GLENORCHY CITY COUNCIL

OFFICE OF THE MAYOR

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Ms N Exel
Inquiry Secretary
Select Committee Inquiry into TasWater Operations
By email to: twt@parliament.tas.gov.au

Dear Secretary

GLENORCHY CITY COUNCIL SUBMISSION TO LEGISLATIVE COUNCIL SELECT COMMITTEE INQUIRY INTO TASWATER OPERATIONS

Thank you for the opportunity to make a submission to the Legislative Council Select Committee Inquiry into the operations of TasWater. Our submission is particularly focused on Items 5, 7, and 9 of the Terms of Reference.

Thank you also for agreeing to our request on 4 September 2020 to accept Council's submission after the deadline.

Uncertainty of dividend stream and declining return on assets

At the time of water and sewerage reforms in 2009 Glenorchy City Council handed over assets that our community owned, and paid for, to Southern Water based on a legitimate expectation that it would generate a stable revenue stream and return on investment for our community.

However, Council has for some time been troubled by the uncertain arrangements regarding TasWater dividends. This uncertainty has been most evident since the TasWater Board decision in August 2016 to reduce Owner Councils' annual distribution cap from $30 million to $20 million for seven years from July 2018, and has most recently been demonstrated again by the way in which dividends have not been issued during the current COVID-19 crisis.

The decision to reduce Owner Councils' annual distribution cap from $30 million to $20 million for seven years from July 2018 meant that our council's annual distribution was reduced from $3.26m to $2.17m. This has a compounding effect of a total loss of revenue across the seven year period of $7.67m.

Similar issues around decision making and communication were experienced with the recent decision to suspend distributions due to COVID-19. In the period 2018/19 to 2020/21 Council should have received a total of $9.78m in distributions. However, following the decision by the Board to cap annual distributions from July 2018 and then with the impact

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of COVID-19 and the likely scenario that Council will not receive any distributions this current financial year, Council has only received $3.25m. This represents only a third of what Council could have reasonably expected as a return when it handed over its assets. This net reduction of $6.63m impacts significantly on our Long Term Financial Management Plan and ultimately impacts on the services and infrastructure that we are able to provide to one of the State's most disadvantaged communities.

Due to COVID-19, our Council is itself forecasting an operating deficit of $8.7m in 2020/21. The loss of TasWater dividends accounts for 25% of the deficit. Nonetheless, our Council is committed to supporting our community through recovery and has increased its capital works program for the 20/21 financial year to $21.7m and rolled out a rate relief rebate worth $1.9m to our ratepayers.

Need for stronger guarantees around the dividend stream

Stronger guarantees are required around the dividend stream given the way that TasWater is being treated as if it were an ancillary arm of State government. Whilst the Board continues to espouse their desire to continue with the distributions they always reiterate the caveat that distributions are subject to their fiduciary duties and the political challenges of utility charges.

Politicisation of TasWater pricing

The politicisation of pricing has meant there is enormous pressure on TasWater to hold pricing at an unsustainable rate. This political cap on revenue negatively impacts on TasWater's ability to invest in infrastructure. Under-investment in water and sewerage infrastructure is a handbrake on Tasmania's growing economy and over time leads to poor infrastructure provision – ironically, the very justification the State government gave for water and sewer reform in the first place.

In addition, the politicisation of pricing adds significant pressure on the Board to reduce dividend distributions to owner councils. The economic consequence of dividend reduction to councils is that they have less to spend on infrastructure themselves or are forced to adopt higher rates, which offsets the reduction in water and sewerage pricing and ultimately doesn't lead to any easing of cost of living pressures.

Lack of transparency or shareholder influence in TasWater's strategic decisions

Whilst our Council has been open and transparent with the community about the financial impacts of COVID-19, the same cannot be said for TasWater. TasWater have sought to delay formal and usual reporting to its owner shareholders. Our Council is keen to understand how the impacts of COVID is affecting TasWater's capital works program, particularly over the forthcoming 10 years, and also their maintenance program. Whilst everyone is doing it tough financially at the moment, TasWater needs to demonstrate how our dividends are spent on maintaining their infrastructure in line with their asset management strategy and plans, rather than just bridging the operational deficit.

The manner in which the distribution capping and COVID-19 response decisions were taken by the Board, and the way they were communicated to shareholders, highlighted the lack of influence shareholder councils have, particularly in relation to material changes to dividends or shareholder structures.

Inequitable shareholder voting rights distort infrastructure and governance outcomes

Glenorchy City Council currently has a 10.18% shareholding and the total value of Council's equity was $167m in 2018 when the MOU was signed. At the time, the annual dividend represented a mere 1.9% return on equity. Despite having a greater than 10% ownership stake in TasWater, Glenorchy City Council's voting power is equal to that of all other shareholder councils, regardless of their shareholding. It is highly unusual to have a shareholder voting structure that is not reflective of shareholders' equity or interest.

The current structure means that the city councils (Launceston, Devonport, Burnie, Clarence, Hobart, Glenorchy, and Kingborough) hold 62.16% but only have a voting power of 24.1%. Arguably the city councils represent the bulk of the infrastructure need and population base, and are the most reliant on dividends, yet are powerless to influence the Board as owners. This has in the past meant that those owners with a minimal stake in the corporation have ensured that recommendations from the Board (often based on political representations made by the State Government) are rubber stamped by the owner shareholders.

This situation does not represent value for equity, does not deliver value for our ratepayers and is not good governance, yet we cannot dispose of our shareholding to seek a better return on investment. Quite frankly, if we were able to dispose of our shares and invest in the proceeds in a term deposit, even with current record low interest rates, we would still have a better return on investment and arguably a more secure one.

In conclusion, our Council welcomes this Inquiry and hopes that Committee Members minds may be turned to consider remedying the current structural inequities in TasWater voting rights and de-politicising the funding and operation of the State's water and sewerage infrastructure so that there is appropriate investment and return for the benefit of all Tasmanians.

I would welcome the opportunity to address the Committee further on these concerns.

Your sincerely,

Kristie Johnston
Mayor