant and places like that because there is more use, obviously. It's not just on that land; they see that the infrastructure is there and why should it cost this much, and you would do the same thing yourself and the same with larger developments, but they feel they're probably able to pass it on to those developers onto the price of the land. So they know before they start getting into it what it's going to cost them, but it's a marketing exercise and Cradle Mountain Water have agreed that it needs to be explained more out there. We've already flagged it this morning with Andrew Kneebone and we need him to come in and have a talk to us because there is a discussion paper just being put out there on headworks charges and developer charges. So we're looking forward as a council to working through that with them so that we're more fully understanding of that because when our elected members and staff go out to the community, if they don't understand we can't sell it, but we need the support of Cradle Mountain Water.

Mr MORRIS - So you accept that the council has a role in selling the need for headworks charges and it's not just Cradle Mountain Water. You have a direct interface with developers, they put their applications to you as the council and even though you then have to work with Cradle Mountain Water through the backroom, you accept that the council has a bit of a role in terms of getting people to understand the new environment?

Ms LAYCOCK - Yes, obviously, Tim, because the thing is, if it's not a developer it's our ratepayers and that charge shouldn't come back to the ratepayers because AB Development is doing a huge development. Somebody has to pay for that. So to protect your ratepayers it does have to come up. In saying that, to introduce these charges so high and so quickly has been an absolute shock to everybody. That's where we have to be careful because within each community, you speak to any mayor in Tasmania, they've all had developments at risk because of the headworks charges, as they put it. They are individual cases and we need to work through that with the developers. We're all out there trying to encourage developers to come into our communities, or our region, and we really don't want anything like a huge headworks charge out there. So perhaps it could have been phased in better, who knows, there's a lot to look at there and the price brought up gradually, but it didn't happen.

Mr MORRIS - Although I gather from what we heard today that Cradle Mountain Water has put some options on the table in terms of deferred payment, which still gives you a competitive advantage over the other regions which don't have that, so there is more flexibility available in this region.

Ms LAYCOCK - That is right and that discussion paper will really get a good airing amongst the nine councils on the coast, believe me, and by that time we'll have the three representatives in place and hopefully be able to move that group into a representative of nine.

Mr McCALLUM - May I add a couple of things if that's okay. Just taking up something that has concerned council, it's not part of the submission, but I raised it on behalf of council at the AGM for Cradle Mountain Water. The length of time to get the consumption charges out is quite concerning and there are obviously reasons for that, and I won't go into that. That is an issue for Cradle Mountain Water and Onstream and the like. What our concern is, is that we have people with limited incomes, pensioners and the like, who will get a bill going back some time. We're concerned that they're required to pay that within 30 days. We think that there should be consideration for people in those situations. I know there are probably hardship provisions and the like, but I think there should be some reassurance given to those people, particularly those people in lower socio-economic circumstances that they're able to be given the opportunity. It's taken all this time for the bills to come out; they should be given some consideration to pay them over a longer period.

CHAIR - What was the response from Cradle Mountain Water? Have they undertaken to perhaps provide some explanation for it?

Mr McCALLUM - I'm not sure, but they did say that there would be. If people were facing hardship then they would be given consideration and they would be given a time to do it. But I just wonder, from an education point of view, just to allay some fear in the community, it may help to just get that message out a bit stronger.

Mr MORRIS - My understanding is that the corporations are saying that the individual customer must approach them and it's in fine print on the bottom of the bill or something but that's it.

Mr McCALLUM - But that's not going to -

Mr MORRIS - That's not going to help the community in their general understanding.

Mr McCALLUM - From a council point of view the first people that come and pay their rates are the pensioners and these people will freak when they get these bills that are larger than what they anticipated. It's a consideration -

Ms LAYCOCK - It's a mess.

Mr McCALLUM - Well, it's a consideration for their feelings I suppose, so to speak. The other thing, taking up Rene Hidding's point is: I want to make it very clear and put it on the record that the council did make a conscious decision to adjust its sewerage rates at that time; I'll look at that and go back and look at the circumstances behind that but we did do that and that was within council. There was no intention on council's mind to be devious in that regard or to cause any potential - it was in relation to the position that the council was in at the time when they made this adjustment between rates and I think you'll find we dropped sewerage rates and we increased something else to compensate.

Mr MORRIS - General rates.

Mr McCALLUM - No, I don't think it was the general rate; I think it was the waste management charge. So there was no overall effect for the ratepayers of Devonport in that financial year. That's why that decision was made but understand, I question why that wasn't picked up in the due diligence process which was quite an extensive process and, to my mind, that could have been picked up rather than causing some sort of shock to Cradle Mountain Water in the future.

Mr MORRIS - Because it seems most of the councils across the north-west did the same thing at the same time or a similar thing at the same time.

Mr McCALLUM - I'm not aware of that. All I am aware of is Devonport's case. I'd hate it to be intimated that Devonport was trying to be smart or devious in that regard. We certainly were not.

CHAIR - If you are able to provide us with some detail on that, it would be useful.

Mr McCALLUM - Yes.

CHAIR - In the interests of time, we were running late when we started, Mayor, what other points would you like to make?

Ms LAYCOCK - Actually they've been covered in a roundabout way. I think we're right with that. You've got the dot points. Mr Gutwein, I would like to just say quickly to Tim Morris, that I haven't seen the fine print on the bottom of the accounts -

Mr MORRIS - It is an assumption that it's there.

Ms LAYCOCK - Yes, and it will come. It just could be that a lot of people don't read that. The older people in our population, the pensioners, are going to get very nervy about it and what we're going to work through, as an owner representative that's on my little pad

to do, is that perhaps they give them a holiday on it; just go back six or twelve months and cut their losses because it's not the consumer's fault; it's the corporation's. So that's where we'll be trying to help them.

Mr MORRIS - Perhaps even the council might be able to do some advertising within any newsletters you have just been pointing out.

Mr McCALLUM - We're happy to work with Cradle Mountain Water on that.

Ms LAYCOCK - Definitely.

Mr MORRIS - There is that capacity that the customer will, under the current system, have to take the first move.

CHAIR - Thanks for your time.

THE WITNESSES WITHDREW.

Mr ALWYN BOYD, MAYOR, AND **Mr PAUL ARNOLD**, GENERAL MANAGER, BURNIE CITY COUNCIL, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Mr Gutwein) - Gentlemen, thank you very much for your time today and I am sorry that we are running a little bit over. Thank you for waiting. If you would like to speak to your submission, we have around half an hour and then we will take some questions.

Mr ARNOLD - Thank you for the privilege of coming along and making a representation. Our formal submission covered the issues that we saw as important. Water industry reform has been something of a challenging exercise. I was involved in various aspects of it all the way through, including the initial senior officers group that was trying to work with Treasury to bring about the reform and heading up the professional effort here in this region to try to pull the organisation together in very limited time. I was then appointed as an owner representative for some time as well. I have experience, but not necessarily form, in all aspects of the way this whole thing came about. The influence of local government on the whole reform has been very, very limited and we have just been playing tag along, tag team, in the whole exercise. Now that the corporations have had a chance to demonstrate their wares I think it is clear that some adjustment needs to occur.

In our submission we pointed out that the governance structure is one of the areas that really does need to be reformed. The whole concept of common directors and the whole appointment process of it really needs to be reformed now. If local government is really the shareholder of these organisations then local government ought to be determining its method and its own directors for that perspective. Having common directors and a common chairman is fraught with difficulty, it is fraught with conflict of interest and we are seeing that it has not necessarily delivered the best outcome for this particular region. We do need to reflect a change in the legislation to bring about some more independence on the way the board is selected and having three owner representatives trying to represent this whole region is not adequate either. We would be wanting one owner representative at least from each of the councils to be in a position to try to influence the outcome of the organisation.

Cradle Mountain Water in itself has been saddled with a difficult operating environment because of the linear nature of the infrastructure but because of the infrastructure itself in that the infrastructure previously held by Cradle Coast Water was of a far greater requirement than the region really needed, and that is a matter of history going back over 20-plus years. We built capacity of infrastructure far greater than was ever needed for the region and then we had some debt issues associated with overbuilding, overproviding that infrastructure that now is carried forward into Cradle Mountain -

Mr HIDDING - Where was that debt parked?

Mr ARNOLD - That debt was parked primarily in Cradle Coast Water at the time. Then each of the councils with their infrastructure had some debt as well so by the time you consolidated all of that we're in a different position to the other regions of the State with respect to the level of debt that this organisation would have. There are some challenges for Cradle Mountain Water, then because of its relatively small size and its picking up the overhead as well as Onstream it is really doubly burdened in terms of administrative

overheads in trying to deliver a proper, efficient and sustainable outcome. We've questioned the value and the worth of Onstream and particularly the prescription of what Onstream shall or shall not do. I think we just need to get rid of that prescription in there. If they are going to be viable and they ought to be viable, and if they're not then there are other ways for Cradle Mountain Water to outsource some of its administrative responsibilities without necessarily creating one itself.

Mr MORRIS - If we were to make a recommendation around getting rid of Onstream and also the change in relation to the owners representatives, do you think it should happen now or do you think that should be deferred until after 1 July 2012 when the other issues are worked out?

Mr ARNOLD - I think there should be an amendment act that has different times for different actions. I'd be putting in the owner reps straightaway and getting rid of some of the prescription in there of some of the appointment processes but I'd be deferring the removal of Onstream for a six or 12-month delay to allow the transition of some of their functions into one of the corporations or into a separate commercial entity. The billing system is a by far its biggest investment and you just have to be careful in dismantling Onstream as to who then takes the billing system because that is, so-called, one of the benefits of being able to do a bill for every rateable property in Tasmania.

I think one of the real difficulties of the Cradle Mountain Water is the basis of the asset valuation in that it has been able to convince the Auditor-General to drop its asset value to be impaired to the point that it's matched somehow with its revenue-raising capacity. If it was allowed to raise its revenue, as it probably should have done and as was intended with the intent of the act, then the price for water and sewerage in the region would have been astronomical. The asset value was deprived by some \$285 million on day one. That deprivation has not been recorded anywhere because the assets left the councils one day and they began operating the next day in terms of the accounting treatment of that.

Mr HIDDING - Can we look at that for a moment, from Burnie's point of view because we have some evidence already on *Hansard* from Cradle Mountain Water's point of view here. I'm not sure exactly what they were thinking when they went to that impairment outcome but certainly in terms of the valuation of all the assets that they now own they take a fairly dim view of the actual asset valuations in terms of their quality. It's not printed yet on *Hansard* but I recall that Cradle Mountain Water expressed a view this morning that Burnie's assets that came into their corporation barely comply, if at all, with licence conditions.

Mr ARNOLD - Give me a break!

Mr BEST - That's what they said; it doesn't comply.

Mr HIDDING - That's what they said. It simply doesn't comply - not all the time. There are days that it does but -

Mr ARNOLD - Wastewater or water -

Mr MORRIS - Sewerage in particular. Water is largely compliant.

Mr ARNOLD - Okay.

Mr MORRIS - Sewerage is where the problem is.

Mr ARNOLD - The sewerage system was obviously a new treatment plant in the commissioning phase when it was handed over to Cradle Mountain Water and there were some obligations on it in terms of putting an outfall in place, which to my knowledge is still not in place. So in that sense there would be some issues on it and some of the meeting of the licence conditions of the treatment plant would have also been something that was still in the hands of the commissioning agent that did it. So like any asset you have the teething problems in terms of the outfall from it. I might add that the licence conditions of the Burnie wastewater treatment plant were the most contemporary at the time and it was the only treatment plant in Tasmania complying with that level of outfall. You have to compare horses with horses here in terms of what the licence conditions are for every treatment plant. If we had to say that these are now the new standard, then no wastewater outfall in Tasmania would be complying with that.

Mr HIDDING - Was that contemporary model plant the reason that you also transported the highest level of debt into Cradle Mountain Water?

Mr ARNOLD - In that sense we had just spent \$16 million to \$18 million on the wastewater treatment infrastructure and we took the issue at that time to borrow against that asset, but we were funding that asset from the revenues that we were getting from the wastewater in that sense. So the debt was being fully met by our revenue stream for that.

