

FROM THE MAYOR

Our Ref:

Enquiries: Angela Matthews

6 September 2017

Ms Natasha Exel
Inquiry Secretary
Legislative Council
Parliament House
HOBART TAS 7000

Dear Ms Exel

Break O'Day Council is pleased to provide a submission as attached to the Legislative Council's Select Committee inquiring into the concept of ownership of TasWater by Government.

In providing the above submission we strongly request an opportunity to address the Select Committee at one of the hearings scheduled to take place on the 13 and 14 September.

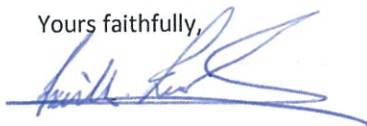
Break O'Day Council unanimously made a decision to oppose the State Governments proposal to takeover TasWater. Throughout this process several letters have been sent to both the Treasurer and other Ministers requesting information regarding modelling, financial data, etc, however to date no response has been forthcoming, therefore until this information is forthcoming Council are not in a position to consider an alternative option other than opposing the takeover.

The proposed takeover would have significant and long-term impacts on our Council and community as a result of the loss of dividend payments. Full details of the detrimental effect this takeover would have on Break O'Day is included in the attached submission.

We do hope we are granted the opportunity to speak at the hearing and await advice.

If you require any further information or are able to arrange a suitable time for a hearing please contact Angela Matthews, Executive Assistant on 6376 7900 or via email angela.matthews@bodc.tas.gov.au to make the appropriate arrangements.

Yours faithfully,



Mick Tucker
Mayor

from the mountains to the sea



TasWater Takeover:

Where is the truth?

Where are the details?

Break O'Day Council's Submission to the Legislative Council

September 2017



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Introduction

The Break O'Day Council appreciates the opportunity to provide a submission to the Legislative Council Select Committee that is examining the State Government's proposal to take control of TasWater away from its Local Government owners. We note the terms of reference are:

To inquire into and report upon the concept of ownership of TasWater by Government with the following terms of reference—

1. The benefits, disadvantages and challenges associated with the Tasmanian Government's proposal to take control of TasWater; and
2. Any other matters incidental thereto.

The Break O'Day Council believes that related to this are more fundamental questions relating to the flawed basis upon which the State Government has made its case for taking ownership and the apparent lack of understanding of the situation which the State Government is demonstrating.

The Break O'Day Council submission will focus on the following:

1. What will the takeover mean to the Break O'Day Community
2. Why does TasWater need fixing?
3. Can we trust the State Government with TasWater?
4. Lack of evidence to support the takeover
5. What does the State Government get out of all this?

Break O'Day Council sincerely hopes the Legislative Council can get the truth on the table in relation to the State Government's proposed takeover of TasWater and see it for what it really is – politics; a Government who is after re-election and is attacking Local Government and TasWater to gain votes from the business community and the wider community.

Why is Break O'Day Council against the State Government's takeover?

The Break O'Day Council has **sought to make an informed decision** on the proposed takeover of TasWater by the State Government and has been frustrated by the **failure of the State Government to provide information** necessary for the Council to comply with the requirements of the Local Government Act 1993. The Act states:

65. Qualified persons

- (1) *A general manager must ensure that any advice, information or recommendation given to the council or a council committee is given by a person who has the qualifications or experience necessary to give such advice, information or recommendation.*
- (2) *A council or council committee is not to decide on any matter which requires the advice of a qualified person without considering such advice unless the general manager certifies in writing that such advice was obtained and taken into account in providing general advice to the council or council committee.*

Without the repeatedly requested information from the State Government to show greater detail in its plans and provide us with assurances that our community will not be disadvantaged, we feel that we are unable to support this takeover. The information following outlines and highlights some of our main concerns with the proposed takeover.

1. What will the takeover mean to the Break O'Day Community?

As one of the most **disadvantaged** Local Government areas in the state with an ageing population and high unemployment, Break O' Day Council are determined to **ensure we govern and make decisions** that reflect the needs of our community.

It is our belief that the State Government's proposed takeover of TasWater is **not in the best interests of our community**. This is based on;

- Lack of evidence to support the State Government's ability to fund the takeover.
- Lack of evidence to support the State Government's takeover will not result in an increase in water costs for our community.
- Lack of evidence to support that taxes and funding to other essential services like health and education will not be sacrificed to fund the takeover.
- Issues around the accountability and transparency of GBEs (For example the Government's lack of cooperation to the Public Hearing committee regarding the sale of the Tamar Valley Gas Fired Power Station)
- The possibility that the Government could prioritise works that best suit their political agendas and not the needs of regional communities like our own.
- Loss of dividends to Local Government which will result in a lack of ability for Councils to fund non-essential services for example, community services and programs.