Mr HIDDING - Did you take that debt out? There was a period, and I guess I'm trying to unpick in my mind what actually took place and why Cradle Mountain Water now are at the higher end of operating capability; their debt-to-asset ratio is about 24 per cent, when Ben Lomond Water's is 4 per cent. So the dividend calculations or the due diligence work was done back in 2004-06, in that period, but then after that there were some activities done by the Burnie City Council. One of them was stripping out the stormwater. There was an exercise where you allocated so much to the stormwater task and made a case where that needed to be separately allocated. Did you also take the debt out at that stage on your sewage treatment plant?

Mr ARNOLD - Our sewage treatment plant and our pipeline across the city was probably a three to four financial year period, and each year in accordance with the works that we were doing we got the Treasurer's approval to borrow the money for that new asset.

Mr HIDDING - You borrowed against as the job happened, you didn't refinance later in order to create a debt castle?

Mr ARNOLD - No, not at all.

Mr HIDDING - Right, that has dealt with the debt issue. In stripping out 17 per cent of the combined water and sewerage revenue, that's the stormwater component, you also increased costs associated with water and sewerage by 41 per cent in that period between when it was first assessed to actual delivery. So Cradle Mountain Water calculates this to be a revenue under-recovery situation compared to due diligence estimates of about

\$1.26 million, a business model that actually seemed to work when they first talked about it compared to where it is now is \$1.26 million under the revenue they thought they had because of moves that your council made.

Mr ARNOLD - No, I think you have to look pretty carefully at some of the due diligence work that was done by Treasury modelling in all of that because we have integrated our water, sewerage and stormwater rates for a number of years into one integrated rate. And when the water and sewerage reform came along we then sought to break that rate down into what was the water component, the sewerage component and the stormwater component. So there was no drama in all of that. We were handling the costs of that and so in our revenue predictions for water and sewerage from Burnie there was no adjustment to that, only an increase in it because of our costs that were increasing with the bringing onstream of the new wastewater treatment plant. With that we had high levels of depreciation because we put a \$16 million plant in and some components of that plant had a pretty short lifespan, and so there was high-level depreciation and a high level of interest because of the borrowing on it. So in regard to the increase in costs and the increase in revenue we were very confident when we handed the asset over that we had \$7.01 million worth of revenue that was being recovered and \$7 million of expenses that were being recovered. In that sense we handed the asset over with a revenue stream and expense stream that was break-even. When Treasury did our forecasting about what was going to happen based on the years that it did there was certainly activity going on in every council and I would contend that if you look at the rating capacity of all of the councils as per the modelling that was done and the actual that has now been realised by Cradle Mountain Water and the other three corporations, there were some councils that made some rating adjustments to reduce the revenue flow that the new water authorities could take advantage of. But I would contend that in this situation Burnie didn't. Absolutely.

Mr HIDDING - The increased costs associated with water and sewerage by 41 per cent.

Mr ARNOLD - That is depreciation and the interest on the new wastewater treatment plant because it only came fully into the books during that whole review process.

Mr HIDDING - So the \$407 000 sustainable earnings figure that your dividends worked out on -

Mr ARNOLD - Should not happen because they were based on the wrong set of financial data and we tried to tell Treasury that they were basing those dividends on out-of-date data. Every council, if you look at their revenue rating and their expenses as they came into the new authorities that was just a moment in time and it should not be the case.

Mr HIDDING - So the dividends you are currently getting, or the dividend percentage that you are entitled to -

Mr ARNOLD - Is based on out-of-date data.

Mr HIDDING - What should it be, do you think, if it was up to date?

Mr ARNOLD - Based on what I have just said, \$7 million in and \$7 million out, should be zero.

Mr HIDDING - So you are getting too much in dividends?

Mr ARNOLD - We are getting dividends appropriate to the basis of the calculation that Treasury did at the time.

Laughter.

Mr HIDDING - Have you thought of handing them back, before someone takes them off you?

Mr ARNOLD - I would contend then that the asset valuation basis is all about-face as well. Cradle Mountain Water are saying the asset really is not worth the \$617 million. Well, what are we on about here? Our prospective proportion of future dividends is so-called based on the asset valuation that was transferred into these authorities. So we have reduced that from \$617 million down to \$425 million, but it was only a desktop valuation. That was our point of contention and trying to put 29 councils' assets together and understanding what is fair and equitable - it is all at sea. So the whole thing is based on -

Mr HIDDING - Is it your contention that the entire dividend structure across Tasmania in the three corporations is based on an unsound method?

Mr ARNOLD - It is based on a desktop calculation as seen by somebody in an accounting firm.

Mr MORRIS - To resolve that is the best thing for the councils to sit down together and reach agreement?

Mr ARNOLD - Best of luck.

Laughter.

Mr HIDDING - Good luck with Devonport.

CHAIR - Mind you, there are winners and losers.

Mr ARNOLD - There are winners and losers on the whole thing. In every aspect of this reform there are winners and losers and you saw some of it in dividend; we would contend that our relative asset-based share is not right because we are picking up this horrendously over-capacity investment of the other part of this region in what was Cradle Coast Water. Why should other councils have a greater equity share because somebody over-invested? There are arguments here on every quarter as to what is the respective share of people and all of that and if you accept the fact that the assets have been impaired to the extent that they have then it is going to be a long time before Cradle Mountain Water really makes any genuine profit because every time they get some decent revenue, they have to lift their asset value to what it was before it was impaired for the revenue stream.

Mr HIDDING - So the dividends are going to be percentages of nothing anyway.

Mr ARNOLD - Absolutely. At the moment we are paying out dividends on a false premise because we are accepting the fact that the assets are written down by these hundreds of millions of dollars so we can create dividends. Where are we going to be in 10 years' time? It's pretty evident.

CHAIR - I'd like to take this down a slightly different path. One of the key matters for this committee is to look at the efficiency of the organisations. You've raised that one of the options for Cradle Mountain Water would be an amalgamation with Ben Lomond Water in an attempt to achieve and create some scale and further efficiencies as a result or, conversely, to look at making Cradle Mountain Water fit for purpose. Can you talk us through that and your thinking in regard to that?

Mr ARNOLD - I think the Burnie Council's view would be that we retain the regional body as it is but try to reform it and restructure it to achieve the best outcome. Speaking from a personal perspective, I don't see Cradle Mountain Water as being sustainable in terms of delivering what we expect it to deliver in the medium term.

Mr HIDDING - Because of debt levels?

Mr ARNOLD - Because of their small revenue base. The revenue base has been constrained by government policy and their revenue base of \$42 million needs to be \$70 million and to support the asset base they have of \$617 million, the revenue needs to be well over \$100 million. We're only getting \$42 million at the moment. Who in this region is going to allow 150 per cent increase in the current price of water? Let's be real about this. My view is that the only hope that we ever have of delivering a future for water and sewerage in the region is to be combining with a larger outfit to get the efficiencies of a combined organisation in the north of the State. I wouldn't support a total amalgamation because there needs to be some soft competition between - if you look at the balance sheets of both Cradle Mountain Water and Ben Lomond Water and add them together compared with the balance sheet of Southern Water, you've got two reasonably similar-sized organisations that have a potential to deliver some efficiencies in terms of some of the major systems that are within there. If you have only two companies you don't need Onstream. You just park Onstream in one of them and do a service level delivery with that crowd. So you take out three or four layers of management straightaway and bring about some significant structural efficiencies in that exercise. But that is not a position that my council currently supports and it's only a professional view that I've seen in my looking at the cost sustainability of it all.

Mr BEST - You are saying that the \$790 average bill that they've come up with is above what it should be; that Cradle Mountain Water Corporation has used the wrong figures, that they're out of date and that all of what they're proposing is an inflationary figure because of that. You can't have it both ways.

Mr ARNOLD - No. You're saying \$790 which I quoted ought to be the average water price - that's based on the deprived asset base.

CHAIR - No, actually what they are saying is the average water and sewerage -

Mr MORRIS - Current.

Mr BEST - Per household.

CHAIR - per residential customer currently is \$790. Their view was that it should be about \$1 100.

Mr ARNOLD - The amount of \$790 is for Burnie or for the whole region?

CHAIR - Across the whole region; that's the average.

Mr ARNOLD - That's right. It should be, because the asset base at the moment is insufficient and not getting the 7 per cent. That would be presuming they have to get 7 per cent return.

Mr MORRIS - No, that was without return. That was just covering operational expenses.

Mr ARNOLD - Without returns?

Mr BEST - You see, this is the problem that we end up with when we get into discussions about figures, about what people's views are about what was the valuation and if that was correct or not correct in relation to the Treasury figures. It's a scary path in some ways because if you use the incorrect valuation then this whole thing can fall over. Do you know what I mean?

Mr ARNOLD - Yes.

Mr BEST - You are saying, though, and if we're to accept what you're saying - and I'm not saying that we don't accept it, but if we do - that then means that what they are proposing to charge is inflationary and not representative of the true cost?

Mr ARNOLD - I would really need to have a look at the basis on which they've formed that view. If they're saying \$790 for water and sewerage at the moment, I would say that would be manifestly inadequate for the whole region if you're delivering compliant water and sewerage systems because many of our wastewater treatment plants don't comply with the current standards.

Mr BEST - But you are saying it should be less than that, though, aren't you?

Mr ARNOLD - No, I'm saying it is likely to be higher than that if we stay as we are.

Mr BEST - I thought you suggested that the infrastructure has been overvalued because the figures were incorrect that Treasury used?

Mr ARNOLD - On day one Cradle Mountain Water dropped the value of that infrastructure from \$617 million to \$426 million. I presume that they've done the calculation based on that \$426 million of asset value and in that sense it's inadequate. The \$790 is inadequate because it's only covering the cost of that \$426 million. If it actually is \$617 million or somewhere between, pick a number, then the \$790 is still less than -

Mr HIDDING - Not enough.

Mr ARNOLD - Not enough; nowhere near.

Mr BEST - We heard from Cradle Mountain Water chair, Miles Hampton, earlier today that he thinks that there is an area within the Cradle Mountain Water Corporation that needs to be considered further, a policy area regarding economic development. I think he said, without over quoting him, that he is convinced that there is a level of responsibility of Cradle Mountain Water Corporation regarding economic development. I'm just wondering what your thoughts might be about that. He also said that at the current debt to asset ratio of 24 per cent the operation is pretty close to being unviable. He is saying that on the one hand there is an economic role, but we just don't have the capacity for that because we have all these other things that we have to fix. I'm just wondering what your views might be about that.

Mr ARNOLD - There is a contention there in that because previously councils with our water and sewerage asset had a major economic development role. We could, for example, entice a large dairy factory to Burnie and give them a rate holiday on water and sewerage and whatever else in an economic development thrust of building the growth and the base of the city. The operations of the water corporations are commercial, commercial, commercial. We think that the legislation is too restrictive in that sense because their focus is commercial only, and yet everybody in the region would want a major factory to be built somewhere. It doesn't matter where. If the whole region has to cross-subsidise that for a period of time, then I think that's what the charter should include, but it doesn't at the moment. We understand their thinking on that because we're dealing with that very fact.

CHAIR - Maybe I can provide some clarification, as I understood that. Currently they have a 24 per cent to 25 per cent debt to asset ratio. If they were to meet their obligations in regards to the time frames as set and roll out the capex investment they would achieve an unsustainable level, which would be greater than 50 per cent.

Mr ARNOLD - That is right.

Mr BEST - Which makes the task of economic development for them just impossible really at this point.

Mr HIDDING - And in terms of a viable business -

Mr BEST - They just have no capacity whatsoever, so where do you think that leaves us then when we're talking about, say, National Foods, for example?

Mr ARNOLD - It leaves us in a very difficult environment. I support the evidence given by the Devonport Council beforehand; we just have to look at horses for courses here. We're sometimes over-investing in some communities - à la West Coast, a far greater service delivery than they would ever want - and so why are we going to the upper echelon of level of service when we probably can provide a different level service for different communities? I think that's where some of our problems are in trying to develop the infrastructure over the next 10 years. We have to ask, what level of infrastructure are we going to deliver for what community? At the moment they are

trying to be the same standard all the way through and I think that brings some challenges with it.

Mr BEST - Do you see some significant benefits though for Burnie, for example, if that development of National Foods eventuates?

Mr ARNOLD - Absolutely. And development for the region. If we can actually -

Mr HIDDING - That's right. There will be people of Devonport employed there.

Mr ARNOLD - That's right. So in that regard if it's a milk company, then the milk is sourced from right across the north of the State.