The Break O'Day Council currently holds an investment of \$33.285 Million in TasWater and during the 2016-2017 Financial Year received \$596,447 which was used to provide much needed services, programs and assets within our community.

For example, without this funding we would not have been able to provide;

- \$70,000 towards playground replacements
- \$30,000 towards Community Grants
- \$48,000 for Youth Services
- \$15,000 upgrades to the Portland Community Hall
- \$20,000 renovation of Stadium Change rooms

Other activities which are not essential infrastructure activities we support could also be impacted such as:

- \$105,000 - Tourism industry support through the BODC Visitor Information Centre
- \$60,000 - East Coast Regional Tourism
- \$25,000 - Break O'Day Business Enterprise Centre
- \$70,000 - Natural Resource Management Activities

As well as funding for community events such as;

- Australia Day Event
- St Helens Athletics Carnival
- Carols by candlelight
- Annual Rotary Woodchop
- Fingal Valley Coal Festival
- Game Fishing Competition
- Bay of Fires Art Prize and Market

Not being able to fund events such as those mentioned above would have a **significant impact** on our community as these events don't just provide connections and engagement for our community, but also draw visitors to our area that in turn contribute to our **highly dependent tourism sector**.

***If Councils lose their dividends, it will be non-essential services that will be cut first.
These include community programs and services which our
community relies on us to provide.***

2. If it ain't broke why fix it?

Break O'Day Council has established a very good working relationship with TasWater and we have found them to be easy to deal with, **accessible, proactive and good communicators** in terms of advising us of their plans and listening to our concerns. The **vitriolic rhetoric** of the State Government aimed at TasWater is simply that, rhetoric – the facts on the ground simply do not support their statements.

Over the last three years in the Break O'Day area, TasWater has:

- ✓ Removed Scamander Water Scheme from Boiled Water Alerts.
- ✓ Removed Fingal Water Scheme from Boiled Water Alerts.
- ✓ Resolved Stormwater infiltration from the Fairlea area into the St Helens Sewerage Scheme.
- ✓ Removed the Mathinna Water Scheme from Boiled Water Alerts scheduled for August 2018.
- ✓ Removed the Cornwall Water Scheme from Boiled Water Alerts scheduled for August 2018.
- ✓ Scheduled the St Helens Sewerage Treatment Plant rising main duplication and replacement which will substantially reduce wet weather sewer spills for completion by November 2017.
- ✓ Tested Stormwater infiltration in the main area of St Helens which was completed in July 2017 with a works program to follow.

This means that all water schemes in Break O'Day will be compliant by August 2018, notably before the State Government's proposed takeover.

Their upcoming sewer works in St Helens will ensure spills affecting the oyster industry in Georges Bay will reduce substantially, a concern highlighted and discussed by Council with TasWater. We remain **unconvinced** that we would enjoy the same level of input and communication if TasWater were to become a GBE.

Break O'Day Council has a lot of **respect** for TasWater and its management of our infrastructure and we feel they act with **transparency and integrity**.

An example of this was clearly illustrated when the TasWater board were unsuccessful in achieving State or Federal funding, or even support, for its 10 year plan. Realising that they were going to have to **face the reality** of Tasmania's water infrastructure problems alone, they made **hard choices**, including fronting the 29 owner Councils and pressing them to freeze dividends as a way to part fund the plan.

This would not have been an easy choice or even sell to the Councils, but nonetheless, it was agreed that this plan was one of merit and with the **utmost trust in the board**, we all voted in favour of a dividend freeze.

*Break O'Day Council has a great working relationship with TasWater and are happy with their progress of projects in our area.
We feel that they act with integrity and transparency.*

3. Can we trust the State Government with Taswater?

3.1 We can't trust what they say. - When is a Crisis a Crisis?

The use of an emotive term such as 'crisis' was bound to gain the attention of the audience it was focussed on – the Tasmanian voting community. However, when you scratch beneath the surface of this statement from the State Government the **facts don't reflect the situation**.

Definition of crisis: A time of intense difficulty or danger.

In order to be a true crisis based on the above Oxford dictionary definition, the Tasmanian people would be experiencing 'intense difficulty or danger' in accessing water and sewerage. Obviously this is not the case. While a small proportion of the Tasmanian community (less than 1%) must boil their water for consumption, this is more an **inconvenience than a danger** or even difficulty.

In contrast, in 2015 Tasmania did experience an Energy Crisis. While this event was a culmination of several factors including the disabled Bass Link cable and drought which saw hydro dams at record lows, the management of this crisis by the Government was characterised by a **refusal** to admit the severity of the event or **provide documentation required** by the Public Accounts Committee to investigate the crisis and the Government's handling of it.