Mr BEST - So you would be sympathetic then to trying to develop something with other councils for the region regarding that? Given that we know for a fact - let's not beat around the bush - we know that Cradle Mountain Water Corporation is not able to, or they just don't have the capacity at this point.

Mr ARNOLD - Yes, that's right, but had we been alone we would have obviously gone the extra mile to actually facilitate it.

Mr BEST - I know, but that's hypothetical.

Mr ARNOLD - That's right because it's history.

Mr BEST - I'm saying, in the situation we have now confronting us, what sort of things would you consider? Because obviously it's a valuable project. Would you consider canvassing with other councils along those lines?

Mr ARNOLD - I couldn't imagine other councils wanting to play in that space, that's why Cradle Mountain Water was created in the first place. That's why Cradle Coast Authority was created to actually try to get a perspective on these regional issues, but they're not able to.

Mr BACON - Is that because of a backlog of things that they have to go back to and fix?

Mr ARNOLD - Primarily that is right and they don't have the legislative imperative to do things that are right for the region in terms of economic development. Their imperative is commercial, commercial, commercial and give a dividend for the owner councils, which to my way of thinking is folly when you look at the bigger-picture issues.

Mr MORRIS - But the levers you have left are your ability to give benefits through the rates, or even if you really want to subsidise their water and sewerage you can do it potentially by coming to some arrangement with them to support them in that, if that's a barrier. So you still have a couple of levers left there.

Mr ARNOLD - We have and we will do what we think is appropriate for National Foods, to the extent that we can.

CHAIR - In a couple of minutes, in fact we're well overtime, is there anything else that you gentlemen would like to mention before we finish the session? Is there anything that has been missed?

Mr ARNOLD - I just think this whole rate capping thing has stuffed it. I think in one instrument we've actually destroyed the future of the water corporations in terms of their ability to get the price back to where they thought they were going. I simply don't know how on earth we're ever going to get back to getting the sort of revenues that they need to do the job. It's simply been folly, the way that has unfolded.

Mr MORRIS - Do you agree that we should try to recommend the cap be truncated at the end of this financial year rather than exacerbate the situation by going further?

Mr ARNOLD - Absolutely. It shouldn't have been put in the first place. The sooner it's blotted out the better off everyone is going to be because we're talking of the long term investment infrastructure and we have a long way to go yet in the State. I have grave concerns about it.

CHAIR - Thank you.

THE WITNESSES WITHDREW.

Mr DARRYL GERRITY, MAYOR, AND **Mr PETER HARDER**, GENERAL MANAGER, WEST COAST COUNCIL, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Mr Gutwein) - Thank you very much for your time. We'd like you to speak to your submission and make any points that you'd like and then the committee will ask some questions.

Mr HARDER - A pleasure. I might start and kick off. On point 8 there, our point about representation by all nine councils, that has basically come from the councillors who feel they've been totally cut off from the direction of water and sewerage in the community, not only in the major capital works which we don't hear about but it's the smaller projects - the smaller day-to-day works. Where that interacts with our work staff is on the level of our capital planning; our footpaths. We've got a project sitting down there; they were going to do that six or seven months ago. We had another one where it was 12 months waiting for them to finish off their work so that we could finish off our projects. It's this black hole that you go into trying to get some communication. But there's no way for us to resolve that or there seems to be no path at the moment to get some progress happening.

Mr BEST - So you're not able to get information about works that they're proposing to do and then if you do try to find out something because there's something you want to do, you're not -

Mr HARDER - The communication is slow and there's no way for the elected representatives to put any pressure on. Even with the Hydro, the mayor has avenues to go through those channels to see what's happening. There just seems to be no way we can bring things forward.

Mr BEST - Have you had any meetings with them? I suppose you're going to tell me you've had lots.

Mr HARDER - Yes.

Mr BEST - Like, you've turned up to four -

Mr HARDER - Yes.

Mr GERRITY - The general manager would say 'slow'; I would say the communication is virtually non-existent.

CHAIR - I'd like to raise a couple of points that the Chairman, Miles Hampton, raised, both in the southern hearings and in the hearing this morning. He has expressed his view that every council should have an owner representative but that the board should be regionalised without there being any common directors. He has also made some other recommendations in regards to governance. What are your thoughts in relation to those two key issues?

Mr GERRITY - My submission is to have a totally regional board, and I use the model of the Cradle Coast Authority because it has been going now for a decade, it is iconic, it is working and the model seems to fit. The reason I suggest the Cradle Coast Authority is that it's there and it has the runs on the board. You would probably be aware that the mayors have signed a submission to this committee, as I understand it, virtually supporting that model. At a Cradle Coast representatives meeting the other day which I chair, there was a motion put that the owners' representatives need better control, communication, understanding and input. I might be a bit hazy on that word 'control' and I've yet to read the motion as it only happened the other day, but that was the mood of the Cradle Coast representatives meeting. It is consistent throughout the region that we do not seem to have any input, any control, any influence over this at all.

Mr HARDER - So basically governance is something that needs reform and, to a point, their media releases. They put out a media release about some of our major projects and that has caused quite a lot of concern for us in the community.

Mr GERRITY - Queenstown water.

Mr HARDER - Queenstown water and the treatment plant.

Mr BEST - Did they put out media releases saying certain things were going to happen?

Mr HARDER - Certain things, who was responsible, blame games, that type of scenario, and there was no need for that. As the owners we feel we should have had a bit more say in the media release. We were given no say to that, just a token draft and that was it. So they are one step removed from politics and that needs to change.

Mr GERRITY - The real problem is, gentlemen, that they are not accountable. They are not accountable to the owners or the community that they are supposed to represent and that is the big issue. There is no democracy in that organisation whatsoever to the community or the owners.

Mr BEST - But you are not suggesting they have not acted in the best interests that they possibly could. I know you have had your differences.

Mr GERRITY - But is it the best interest? We put in a water system in Queenstown that the council could afford. It was the Holden/Falcon of the range. They have put in the Rolls Royce.

Mr BEST - Yes, I think there is something about that in here. You need a chauffeur then.

Mr GERRITY - If you are going to be accountable to the ratepayers you have to put up a project that the ratepayers can afford and can maintain. That is accountability.

Mr HIDDING - We have had placed before us by Cradle Mountain Water this issue of various councils undertaking some rebalancing from when the whole issue was first considered by Government to have sewerage and water reform until the deal was done and after due diligence. As a result of your council reducing rates for water in the 2008-09 year and also for sewerage in 2008-09 substantial reductions, the 2009-10 rates for water and sewerage are lower than those charged by the council back in 2006-07.

Mr GERRITY - Yes. The reason is they were on AAV at that time. We went back to a one charge water and sewerage rate for all residents on the west coast.

Mr HIDDING - But when you did that you knew that the Cradle Mountain Water would be taking over?

Mr GERRITY - No, not at 2008-09.

Mr HARDER - Water and sewerage control our three pools at a cost of about \$450 000 a year to run, so when you look at the two years the profit for those two years is the same. The profit generated from water and sewerage in both years is comparable, if not slightly higher in 2008-09, but the swimming pools were run out of that department. They were not transferring over so we realigned our rates to the cost centres in that part of the year as well.

Mr MORRIS - Did you have a water and sewerage rate in 2007-08 that was two-part pricing?

Mr GERRITY - No.

Mr MORRIS - When did you change from AAV to two-part?

Mr GERRITY - Around about then, I think.

Mr HARDER - 2006, I think.

Mr MORRIS - So that change was done before the announcement of the reform process.

Mr GERRITY - Yes.

Mr MORRIS - So then you set your first water and sewerage charge on a dollar amount -

Mr GERRITY - Yes, rather than the AAV. I think it was around that time.

Mr MORRIS - in 2007-08. Then you adjusted it downwards in every instance in 2008-09.

Mr GERRITY - Because of the pools. They are \$450 000 to run. We have three pools.

Mr MORRIS - Yes, that is right.

Mr GERRITY - We took them out of water and sewerage because it was being run by that department which was \$450 000 and adjusted the rates and put the pools back on the general rate.

Mr HIDDING - That was a reduction.

Mr GERRITY - If they had wanted the swimming pools - good!

Mr HIDDING - I doubt you would have flogged them. So in 2007-08 pre-transfer sustainable earnings, you were making \$836 000 a year out of your water and sewerage operations.

Mr HARDER - Yes, in our profit and losses - around 250 - that's the due diligence figure they come up with.

Mr HIDDING - If your profit and loss was showing 250, how did due diligence come up with eight hundred and something?

Mr HARDER - The depreciation difference once they revalued all the assets.

Mr HIDDING - So you got a priority dividend of 17 per cent as a result of that.

CHAIR - If the ownership issues, as we've discussed before, were dealt with, that would give your council more of a say in regards to what was going on.

Mr GERRITY - Yes, and every other one of the nine councils.

CHAIR - Obviously one of the biggest challenges that the corporations face and customers face is the issue of the 5 per cent price cut. This coming 12 months there will be a \$30 million subsidy to the corporations from the State Government and that leads to the circumstances on 1 July 2012 when that times out that somebody has to pay. How would you see that best being dealt with? I note from your submission that you think there are efficiencies that can be created within the corporations as opposed to any change to the dividend structure.

Mr GERRITY - I'd like to be a consultant on a percentage of the efficiencies that could be made.

CHAIR - Could you work us through where you see that -

Mr GERRITY - You know about Onstream?

CHAIR - Yes, we do know about Onstream.

Mr HIDDING - A vague idea.

Mr GERRITY - Transactions with other parties, page 132, service fees, 30 June 2009 - \$295 000 rising to 30 June 2010 to \$3.2 million.

Mr HIDDING - Is that income?

Mr GERRITY - Service fees, transactions. Also, I've got a copy of this here. Watches - put that in.

Laughter.

Mr GERRITY - Imagine a mayor giving out watches.

Mr HARDER - Regarding our outdoor workforce, what conditions they were on with our council, there's a 60 per cent increase.

CHAIR - Have you quantified that in a dollar sense?

Mr HARDER - It is \$45 000 to \$70 000. We have outdoor staff that used to work with these guys still on the high thirties. Now these other staff have moved; they generally had more call-out pay so they were on slightly higher anyway but now they've gone to \$70 000, I am told.

CHAIR - So staff that were working for you in the water and sewerage division of your council were paid roughly \$45 000?

Mr HARDER - I'm told that.

CHAIR - Now you're saying there is evidence that they were paid \$70 000.

Mr HARDER - That's their new agreement.

Mr GERRITY - The new agreement.

Mr BEST - Is that because of other people in other council areas or don't you know?

Mr HARDER - I don't know. That's a 60 per cent increase, and whether that was a balancing across what they were paid - but it's a gain. We still have our staff working on their old rates and it's causing obvious frictions.

Mr BEST - They might wish they had gone across.

Mr GERRITY - Revenue service income charged to owners from 9 December 2008 to 30 June 2009 was \$1.3 million; in 2009-10 it was \$13 million.

Mr MORRIS - I guess a proportion of that is to do with the new billing system.

Mr GERRITY - Yes, but if you have a look at what the nine councils would charge in billing, it would probably be a hundred thousand.

Mr MORRIS - The capital cost of the new billing system is a significant part of that.

Mr GERRITY - Yes, but it was all there in the first place, wasn't it. Every council had a billing system.

Mr MORRIS - Oh yes, but now they have a single billing system.

Mr GERRITY - A Rolls Royce billing system.

Mr MORRIS - Right. It sounds as though they're going to need it to untangle the mess.

CHAIR - I have a question. Obviously Onstream are billing for certain services. Does your submission then make the point that you think a common services corporation should remain?

Mr GERRITY - Statewide, no.

Mr HARDER - It should remain if it's benchmarked. They're dabbling into private works and we know it's only a small percentage at the moment but the risk factor is there so it's just about controls and getting the benefits from that. If they start duplicating and making their own premises to get control over certain areas then the risk is there that there's not the advantage. They empire-build locally and you don't need the duplication. It's a matter of benchmarking Onstream and making sure it's -

As a council, we did not ask for reform. To take the 15 per cent away now and put that on to our residents, you were talking about the price cap -

CHAIR - The \$30 million?

Mr HARDER - Yes. We don't want to see the price shocks. We didn't ask for that price cap to be put in and it needs to be taken away very carefully over a long period of time. It was put there to avoid price shocks so we don't want it taken away with a price shock.

Mr GERRITY - I believe I called it 'legislative robbery' at the time.

Mr MORRIS - Do you think, with that price cap, that if the increase stopped at the end of this financial year and then the remaining roughly \$30 million available would be used to wind it back out over three years - do you think that's achievable?

Mr GERRITY - You have to have a look at the figures as they came about. This is the problem at the moment. We don't get them; we have no input; nothing.

Mr MORRIS - Because you don't have a direct representative?

Mr GERRITY - Correct.

Mr MORRIS - Okay.

Mr GERRITY - Or direct control. So whatever we say is just dismissed - well, I wouldn't say just dismissed. They can override that.

Mr HARDER - It would have to be modelled to see the impact on our dividends. Obviously we rely on those to deliver services to the community. If we don't get the dividends, they are paying less for water and sewerage but there's pressure on our rates so the community wouldn't win there either.

Mr GERRITY - It's not a good investment for the councils from the point of view of what the infrastructure cost was, taken and given to Cradle Mountain Water, you get nothing back on the investment. No merchant banker would look at it; a couple of mining companies that are a bit dodgy might look at that sort of investment but as an investment, I think there are some auditing issues about it. There could be some auditing issues

about the question of what you are doing investing \$27 million or whatever it is; I know one council has had \$45 million taken away from it in investment and gets a dividend of \$60. It's not good.

CHAIR - You're obviously reasonably firm in regards to the fact that you require an ongoing dividend stream. That's obviously one of the levers that could be pulled.

Mr GERRITY - Because we are now paying water and sewerage rates.

CHAIR - So the dividend stream is one lever but you require that. Obviously, then, another lever is the rollout of the capital expenditure program. If we talk in a global State sense, the position was originally \$1 billion over 10 years worth of investment. We've heard some evidence from the corporation this morning that that is one lever that they believe could be used to provide some price relief by stretching out the program. What's the situation, as you understand it, in the municipal area that you manage in regards to the need for capital expenditure? Are there priorities that -

Mr GERRITY - There are priorities, yes.

CHAIR - Are there projects that have been prioritised that you would not see as needing to have been prioritised?

Mr GERRITY - Yes. They want to do everything; make everything best practice and world class. That's a good motive but one has to be realistic about the opportunities and reason for doing that. It's just not achievable.

Mr MORRIS - At least in part it's because of the standards being set at the State and national level.

Mr GERRITY - Yes.

Mr MORRIS - So not all of that is a decision of Cradle Mountain Water.

Mr GERRITY - Bob Hawke's 'No child is going to live in poverty' is not alive and well in Cradle Mountain Water, is it. But it's just unrealistic to want Utopia without building up to that stage.

CHAIR - If there were changes to the governance and as an owner of the corporations, if that were to be more suited to your requirements, that you could have a real say, the issue of then dealing with those projects and communities that were demanding upgrades -

Mr GERRITY - Some of them are not demanding.

CHAIR - If I could make the point, as an owner then, because at the moment the corporation makes that judgment, doesn't it?

Mr GERRITY - Yes.

CHAIR - As a local municipal area would you be prepared to have that discussion or conversation with your local area and say, 'Well, they were suggesting this, but we're saying no.'?

Mr GERRITY - We have had all that previously. We met with Cradle Mountain Water the other day. There's a lot of spring water on the west coast. The big problem on the west coast with water is that it has tannin in it and that's the big cost of treatment. If you supplement it with spring water, that is clean, clear water that can assist the running operations and the efficiency and cost of the unit. Cradle Mountain Water's response was, 'We don't want to know about that'.

Mr HIDDING - Because that would not meet, I think, contemporary drinking water standards.

Mr GERRITY - No, but it would still go through the treatment plant. But it would be getting clear water rather than tannin water into the treatment plant.

Mr BEST - What we heard from Cradle Mountain Water Corporation is that they're saying that because of the Corporations Act with the compliance, or the board of directors that is, they are now quite exposed if there were any sort of action, which could be from an enforcement of the compliance from a regulator or alternatively, I guess, it could be by someone from the community. I've sat outside the coffee shop down there in main street of Queenstown and had some interesting constituents approach me with jars of brown water and pop it right next to the coffee and go, 'What's the difference?'

Mr GERRITY - A lot of the Queenstown residents still go and get the spring water, even though it's untreated. But just because they are compliant doesn't mean that the word 'innovation' should be lost to their vocabulary.

Mr BEST - That's a fair comment, but I'm just saying back to you - and I accept what you are saying - that's what they have told us as well.

Mr HARDY - This reform has put the spotlight on a lot of those things because in the past those people who are now not paying their bills because their water is dirty never had that issue with the West Coast Council. So there's a whole range of those types of issues. With the KPIs that they set, such as Linda that was on boiled water alert, they had to get that off the hook, so they focused on those half a dozen houses at Gormanston.

Mr GERRITY - The best water on the west coast, I might add.

Mr HARDY - They want to chlorinate that water to get rid of the boiled water alert, so they can tick that box off. The residents haven't asked for it.

Mr GERRITY - They don't want it.

Mr MORRIS - No, the State Government has said you have to get rid of it. It's actually not Cradle Mountain Water that is making that decision; it's back to the regulators at Public Health.

Mr BEST - Yes, because if someone gets poisoned, who is going to be blamed for it?

Mr MORRIS - That's right, that's their argument.

Mr BEST - Not West Coast Council. If someone gets sick and ends up in hospital -

Mr MORRIS - That is the State's argument.

Mr HARDY - The capital works in that sense that it needs to do - we used to pull that lever about slowing things down, whether that lever has been taken out of their hands because of all those things -

Mr MORRIS - Darryl, you said Cradle Mountain Water is now charging council sewerage and water rates. How much did you get charged in the last -

Mr HARDY - Between \$80 000 and \$90 000.

Mr MORRIS - Do you also charge Cradle Mountain Water general rates?

Mr GERRITY - General rates, just looking at it, it should be \$80 000 to \$90 000 if I worked it out.

Mr MORRIS - Right. I thought it might be about that.

Mr HIDDING - That is the right thing to do, competitive neutrality.

Mr MORRIS - It's the right thing to do.

Mr GERRITY - It's been brought up at a council meeting, we're workshopping it and we're getting legal advice on it.

Mr BACON - They're doing it in other councils.

Mr MORRIS - They're looking at it, yes.

Mr HARDY - One of the things I raised at the last GMs meeting is: should we all rate the same because it's another way of upping your income over another council. Their cents in the dollar is higher than your cents in the dollar - and we have flexibility to do that so it is an issue; there should be some equality across the nine councils.

Mr MORRIS - So, in some sense, if you were to lose dividends, at least in part it will be made up by your ability to charge them rates.

Mr HARDER - But we need to have consistency.

Mr MORRIS - Yes.

Mr HARDER - We've promised dividends and budgeted for it. If we know the impact on dividends in the longer term then we need to plan for that in rate increases.

Mr MORRIS - So nothing should happen suddenly?

Mr HARDER - No. We need to be able to ease that blow to the ratepayers over a number of years. If dividends aren't a future prospect because of the capital works, we need to know that and plan for that.

Mr BEST - What council service, if any, perhaps water or sewerage, was there previously for any of the mines? I suppose there wouldn't have been - they'd do that themselves.

Mr GERRITY - No, not really.

Mr BEST - They'd have their own pumps and dams.

Mr GERRITY - Yes, they did their own things. There were previously CSOs, community service obligations, that we could jump a pensioner's fence and fix his water pipe whereas now the pensioner is told to get a plumber. On the west coast you won't get one. Plumbers, carpenters and electricians - they're all working in the mine at \$150 000 a year so it is very difficult to get a pensioner fixed up. You just try to fix them up the best you can. But to Cradle Mountain Water - it's your problem, not ours.

CHAIR - Mayor, we only have a few minutes left. If the ownership model were to change and, as a council, you felt that you had both the rights and responsibilities of an owner of this corporation -

Mr GERRITY - If I was in company with the other eight, then I'd be comfortable with that because we would then be responsible.

CHAIR - How would you then fix the major challenge that we have, which is the 5 per cent price cap coming to an end on 1 July 2012, which leaves a \$30 million hole -

Mr GERRITY - At this stage.

CHAIR - At this stage in the corporation's budget. How would you deal with that?

Mr GERRITY - I think, first of all, work out our budgets for which works do need to proceed, what quality of the works they are advocating, can it be downstaged or are there other novel solutions to fix problems.

CHAIR - Spring water and tannin, for instance.

Mr GERRITY - Yes. There are all sorts of ways of looking at it and minimising that request - that big slug.

CHAIR - What would be an acceptable increase to you as an owner of the corporation in the price that a customer would pay each year? Currently it's capped at 5 per cent; it was 10 per cent under the IPO.

Mr GERRITY - We've been going up with rates for years at CPI. You would have to put that into the equation. There are several CPIs, as you know. There is a LGAT CPI - for the price of concrete, machinery and things of that nature. There could be a special CPI that water and sewerage would go up by after you analyse what the maintenance costs,

the running costs, the rebuilding costs, the replacement costs are. You could have a CPI for water and sewerage.

Mr HARDER - What you're alluding to is that the State created that gap.

Mr GERRITY - Yes.

Mr HARDER - The State doesn't want to solve it over a number of years. The 10 per cent was in place and that would have been hard but the councils didn't create this problem and why should -

Mr GERRITY - councils fix it.

Mr HARDER - We have long-term planning on our community's needs as well. I think it's up to the State to look at easing their way back out of it. It was a foreseeable problem that the State has to find a solution to.

Mr GERRITY - We're running out of time. Can I just get a couple of points across?

CHAIR - Yes.

Mr GERRITY - We had a bloke who paid \$602 in November for a water connection - it still hasn't been connected and he's not getting phone calls returned. We've got a hold-up on our developments around Main Street programs; we need Cradle Mountain Water to work in with us, whereas our own organisation did, so we're finding we're not completing Main Street programs because of hold-ups and getting no answers. The other thing is, I don't believe Cradle Mountain Water is entrepreneurial. I look on this region as having a great asset and that is the most water in Tasmania. If we wanted to attract a water-intensive industry, and there are a few of them looking for places to go here, Cradle Mountain Water couldn't do it. But a model that was involving the nine councils, say, Cradle Coast Authority, could go out and attract that industry because we have the water. There is no entrepreneurial -

Mr MORRIS - Or economic development.

Mr GERRITY - No, not within Cradle Mountain Water.

Mr MORRIS - They've acknowledged that this morning that they don't have a role in economic development and they are wondering whether they should.

Mr GERRITY - I wouldn't trust them with it. I would trust Cradle Coast Authority who have the runs on the board with it.

Mr HIDDING - You have finally found a way to flog this excess water that comes in your area?

Mr GERRITY - Yes, and my good friends the Hydro would obviously support it.

Mr HIDDING - They could do some more cloud seeding.

Laughter.

CHAIR - Any other points?

Mr MORRIS - Unfortunately it's rained on the mainland so that's probably killed that market for the time being.

Mr GERRITY - I just thought I would point that out, there's no entrepreneurial role, and I don't think they could buy that in when we have it here already established.

CHAIR - Thank you very much.

THE WITNESSES WITHDREW.

Mr JAKE WEEDA, J & M WEEDA BUILDING CONSULTANTS, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR (Mr Gutwein) - Thank you very much for your time today.

Mr WEEDA - I will try not to be too long because you're running behind time anyway. Just as a little bit of background, when my family migrated from Holland in 1951 I was only a tacker and we came out here because it was a free country. At the moment we're finding that we are so over-regulated it's not funny and so it's good to see a fair representation of our legislators, but it is becoming a little bit over the top. We now have four levels of government: Federal, State, regional - which is Cradle Mountain Water - and local. I say that because Cradle Mountain Water now requires input into anything we do. If we design a carport or a house, or a heap of units, whatever, they want to have their say, which is a bit silly because local government does it anyway.

Mr HIDDING - Jake, didn't they have a say when they were in council, the same people?

Mr WEEDA - The same people, but the council handle it all.

Mr BEST - He's saying it's another layer.

Mr WEEDA - It's another layer.

Mr HIDDING - It is a separating out of a layer.

Mr WEEDA - It's another lot of red tape you have to go through - most frustrating. From the day Cradle Mountain Water started - and the same thing happened with Ben Lomond and Southern Water - we ran into troubles because it is at the design level that these things happen. It doesn't affect the builders because by that time they have their documents and everything else. But it's extremely frustrating to have to go to Cradle Mountain Water to get your sewer point and half the time they haven't got it.

Mr BEST - And this carport plans to the council sort of thing?

Mr WEEDA - For any project and we do anything from carports to \$4 million projects that I have on the go at the moment, or I will have, and I will come to that. So you have the four levels and we never had that before. The council used to handle the planning side, the building side, the plumbing side, water, sewerage, the lot in one go. Now we have to go to the council for the stormwater details, so there is time taken, and they are fairly quick - always have been. Councils were very quick. They used to give us the sewer point, location and depth; stormwater, location and depth; and with the water, if there wasn't a meter on the site when we did our site survey you would pick it up and they would tell us where it was going to go.

So already there are frustrations and extra time; extra costs to the client. I thought I'd better get that across first so you can understand that there is a frustration level there for all designers, architects and so on that there is another impediment to progress and everything else. The biggest impediment to progress at the moment is the headworks charge. It's iniquitous; there's no other word for it. It is totally, totally iniquitous for

someone to steal money and give you absolutely nothing for it because you get nothing - you are only paying for infrastructure that is usually in place, and yes, it has to be replaced. In the time when we were dealing with councils I think it was only Devonport Council that used to charge \$1 500 for sewer connection for every unit past the first one. Now we just have an 11-unit development at East Devonport and the owner there told me last week it looks like it's a no goer because there's \$37 740 that Cradle Mountain Water wants for headworks charges. On top of that we have our connection fees - yes, we've budgeted for that because we've always had that, however their connection fees are phenomenally expensive compared with what we used to do with councils. Councils used to tell us to get our own plumber to price it and they'd give us a price, or our engineering department would, and they'd let us connect. Cradle Mountain Water will not permit anyone else to touch their infrastructure. Yes, I can understand why and I could go along with that, however the cost is way over the top. Three or four thousand dollars for a length of pipe is just not funny.

I got a price for headworks charges from them last week. I have a 17-lot subdivision, a small one, in Devonport for a mainland developer and I thought I'd better, in our budgets, call them up. I have a very good contact with Cradle Mountain Water; he's an ex-student of mine when I was teaching and I have a very good relationship with him. He worked out that it is \$57 600 for nothing - absolutely stone cold nothing. How can you budget for that for 17 prospective allotments? If we were to put two units on one of those allotments we would pay headworks charges again on the second one because the first one is for free and the second one you pay about \$3 500.

Just before Christmas we finished eight units just up here at Steele Street for the Government. We had to pay \$26 000 or \$27 000-odd again for nothing and they wouldn't give us the strata titles until that bill was paid. Fortunately, in that one the government supervisor said we could claim that as a variation and we did.

Mr BEST - Are you able to give us any sort of defined calculations or through any contacts you have about where you think this overcharging is occurring? For instance, this is actually what it is and what it should cost but this is actually what it is costing.

Mr HIDDING - It seems that Jake just said that \$57 000 was for absolutely nothing so the overcharge is \$57 000.

Mr WEEDA - Right.

Mr BEST - Yes, but I'm just wondering -

Mr WEEDA - On top of that we got connection fees, which you can normally budget for.

Mr BEST - Yes, but someone did those calculations, didn't they?

Mr WEEDA - We're doing them all the time. I've got three units in Ulverstone - that would be \$7 000 for nothing because the first one you get for nothing. That's for sewer and water.

Mr BEST - It would be interesting, though, to have that - I don't know if that's commercial in confidence with your client but it would be interesting to have that just to -

Mr WEEDA - I can tell you where it is. Main Street, Ulverstone. I think it's 147 Main Street, Ulverstone. I've got three units in Devonport we're designing for Collins Homes right near the Don Hall on that sheep paddock where the two big advertising signs are. We've had to go through sound attenuation measures there as well but that's okay; we've overcome all that. Again, there'll be \$7 000 that the developer who is a young builder has to find, but he's not getting anything for it.

Mr BEST - So you're saying he shouldn't pay anything. Is that right?

Mr WEEDA - He shouldn't pay anything. It's iniquitous to have this apply.

Mr BEST - I see what you mean.

Mr WEEDA - I know most of you fellows were part of the Parliament when it went through.

Mr BACON - Only one not guilty.

Laughter.

Mr WEEDA - I don't think you were there, Scott, but I don't know about Tim.

Mr MORRIS - Guilty by association, I reckon, now.

Mr WEEDA - Guilty by association. I'm fully aware of that.

Mr BEST - He's got the job of fixing it up. He's the only one on here who has the job of fixing it up.

Mr WEEDA - I did write David Bartlett a letter and he had Michael Aird write back so I wrote David another letter and said I wasn't interested in what his underlings had to say and that upset someone. However, he did eventually respond and say they had to charge this because there is a whole lot of usual stuff. I understood that anyway but I don't agree with it.

Mr HIDDING - There are not too many places in Australia that developer charges now are at zero. There just are not. I was in local government up until 1992 in Launceston, trying to find a way back then to bring them in because you either do it that way or the general public contributes to the new sewer and water for your development. Somebody pays. It is a general rate, which is your proposition, or the person who is doing the development itself, which is their proposition. In Hobart the other day we heard from a council and that project is going ahead, I think it is 40 something lots, and it worked out at \$4 000 a lot. That is a huge amount of money but obviously that developer feels that he can pass it on in his costs. What has happened to real estate in this part of Tasmania - is it just now passable on? You were saying over in East Devonport the guy is not continuing.

Mr WEEDA - That is the threat now, that and a few other little things, just saying it is not feasible anymore. They are deal breakers. There is a 90-lot subdivision we hope to put

in at Port Sorell. That is lot of lots - a mainland development. It is going to cost about \$300 000 just for nothing - absolutely stone-cold nothing.

Mr HIDDING - Why is that nothing, though? Don't you get sewer and water?

Mr WEEDA - He has mainland engineers to do the infrastructure design; sewer, stormwater, water supply, gas if we can get it, Telstra, power, street lighting, kerbs, channels, seal the roads.

Mr HIDDING - And the project puts the hardware in the ground.

Mr WEEDA - It puts everything in the ground. It pays for the engineering, he pays for the whole lot and the minute he seals the streets he can apply for the titles. By that time the councils are ready to seal the thing and say yes, he can then sell his blocks. He has a very big outlay for a start, but before he can get those titles he has to pay \$250 000 to \$300 000 and not get anything for it because he has to hand that whole lot wholus-bolus over to the council, and the sewer and water that is under the ground, hand that over to Cradle Mountain Water for nothing. I think the council is paying \$1 or something, a peppercorn deal, but he gives them the lot and then he can start selling the blocks. The minute he sells one the council starts getting rates, which has always been the case, and in this case Cradle Mountain Water gets their bit. It is very upsetting for me, and I have been really working on this for a while, to see people have to spend money and not really get anything for it.

Mr MORRIS - But, Jake, isn't it true that what that developer charge is paying for is the capacity within the water treatment plant and the sewage treatment plant to service those allotments? That is what is being paid for.

Mr WEEDA - They are in place already and councils have put them in place.

Mr MORRIS - Yes, but had the plant not been designed big enough and paid for big enough to take that subdivision, that subdivision would have been refused on the basis that capacity was not there. That payment is now sitting as debt within Cradle Water and what they use the developer charges for is to try to reduce that debt. But if they did not have the capacity within the existing sewage treatment plant and water treatment plant to service the subdivision, they would have to refuse it on those grounds. They have had to borrow the money to provide the capacity to allow for the subdivision and what they are seeking to do is recoup that subdivision's share of those costs. How accurate those are we have no idea but that is at least the theory behind the developer charges. Yes, I understand very much that in an environment here where developer charges historically have not happened or have been at very low levels then you are now having to compete with any new lots you put on the market at \$4 000 a lot or whatever for developer charges against a whole heap of existing blocks on the market that did not have to pay those. You have a competitive disadvantage because of the historical situation, but presumably once the existing lots that did not pay the headworks charges are all sold then everyone is back on a level playing field. That is obviously going to cause some disruption for quite some time because I imagine there are quite a lot of lots across the coast that did not pay developer charges and, yes, you as someone involved will now have to pay for it. I understand that. It is a problem.

Mr WEEDA - They have paid for their own infrastructure, and you are saying downstream.

Mr MORRIS - No. The councils by policy decision decided not to charge developer charges basically across the region here. Everywhere else in Australia and Tasmania, by and large, has done those. They have historically been there but what we have is a change that has created a price shock for developers which we understand but it was a collective decision in order to introduce those and you are at a competitive disadvantage with blocks that have already been approved and are on the market or going onto the market. We understand that.

Mr HIDDING - It is very interesting to hear it firsthand, though, from a designer very early in the investment process and in the economic development process of this area what the barriers are to you. We are talking big bucks.

Mr WEEDA - We've had a few deal breakers already. For one or two units they have said, 'We'll just put a house on it,' for example.

Mr HIDDING - Could it be that the mainland developer wants to develop 90 blocks at Port Sorell because it is too dear to develop 90 blocks in Victoria?

Mr WEEDA - He's from Queensland and he's done -

Mr HIDDING - Because he pays headworks charges over there?

Mr WEEDA - He has to put his own pumping station in there, anyway; that's what this engineering is all about. He has to put all that infrastructure in and then hand it over. You have probably had a talk to Central Coast, for example. I'm a ratepayer there. We gave them \$26 million worth of assets for, again, very little return, but let them tell you that story. Personally I would like to see that the sewerage works go back to councils because they were doing it very well, admirably well. Then at least we can deal with one person or one department when we need the sewer and stormwater details.

Mr HIDDING - Jake, if I was to say to you that so far from south and north-west up here, we've had evidence from the engineering experts that wouldn't agree with you that they were doing it very well. It would appear from your point of view that they were doing it well, but in fact on the ground they handed over assets that were performing at about 30 per cent compared to 95 per cent elsewhere in Australia, in most cities in Australia - just underperforming old assets performing very badly indeed.

Mr WEEDA - Take Launceston, those big timber sewers running down Wellington Street, I can understand it, yes. It cost a lot of money to replace them.

Mr HIDDING - They were fixed in 1985 when I was elected.

Mr BEST - What you are saying, Jake, is that this development, for example in that project in East Devonport, being asked to pay for the past, isn't it, not really the future?

Mr WEEDA - How do you mean for the past?

Mr HIDDING - Because things were already in place.

Mr BEST - As Tim said, things were already in place. Tim said nobody was charged for it.

Mr MORRIS - No, but the debt was accrued by the councils.

Mr BEST - And now this person comes to town and he is expected to pay for the other people who didn't pay.

Mr WEEDA - We do work for about eight councils and I know that about four of those were on a shoestring and they're the poorer councils obviously. I can understand that too. But then the scheme would have been that the Government then would have said, 'Okay, for those four councils or those areas let's do it differently'. But that's beside the point; it's all gone. But my main point is that the headworks charges are deal breakers or becoming deal breakers.

Mr BEST - I was going to ask about economic development because just on that front we heard from the Cradle Mountain Corporation and they said in evidence earlier on that there's nothing in their charter that talks about economic development, and that they are thinking it is obvious that it is something they need to address. I am just wondering what comment you might make about that aspect.

CHAIR - That was in the context of if a developer with a large-lot subdivision had gone to a council in the past, whether it be anywhere in the State, and the council taking a view of the rates and other income streams that may come from a development and economic benefits for the area were able to waive headworks charges or basically do a deal -

Mr HIDDING - Do a deal.

CHAIR - actually to bring something on.

Mr BEST - Such as the one we had with National Foods. There was discussion about that because Cradle Mountain Water doesn't have the capacity at this point to accommodate that project. I am just wondering what your thoughts might be on that issue. There is National Foods, but there are also developments like your own.

Mr WEEDA - I don't really have any thoughts on that. I would like to see sewerage go back to councils because they were handling it well, but you were saying that that can't happen, but that would be ideal. There is also the problem of trying to get through: you call the number and you get a voice that says, 'Press 1 if you want Southern Water, press 2 and then 3' and then you are on the phone probably up to 20 minutes. Sometimes you are straight through, but up to 20 minutes waiting for Cradle Mountain Water to respond. That's not good -

Mr HIDDING - This is something we've heard elsewhere and it seems to me that it is a pretty basic thing. They should be able to give you a name and the personal phone number of a contact. Jake Weeda rings John Smith.

Mr WEEDA - I have that contact but when he is busy - as I said I have got a very good contact, he was very helpful. I think they all are, they are really trying but they have been struggling, you can sense it. They don't know what they are doing. I have

suggested a few times, because they have asked me to meet with them a few times, that they get the GIS from each council. Apparently now they have but the councils I sense are not quite giving them the right information. I am just suspecting that so I will make that clear on record.

Mr HIDDING - A number of councils never had the right information. Launceston is one of them.

CHAIR - Can I ask you a question, Jake, just more broadly. As an end user of these corporations, apart from the contact issue and that fourth level of government which I think you make a very good point on, how would you describe the efficiency of what is occurring at the moment? We have heard from West Coast Council a couple of minutes ago and you were here I think when they indicated that they had staff that were employed at \$45 000 that were now being paid \$60 000 to \$70 000 for doing basically the same work. As an end user, what would be your view of the overall efficiency of what has occurred?

Mr WEEDA - If you turn the tape off, it is abysmal. It is really abysmal. There are so many people there, and then it is anecdotal so it is a bit dodgy. We have good contacts right through and at the pump station road they have so many people there and the management is top-heavy - top-heavy galore. They all tell you that because 19 people from Central Coast, for example, went to Cradle Mountain Water when the assets went; 19 staff and they all knew where every man was, everything in the town. Now they are saying, 'Righto, one heads off to Queenstown, one heads off Smithton, one heads off to who-knows-where'. They do not know where the infrastructure is. Every sewer manhole had a red disk painted on top of it; the stormwater ones had a green one. They have now faded and I have been saying to Cradle Mountain Water, for heaven's sake, do a fly over, mark every manhole for us, it shouldn't be difficult, you've got surveyors. Mark every manhole for us, what's yours is red and then get the council hopefully to paint them green. It is almost impossible when you are trying to find things on site, say, if we design a house for you in a subdivision, we have to find the assets - the water, sewer, stormwater, telephone, power supply, whether overhead or underground, whatever, and we record that before we start designing. If we cannot get the information - I have waited 12 weeks for a block at East Devonport, an old block. I waited 12 weeks for a sewer point. I gave up. I rang the council here and said to the bloke, 'Can you give me the stormwater, and you wouldn't by any chance have the sewer?' He said, 'I'm not supposed to give it to you, you know that.' Yes, but accidentally it was on that fence so at least I could finish that project off. It is terrible that the information they don't have, the staff they don't have and yet at the management end they seem to have plenty of people getting paid a fortune. That is evidenced by the newspapers. They tell us that as well. So the people on the ground are running around a little bit legless and at the top end they are drawing big salaries and don't know how to do it. This is anecdotal, from what I read in the paper and from what I hear around the traps.

CHAIR - Jake, thank you very much.

THE WITNESS WITHDREW.

Ms JAN BONDE, MAYOR, AND **Ms SANDRA AYTON**, GENERAL MANAGER, CENTRAL COAST COUNCIL, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Mr Gutwein) - Mayor, welcome. Would you speak to your submission, which the committee has read, and then we will ask some questions. Thank you very much for coming along today.

Ms BONDE - It is nice to be able to have some input. Probably the first point in our submission is that we felt the review was a little early. The corporation had only been going a year and we felt how can we review something especially when we felt that the whole thing was rushed a little and perhaps should have had a little more preparation time and time to get going. We felt it was instigated a little too early and there could have been other ways of doing that. However, that's history I guess.

Our council is totally committed to having ownership of the corporations and we strongly believe that three corporations is the way to go so that our councils within our region are very well represented. We think that we would not like to see any change to that form of ownership.

I think that some of the problems have been between the shareholders, ourselves, and communication between the bodies and we would like to see something worked there where perhaps instead of two or three owners reps, we have one owner rep from each of the councils. That seemed to work very well for Cradle Coast Water where we had a rep from each council and those reps were able to meet with the board of Cradle Mountain Water on a regular basis, get really good feedback and there seemed to be very open communication. There are some issues there although we have ownership of the assets, we don't have any ownership of the management or the running or any input into any of the decision-making that happens.

I guess the next one goes on to Onstream and we felt that it hasn't been working well but we feel that it's had a year to sort of wind up a little bit and hopefully in this next year things should start to work a little bit better. We've been concerned - we feel that it's about time for a review of that now to make sure there are no duplication of services happening in Onstream.

Some of the liaison between council and Cradle Mountain Water hasn't been the best. I don't know whether there's some lack of communication within Cradle Mountain Water but in getting the information to our councils, there hasn't been the communication that we would perhaps like.

CHAIR - Is there an example of that?

Mr BEST - We heard that from West Coast Council, didn't we, about communication so I'm interested in the sort of difficulties you've experienced.

Ms BONDE - We've had some difficulties with works that were programmed - I'm not sure of the appropriate word - at Heybridge when we had works programmed in as we contracted works, as we handed over and Cradle Mountain Water was going to do that

and it took a long time for us to keep going back to them and saying what's happening with that work that was to be done; nobody seemed to know what was happening and we had to go to the very top and ask what was happening. I think it was Andrew Kneebone who was able to sort that problem out for us but it shouldn't have come to that, for us to have to step in to get that work done. There were just issues like that.

Mr BEST - Had you started work and you had to stop and try to stop the contractors and then go and get it fixed or -

Ms BONDE - No, the work hadn't been started.

Mr BEST - So it was a matter of getting it all timed.

Ms BONDE - Yes, that's right. I believe there are some other issues with infrastructure renewal where councils and Cradle Mountain Water need to work together because perhaps it might be bridges or something that need replacing and you might have works to go under those bridges so obviously there are times when they have to work together and I'm not sure that that's really happening.

Mr MORRIS - You obviously have that issue with Aurora and Hydro and Telstra as well where their assets also are linked somehow to assets of the work. How do those relationships work? Do they work better than they do currently with Cradle Mountain Water?

Ms BONDE - To be honest, I haven't heard of any issues with Telstra or Aurora.

Mr BACON - It could just be that because they are new corporations it will take a while to work those relationships out and it will probably improve as we go forward.

Ms BONDE - I'm sure, yes. The other thing that we are concerned about is the headworks charges, which I'm sure you've heard lots about today, particularly with new developments coming in. We believe that somewhere along the line there has to be an avenue for some community service obligation or something like that to bring these developments in and to not put on something as big as these huge charges to stop them from developing in our areas. Because we have no say as a council in the management or decision-making of these corporations, we feel that somehow we need to be able to communicate the value of this economic development to Cradle Mountain Water for them to realise how important it is that these people aren't being turned away. I'm not quite sure how we put that in place.

Mr MORRIS - The levers you have still are the rates levers; even though you can't control the water and sewerage remissions or holidays or whatever, you can do it via the rates, can't you?

Mr HIDDING - Rates holidays.

Mr MORRIS - You still have some influence in terms of being able to attract industry by making a competitive advantage, but it's now not through the water or sewerage charges, but the only one you are left with are the rates.

Ms BONDE - As far as I know we've never done that and I guess that is an avenue open to us. I would hate to think that we started to discount our rates to those people when we are such a small rate base anyway. We simply couldn't afford to do that. The headworks charges seem to be so extreme. Everybody realises that they have to pay their rates, which are quite a reasonable amount. They are not over the top by any means, they are quite low, and the headworks charges nobody would object to either except for the fact that now they're just so extreme that I think it's completely over the top.

Mr MORRIS - Effectively, whether you are offering a discount or a holiday on the sewerage and water charges or on the rates, when it was all council the council was offering an incentive. It didn't matter much to the applicant where it was applied, it was still at the same financial benefit. I am just saying that you haven't lost all the levers; it is just that you are choosing not to use the one that now remains available to you. That is fine. That is your call.

Ms AYTON - Can I just make a comment there. When council dealt with developers, we would sometimes negotiate with them on the infrastructure and getting pump stations in and work with them through that and we didn't have problems with the developers using that strategy.

Mr HIDDING - Who paid for those pump stations?

Ms AYTON - We might have gone 50-50 with the developer.

Mr HIDDING - So your ratepayers contributed towards that?

Ms AYTON - The pump stations would have been for the council or the ratepayers, but we would get some compensation from the developers as well. They could pay 50 per cent of the headworks charges or sometimes the pump stations, or sometimes it was different.

Mr HIDDING - Just to have a flat-out hard and fast developer charge that you can't negotiate is what hurts. It just sends developers somewhere else. The ability to be able to negotiate from an economic development point of view is something that clearly would want to be retained, particularly in a place this far from the capital city where you need everything at your fingertips to be able to get development going.

Mr BEST - I'm totally on side here, but I'm just saying what we heard today in evidence from Cradle Mountain Water was that the headworks charges, and they have said it under oath, are in compliance with what is required regarding their cost recovery for infrastructure. It's not an inflated profit, they're not making any extra money out of it. It's what it physically costs and so it becomes difficult when you are bargaining on the lines of: you know that this is going to cost a dollar but you're saying, 'Well, hang on a minute, we want it provided for 25 cents'. Well, what happens there? You can't - this is the problem isn't it, in a lot of ways. I wish there were some magical solution to that so you could charge 25 cents but I don't know how. I haven't heard anyone provide a way of how you could do that really.

Mr MORRIS - Well, there is no reason that council couldn't make a contribution to that.

Mr HIDDING - Exactly.

Mr MORRIS - No reason at all.

Mr HIDDING - It did under the old system. The ratepayers contributed.

CHAIR - The other thing, Mayor, that would interest you - this issue was flagged by the chairman of the corporations, Miles Hampton, this morning as being something that they are particularly concerned about. But the legislation that regulates them specifically precludes them from anything else other than cost recovery at the moment. He believes that it needs to be looked at and made a very strong submission this morning in regards to that on the basis, I think, of corporations being able to take into account the economic development opportunities to the region.

Ms BONDE - That's really good news that they're thinking that way. That was the issue: while we are owners we have no say anywhere; we have no ability to negotiate and say this is really important, can we get some discounts here, or whatever.

Mr BACON - But then I suppose there is an impact on cost as well for other consumers, isn't there?

Ms BONDE - That's right. I guess the other really important thing is the 5 per cent price cap that was put on without consultation with anybody. I don't know how that is going to end but it needs to come to some end without people being left with a really massive price hike at the end of the three years. I guess it needs to be phased out as it was phased in. I think that was a big mistake. That's a huge issue which needs to be addressed.

Mr HIDDING - What is the average price people pay on the Central Coast - what is the average water bill? We hear that \$790 is the average.

Ms AYTON - I think we are about that.

Mr HIDDING - If I look at the numbers where you were operating, it looks like you were about on that. It's those who are underpaying at \$360 and those who are overpaying at \$4 000 or \$5 000.

Ms BONDE - The average pricing: we support the principle. I understand there are also issues with water meters. We are a firm believer in water meters as well. We've had ours metered - we believe that it should be user pays - perhaps two-part pricing user pays for a service, very much like Aurora operates. I think it's the fairest way.

I don't think there were any other issues. I think they were the major issues.

Mr MORRIS - The two-part pricing issue is certainly an easy one to deal with up here - you're already there.

Laughter.

Mr MORRIS - It's the postage-stamp pricing and the differences between municipalities that seem to be the difficult one, given the degree to which some people are paying so little

and some are paying so much - how to balance those without impacting on the income of corporations.

Ms AYTON - Bear in mind that Central Coast Council did not have two-part pricing for their water. They had a fixed charge. There was 450 kilolitres of free water before you paid excess.

Mr MORRIS - Yes. You just had the excess charge.

Ms AYTON - Yes, they didn't have two-part pricing; you actually paid for what you used from, say, 50 kilolitres.

Mr MORRIS - How do you feel about potential tariffs? We have at the moment, as I understand it, a proposed model where there'll be no free component as such but just a fixed charge and a single price per litre. How do you feel about that compared with perhaps even having, if we're going to have paying for every litre, an initial low price for the first step and then a block tariff increasing for those who use more so that for those who do conserve water, there's actually relatively little in their consumption charge? Do you have any recommendations on which way we should go in relation to that, or should there be a free component, or cheap component?

Ms BONDE - As I said before, I am happy with user pays, a fixed price, and you pay for what you use and it gives people an incentive to try to reduce their water usage. If there was a free component then I guess it has to be balanced out with the -

Mr MORRIS - Effectively it just goes into the fixed charge.

Ms BONDE - Either way, but I do think we have to all accept that it is user pays and to give people incentives.

Mr HIDDING - It is in the legislation. It has to be two-part pricing.

Mr MORRIS - But the southern councils are just not quite so keen.

Mr HIDDING - Not quite on board yet.

CHAIR - Are there any other issues that you would like to bring to the committee's attention?

Ms BONDE - I think we have covered the major things that were in our submission; perhaps just the fact that while councils are the owners of the corporations, it is important that we have a little more communication and more input into some of the decision making.

CHAIR - Thank you.

THE WITNESSES WITHDREW.

Mr GERALD MONSON, GENERAL MANAGER, LATROBE/KENTISH COUNCILS, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR (Mr Gutwein) - Mr Monson, thank you for appearing this afternoon. You are representing both Latrobe and Kentish.

Mr HIDDING - That is it. You have two hats on today. Which one will you be talking through?

Mr MONSON - Some of them have the combined one but then our submissions conflict in a couple of areas because of the different positions the councils took.

CHAIR - The time is yours, so if you would like to speak to whichever council's submission.

Mr MONSON - Perhaps, first of all, Mayor Gaffney has an apology and Mayor Thwaites also has an apology. So first of all, to carry on from the discussion on headworks charges that particularly impacts on the Latrobe municipality, going back to December 2009 after this really became an issue in Latrobe, I prepared a report and did quite a bit of research on headworks charges and maybe if I just quote from that if that is okay:

'In February 2009 the Office of the Tasmanian Economic Regulator provided a revised interim pricing analysis for the Tasmanian water and sewerage sector to the State Treasurer. The report noted a suggested headworks charge of \$2 200 for water and sewerage connections, which was \$1 100 for each service. The Housing Industry Association in New South Wales made a submission on 1 March 2008 to the New South Wales Independent Pricing and Regulatory Tribunal on a review of developer charges for metropolitan water agencies. The submission noted: although the National Competition Policy and the National Water Initiative espoused full cost recovery, State views on whether developer charges should apply to water utilities headworks differ substantially. Charging methods also vary across utilities, e.g. gas and electricity. Western Australia's Water Corporation, for instance, supplies a statewide uniform standard headworks contribution to recover 40 per cent of estimated infrastructure on costs. South Australia also applies a uniform statewide charge. In Victoria on the other hand, the Essential Services Commission has argued that infrastructure costs that are common to all parts of the network, such as headworks, should not be recovered from one group of customers, such as developers. In Victoria water utilities apply a flat fee for connecting to the network but no charge for major non-reticulation infrastructure.'

Which is the opposite to what they do here. So they are saying out in the rural areas they do not charge one, here the further you get away from the urban area the more you pay, which seems to be completely against a lot of the principles of what Tasmania is about.

'It is clear, therefore, that despite overriding policy imperatives, NCP and National Water Initiative, there is scope to vary the application of the full cost recovery model. This would seem to depend solely on the view of the State Government at the time.'

I guess one of the frustrations Latrobe has is that we went to the State Government, they say it is the Water Corporation, we go to the Water Corporation and they say it is a State issue.

'Indeed, both NCP and NWI recognise that where cross-subsidies are considered appropriate they should at least be made transparent.'

They go on:

'There is also evidence in numerous publications that increasing infrastructure charges has an impact on housing affordability, which is an issue in Tasmania. The Urban Development Institute of Australia released in August 2007 an industry report into affordable home ownership in Australia. The report noted on page 18 that, "Although it is intuitive that increasing costs will increase prices, the relationship between increased property prices and increased headworks and infrastructure charges, in all Australian jurisdictions has been documented by the residential development council."

'The report went on to state that, "These charges have a direct impact on the cost of new houses and through the impact on the market also on established houses."

This is what I said in my report to council:

'The council has already received two responses relating to the proposed headworks charges' -

This was back in early 2009:

'The first response from the developer stated that they do not necessarily agree with the calculations of the headworks charge, but would need to raise the price of blocks to cover that impost. The second developer noted that the difficult question now includes whether the market can absorb the \$5 000-plus increase in price. We believe all levels and forms of government, including Cradle Mountain Water, should be concerned about this. Housing affordability is amongst the most challenging issues facing all Australians and this is exacerbated in lower income areas, to what extent, if any, we or any other developer can absorb the cost, whether there are legal or appeal options available.

It was also noted that the proposed headworks charge at Port Sorell of \$5 257 represents approximately 6 per cent of the current average block price, but probably only 2.5 per cent of the average price in New South Wales.'

When you look at Cradle Mountain Water, they just released a discussion paper on headworks charges and they go back about the history, and they said they considered two options: one was the New South Wales model, the New South Wales Independent Pricing Regulatory Tribunal and the other was the Victorian Essential Services

Commission. They had two options. They chose the New South Wales one and then there's the comment from the developer saying it is a much bigger proportion of the cost of a block here than New South Wales.

Further on in the report I said:

'The water and sewerage headworks charges for North East Water in Victoria, which is very similar in size to the operation of Cradle Mountain Water, has headworks charges that are less than 50 per cent of the charges imposed by Cradle Mountain Water where lot sizes are less than 1 350 square metres.'

Latrobe raised this on a number of occasions. We wrote to the Premier at the time, just before the State election. The letter was acknowledged, but then the election came and we've heard nothing since.

Mr HIDDING - That is a report that you did for your council?

Mr MONSON - Yes. That was a summary of it, but the report did go to the State Government. It was just prior to the election, but we really didn't get a response.

Mr HIDDING - Could you make a copy available to us?

Mr MONSON - We should be able to. I did quite a bit of research on it at the time to try to get some discussions because in the Latrobe area we have raised over \$1 million in headworks charges. That is the general one on the headworks charges and the research that we did at Latrobe as one of the most impacted councils in the State. We raised that probably prior to other councils raising it. Council has no objection to headworks charges. It really is just the amount.

The other issue that I have with headworks charges is that they are encouraging people to build in the urban areas. The further you get into the outlying areas the more the headworks charges will cost. It probably won't come to a head until you get somewhere like Campbell Town and you get the aged person's units down there. Macquarie Homes wanted to put in a development and they finished up getting a headworks charge of many, many thousands of dollars on this method. Someone might then say, 'Is this reasonable?' If you look at the bigger policy issue about Tasmania, what makes Tasmania special is that we have all these vibrant country towns and tourism and everything else. To concentrate everything into the three or four major centres and let the others die on the vine is an issue I think as a statewide policy we need to get our heads around.

CHAIR - In regards to Cradle Mountain Water and their headworks charge here, they charge a flat headworks charge across all municipalities?

Mr MONSON - No, it is on the postage stamp. The further you get away from the urban areas the more you pay. Port Sorell pays more than Latrobe. The further you get out under this model that they've used, the more you will pay. As you get into the rural areas potentially you will pay more.

Mr BACON - Do they calculate it for the individual development on what that would cost?

Mr MONSON - They look at the postage stamp for that infrastructure for that area. I guess we would argue that it ought to be at least averaging the same across the State. It is that issue about equity and everything else. They would say it is the economic rationalist model. It is more efficient to have this development in the urban areas, and do you really want them in the rural areas.

Mr HIDDING - Exactly.

Mr MONSON - I guess that's a statewide issue. I would have thought most people would think that we want vibrant country towns because that's what makes Tasmania special, but this policy is not aimed at that.

Mr HIDDING - Urban infill has always been a planning aim, to try to extract most value out of the existing infrastructure.

Mr MORRIS - What we really need to know is what is the capacity of each piece of infrastructure in terms of what additional development it can support, and the charging should be relevant to encouraging maximum utilisation of each piece of infrastructure.

Mr MONSON - That's right; you may have a lot of capacity but you still pay the headworks charge and the capacity might be right for the next 20 or 30 years but you'll still pay.

Mr BEST - We had evidence before by Cradle Mountain Water saying that their charge is compliant with what is required of them and that it's the actual cost. They're saying they're not charging any more than what it costs.

Mr HIDDING - I think you might have it wrong. You're thinking that on a particular development with \$55 000 worth of headworks they apply that to some works. In fact they don't because they said in evidence - remember they said we took \$1.3 million in headworks charges and that's the profit they made. It goes straight into general revenue.

Mr BEST - Yes, but what they say is that's what the cost of the infrastructure is.

Mr MORRIS - The real cost.

Mr BEST - That's what the real cost is and when it has to be replaced and all that sort of stuff, and yes there is a margin on there, they're saying. So, what do you do then? They shouldn't charge like that then - is that what you're saying?

Mr MONSON - We are saying we have no opposition to the principle of charging for headworks - that is, the amount of headworks - and if they can do it in Victoria at half the price of what we're charging here, that model ought to be at least looked at. The water corporations did have the options. They could use the - they've got a report -

Mr BEST - This is the one you are going to give us, is that right?

Mr MONSON - This is one from Cradle Mountain Water. They have just released it.

Mr HIDDING - Last week.

Mr MONSON - Yes, they released a discussion paper which says:

'in August 2008 Cradle Mountain Water sought advice from Marsden Jacob Associates with respect to developer charges. This advice set out the two main options to developer charges used in Australia, those being the New South Wales Independent Pricing Regulatory Tribunal model and the Victorian Essential Services Commission.'

We're suggesting that maybe in this case the Victorian Essential Services Commission is a more appropriate model for Tasmania than the New South Wales model.

Mr HIDDING - More developer friendly.

Mr MONSON - I guess you could look at New South Wales, which is probably one of the States that has struggled with its development over recent years. Is that the model we want to follow or do you want to follow the Victorian model? All I am saying is that there are options there. It's not just hard and dry.

Mr BEST - We need to look at those, don't we.

CHAIR - It's a very good point that you're making.

Mr BEST - I appreciate your submission; it's good. It's given us something - well, we haven't had anything like that so it's something to look at.

Mr MONSON - Now I can wear which hat?

CHAIR - Which one would you like?

Mr BEST - Was that the bad-cop hat?

CHAIR - Which council do you agree with?

Mr MONSON - I agree with both of them.

Laughter.

Mr MONSON - As all good general managers would.

Mr BEST - There is no-one here to check up on you.

Mr HIDDING - Of those two councils is there one that has any difficult business operators like motel operators and things like that?

Laughter.

Mr HIDDING - Peter's father operates a hotel.

Mr MONSON - No, he'd be okay.

Latrobe is one of probably half a dozen councils in Tasmania that has been criticised because it made a profit out of water and sewerage. It was before I went to Latrobe three and a half years ago. On the one hand they had the Government Prices Oversight Commission saying you need to increase charges to get your return on assets and Latrobe was one of the few councils in Tasmania who did it. At that stage it didn't see a need for any infrastructure. It's a fast-growing area. It's only when they started on this road to the reform six months before that the Environment Protection Authority put an EPA notice on the Port Sorell sewerage lagoon. One of the issues that led to the reform was the lack of action by the EPA in its enforcement because Latrobe certainly was not aware that there were any problems with the sewerage scheme. It met all of the guidelines and everything else when it was constructed in the seventies.

Mr HIDDING - The old licence.

Mr MONSON - Yes. There was no reason for the council to believe that it needed heaps of money spent on it. Then out of the blue, six months before this came in, we had an EPA slapped on us.

Mr BEST - It was interesting timing then.

Mr MONSON - They then went around when this reform was coming in and out of the blue put these EPA notices on a lot of the councils. Again, it is probably a lack of enforcement that led to that anyway. The Latrobe Council increased its price. It was a no-win situation because the economic regulator was saying, 'You need to increase your cost.' The council then made the decision; they didn't need the infrastructure at that stage. Some councils put that into reserve and some of them had several millions of dollars. Come 1 July, when this new legislation came in, those councils got to keep those reserves and some of them would be holding quite a few million dollars in reserve. So there has been criticism of the councils that they used it to fund other activities, but is that any different to putting it in reserve and getting to keep the reserve? It is just an issue.

Then we have the issue with the dividends at Latrobe; that has been a really big issue for Latrobe. We were basically \$850 000 out of pocket and the dividends here we are getting are about half that, so we have had to find \$400 000-odd. One of the impacts on that is that you are starting to cut back in a lot of those social-type services. While you have the social inclusion policy saying that local government ought to be getting involved in these, we no longer employ a youth officer at Latrobe. We have had to really cut back to make the council viable. Some councils are now saying 'Cut out the dividends to councils', but we've increased the elderly person's unit rentals and that's another story. There have been issues about that.

Mr BEST - Let us not talk about that one.

Mr MONSON - We need to, like the State Government, we need to balance our books so we've had to make tough decisions to claw back that \$400 000 or \$500 000. Latrobe is, I think, generally a well-run council so it is a big issue for Latrobe Council.

Mr HIDDING - Can I ask you a question about Latrobe Council on this issue of rebalancing, which was when Treasury first looked at Latrobe and said that is its operating thing and so the business would operate like this. Cradle Mountain Water makes the point that Latrobe underwent a rates adjustment for both water and sewerage in 2007-08, on average a 3.2 per cent drop on minimum charges and an 11 per cent drop in the rate of AAV, which brought about an approximate revenue loss to Cradle Mountain Water of \$232 000 a year. What was that about?

Mr MONSON - I'm not aware of that. I think they may have clawed back some, but not that sort of amount. There was an increase at the time through the bulk water authority. I think they increased their rates by 15 per cent or 16 per cent and we may have increased ours by 4 per cent or 5 per cent.

Mr HIDDING - Except they are making a point that you, in fact, reduced your minimum charges by 3.2 per cent.

Mr MONSON - I'd have to check on that, I'm not aware that we did that -

Mr HIDDING - It could be argued some councils did that in order to try to look after their ratepayers so they got a better deal on their water rates, or whatever, but it has brought about a situation, or it's contributed to a situation where Cradle Mountain Water carries way too much debt and is up for way too much in dividends. It is underperforming in terms of revenue compared to what it was projected to because some councils changed the game in a two-year period.

Mr MONSON - I understand they were \$4 million or \$5 million short, but I'm happy to respond, but that's the first time I've heard of that. I'm happy to respond to that. If there was a change it would be a very small change.

CHAIR - Would you have a look at that because one of the points that Cradle Mountain Water made to us this morning was that there had been, from when the original valuation was looked at, or the original due diligence in 2006 in that interim period when under discussion and the legislation was being progressed through Parliament, in fact the majority of councils lifted their general rate, but reduced their water and sewerage component and that when the income stream transferred over it left -

Mr MONSON - That may have happened, but it certainly didn't happen at Kentish, which probably would have been one of the ones where it could have.

Mr MORRIS - It didn't get a dishonourable mention here.

Mr MONSON - And certainly Latrobe, yes, I would have to check that. I am not aware that they reduced them. The only one I'm aware of where the Water Corporation had a substantial increase and I guess because of our financial situation we were making a profit out of it already but I'm not sure -

Mr HIDDING - This is a document that we've received so we can't give it to you, but if you could check with Cradle Mountain Water what it was that they believed that you rebalanced and if you could provide us with details as to why that might be the case.

Mr MONSON - I can do that.

Mr HIDDING - Latrobe Council in 2007-08 had pre-transfer sustainable earnings from its sewer and water business of \$776 000 a year. That is a pretty good effort. Do you think you were making that kind of profit out of this?

Mr MONSON - When I first came there I was told with this going through we were potentially going to be out of pocket by \$850 000. So in the first three months I made myself very popular, I had about five people leave and I never replaced any of them. What we did, we tried to position ourselves as a responsible council would, and we had to cut our cloth to balance our books.

CHAIR - What year did you come across from Northern Midlands?

Mr MONSON - In 2007. It was right in that time. It had been announced it was coming and as I said, we were aware the submissions that were made to the inquiry highlighted that issue; it was around about \$850 000 potential shortfall.

Mr HIDDING - But the dividend arrangement was worked out over a three-year period, which has resulted in a priority dividend share for you of 15.8 per cent based on the fact that over a period of time Latrobe Council actually made a profit from its operations.

Mr MONSON - But we are still only getting \$450 000 or something. We are still well out of pocket to what we would get. So we we're getting \$850 000, something like that, and our dividend is just over \$400 000 because they are not meeting their budget. We are impacted on that. So we are still running an operating deficit.

CHAIR - We've taken you off.

Mr MONSON - Both Latrobe and Kentish believe that the quicker they move to average pricing the better. There are many reasons for that. Latrobe's rates are fairly high because they responded to the Government Prices Oversight Commission and the economic regulator, so if there is \$850 000 profit at the moment, that is going across to the other areas because it is not being spent in Latrobe at the moment because our infrastructure is still pretty good. The forward program shows some work done in Port Sorell. We are also getting \$1 million worth of headworks charges, which are going into the bucket, when we are getting half the dividends back we were. So that is an argument, we believe, that sooner rather later they ought to move to the average pricing.

The other one, Kentish, if you have read their paper, what they did - and it's not for me to judge what previous council's management did - but leading at 2004-05 they started to fund their infrastructure, but they did it out of revenue. If they had borrowed the money - it is always good to be wise in hindsight - the tenement charges would be \$783 and not \$1 100. When I first went there the question I asked was, 'Why are these charges so high?' When you look back that was what happened.

Mr MORRIS - Because of that decision.

Mr MONSON - If they had borrowed the money and done the works they would have got rid of the loans, they would have transferred, the tenement rate would have been \$783,

which is why we did argue strongly when we found that information out and they capped it at that, but they are still \$300 or \$400 out of pocket to what should have been happening. What would have happened now, I guess they made that decision, they have done the upgrades, they would have been generating cash surpluses now and they would have gone into reserves or offset something else. That was a decision the council made, but they are really paying the price for that under this model, so the quicker it gets to average the better.

Mr MORRIS - However, it would appear that from what we've heard from Cradle Mountain Water where the pricing has to get to for water and sewerage in the medium term is actually about where Kentish is at. In fact Kentish ratepayers almost certainly won't get a price shock because they are already there.

Mr HIDDING - They might not get a price favour either. They might come down a little bit.

Mr MONSON - There is another issue to show you why it needs to be fixed: another council that I know fairly well, after working with them for a number of years, its water and sewerage rates are about \$550. For every million dollars they spend on infrastructure the rates would have increased by \$20. There has been about \$7 million spent there in the last couple of years, so the rates would have gone up by \$140, but they're capped at 10 per cent. So instead of going up by \$140 they are going up by \$55. All I am highlighting is that with all these discrepancies, the quicker they move to average pricing the better for everybody. We agree with Cradle Mountain Water's argument that there ought to be a cap on their total amount of revenue and let them start working within that system. We would support that. I know there are going to be some price shocks but again, if the total revenue is capped and not 10 per cent and 5 per cent. One council on the coast has basically got zero increase and it's just getting further and further away to make it fixed in the long term.

Mr MORRIS - It would appear that the two councils that you manage are well ahead of the game in terms of the pricing that they handed over so.

Mr MONSON - For different reasons.

Mr MORRIS - For different reasons. Your ratepayers are not going to be in for such a price shock but that means that your councils are probably going to be under significant pressure to raise the rates in order to fund the services.

Mr MONSON - Kentish rates are still reasonably high. That's another issue with its network and bridges and road networks, et cetera.

Mr MORRIS - Yes.

Mr MONSON - That's a dispersed municipality with lots of infrastructure. Latrobe rates are the cheapest on the coast and one of the reasons is that there was that cross-subsidy there. That's a challenge for council moving forward but we are addressing that in our 10-year capital works program.

I think our main case is the quicker we move to the average pricing, the better. In our submission we put in some comparisons - rates, et cetera, which you may find useful.

Mr MORRIS - That's great.

Mr MONSON - I think they are the main ones that I wish to raise.

CHAIR - A couple of general questions on some of the key challenges that have come up. Obviously the 5 per cent price cap and how that gets wound out is going to be important. We know it ends, at the moment, on 1 July 2012 and there will be a \$30 million subsidy over the next 12 months from the State Government to keep the price cap at 5 per cent. What's your view as to the best way to move that out of the system? We heard from the chairman of the corporations today that they have discussed with Government that they would like to see an option whereby rather than \$30 million being provided next year it might be \$10 million over the next three years and actually use that to step it down. But that would then put some pressure on the prices customers would pay, dividends to councils as well because someone's going to have to pay if the State Government winds out that subsidy early. What's your view?

Mr MONSON - I guess the cap shouldn't have been put there in the first place but that's been done and everyone probably agrees with that in hindsight.

Mr MORRIS - I am not sure - we haven't asked the minister yet but we will get there.

Mr BEST - It's on the list.

Mr MONSON - It didn't seem to be a wise decision with the pressures that they had. I guess the two councils would probably have different responses. I think Kentish in their submission suggested that maybe that's the case, but then Kentish don't get any dividends either. The water corporations have quite large capital works programs and they may have to look at that. We may have to be a bit more realistic in funding those and whether we can afford to bring the issues up so quickly. They keep raising the issue about 30 boiled water alerts. I was involved with a couple of those at Northern Midlands and they weren't really issues for the local community.

Mr MORRIS - No, they weren't but they were statewide issues.

Mr MONSON - They were just a dot of the number of consumers across the State. A lot of people in those areas would not have wanted to pay extra money for that but that was the issue that all got pushed on. Just as Kentish is doing, they have to look at every efficiency they can get. They need to cut their cloth to fit so it has to be a combination of all those things.

CHAIR - One of the issues that was raised this morning by both the corporations and a number of councils that we talked to since, with the EPA and the regulatory system that the water corporations have to operate under, in the past the EPA might issue a notice to a council that perhaps a political decision might be made as to whether or not that order might be complied with very quickly. Under the corporations, the way they explained it to us this morning, because they are corporations limited with directors that have responsibilities as directors, they don't have that flexibility. With the EPA or the Health department issuing them with orders, they are now forced to act much sooner than

councils may have done in the past on those issues of boiled water alerts or water and sewerage. How should that be managed through?

Mr MONSON - That has always been an issue and certainly when I was at Northern Midlands there was always an issue with the meatworks where they were basically ignored with EPAs, where the council got the EPAs but they couldn't do anything because it was inflow from the sewerage. So they have issues like that too. The issue needs to be fair across all sectors because if they are going to put that on water and sewerage corporations, then they need to treat the industry in the same method. Sometimes the corporations can't do anything with what is coming into the system.

Mr MORRIS - They are just the receiver.

Mr MONSON - Yes, that was certainly an issue there.

Mr MORRIS - It would appear then that if the EPA is still dealing with the industry the way it always did, which is very likely, but they are dealing with corporations more strongly, then, with trade waste especially, that potentially creates a real conflict for the corporations because, in fact, the problem needs to be fixed initially back at the plant.

Mr MONSON - At Northern Midlands I had a case of two pipelines going in the sewerage. The council's pipeline broke and we got an EPA, they tried to take us to court, tried to sue me personally, but nothing was done about the other one that broke several times. We raised that point but we didn't get anywhere with it. We defended ourselves and won it.

CHAIR - I know that in the submissions, certainly from Latrobe, that the council hasn't taken a view on the governance arrangements, and it is early in the piece. The new chairman, of the water corporations, Miles Hampton, made the point that he, upon taking his position as chair, felt immediately conflicted in regards to how he could best represent different corporations and his responsibilities as a director. What has been suggested is owner representatives - one from each council - regional boards as opposed to boards with common directors and no common chair, so that the boards can act in the interests of the corporation they manage without different people having to change and wear different hats. What is your view on that?

Mr MONSON - Certainly from what you read about Victoria there that competition does occur between those independent boards, best practice and everything else. It certainly would be an option. When it was set up quite a few people in the industry thought that this might be an interim measure. It wasn't acceptable at that stage to make one corporation across the State until you got a really good handle on assets and capital works programs and depreciations and everything else. What Latrobe is saying is it is probably premature at this time, but at some stage in the future when you have a really good handle on your assets and your depreciation, and everything else, that might be something you might go to, one board for the State. I think the feeling is that it would be premature at this time. You would really want to get a good handle on each area's infrastructure, et cetera, and capital works.

CHAIR - Do you have a personal view on Onstream and its worth in the mix?

Mr MONSON - I probably don't have a lot to do with it. You hear lots of rumours, that is about all, but I haven't had a lot to do with it. You hear about duplication and everything else, but whether that is true I haven't got a good enough understanding.

CHAIR - Is there anything else you would like to add?

Mr MONSON - No, I don't think so. I appreciate the opportunity to be heard. I will send you the information on the headworks and the information on the issue you raised about cross-subsidy.

CHAIR - 'Rebalancing' I think they called it.

Mr MONSON - Thank you very much.

CHAIR - Thank you.

THE WITNESS WITHDREW.