If this is reflective of how the Government manages its GBEs; in secrecy and an unwillingness to cooperate, what can we expect of their management of Taswater? It is this kind of inflammatory statement that we feel provides a dishonest context for the Government's motivations in taking over TasWater.

Let's be honest, an election is imminent so what other motivation does the State Government have to make such statements? Especially considering that they have been aware of the issues faced by TasWater for some time. If it was really this dire a situation **why did they not step in and help** when they had the opportunity; when TasWater asked the Government for assistance in funding its 10 year plan in June 2016.

3.2 Can we trust the State Government's statements around dividend payments?

There is **no guarantee** that the State Government or future State Governments will actually honour this commitment. Instead they may very well claim that "the situation is far worse than we thought" and renege on the commitment. How many times have we heard this from State and Federal Governments in the past? The proposed Legislation before the Legislative Council provides the Minister/Treasurer with the opportunity to amend dividend payments – **he has the mechanism to change things**.

Potential Dividend payments beyond 2024 - 2025 are **highly uncertain**. Under the proposed legislation the State Government will **not be sharing in the profits** of TasWater. Given the State Government will be controlling the entity it will set the strategic directions it chooses – there is **no financial imperative** for them to ensure that a profit is achieved. In fact they don't care as there is nothing in it for them unless they change the legislation in the future.

The Break O'Day Council asks that the Legislative Council Select Committee request the State Government immediately provide a comprehensive business case; sensitivity analysis; detailed financial modelling; capital works funding model and financial projections for the first 10 years of State Government ownership and that the Legislative Council refuse to make a decision on the Legislation until the information has been provided and properly considered.

3.3 Infrastructure Tasmania Report – More questions than answers

The State Government on 19 July 2017 released a report 'Accelerated infrastructure investment delivery in Tasmania's water and sewerage sector'. The Infrastructure Tasmania report is **limited in detail** and contains **substantial qualifications**; it provides **no detail on the funding model**; and simply says that it could be achieved. It is a report written by Infrastructure Tasmania in response to a specific **script provided by the Treasurer**.

Break O'Day Council have assessed the Infrastructure Tasmania Report and have listed more than 50 questions in relation to this report. The detailed questions and concerns are provided in the Appendix, page 18 of this submission. In the meantime, we draw the Select Committee's attention to the following questions in particular:

2.	Why is the financial modelling not considered relevant to the delivery of the projects and programs within the nominated time-frame? What are the potentially increased costs from a changed project management strategy?	26.	How many jobs does this equate to?
5.	Could you provide details of this overarching (program delivery) model as it is key to the success of the Tasmanian Government's proposal?	27.	How many of these jobs relate to people who have been hired from the mainland because Tasmania does not have the available labour?
17.	Is the Tasmanian Government saying that TasWater customers are going to be meeting the full cost of the Macquarie Point and Launceston upgrade projects?	39.	What is the cost of the project management office?
18.	If not, how are these works going to be funded?	40.	Where is this cost disclosed in the Tasmanian Government plan as no provision is evident?
19.	And, what commitments have been sought from which other parties?	41.	What about the risk of over-resourcing and inefficient resource allocation when undue haste occurs?
23.	What is the additional project management cost which will be incurred by using additional mainland consultants?	46.	What about the risk of escalated costs through the project management approach which is going to be established?
25.	What is the impact on the Tasmanian economy of this sudden \$175million (64%) reduction in a capital works program in FY24?	47.	What about increased contract costs due to the 'bounty' of work being available and a reduction in competition in the market place?
		55.	Why has the State Government not addressed the approvals process which they ultimately control through the EPA?
		56.	Will the Tasmanian Government be changing the reporting requirements for sewerage spills etc if they gain control of TasWater to make it look like they have fixed things?

This report is meant to provide us with the comfort that the State Government knows what it is doing, however for Break O'Day Council it has just **raised more concerns**.

The Infrastructure Tasmania Report was meant to provide Local Government and the community answers to questions around the State Government's takeover. However, the report has answered nothing and highlights real concerns for our community.

3.4 Fiction vs Fact

The arguments around the performance of TasWater and the condition of the infrastructure is very confusing, even for those with a degree of understanding of TasWater. Imagine how confused the public in general is and how they might latch onto the rhetoric and statements of the State Government.

The following is a sample of the falsities being expounded by the State Government.

Fiction	Fact
The Government will fix the boil water alerts.	The State Government is too late - TasWater and its Local Government owners will have fixed this by August 2018 without State Government help.
That 25 towns have third world water supply.	Comparing these towns to what is experienced in a third world country shows a lack of compassion for the people experiencing these conditions. Demonstrates a lack of what is characterised a third world supply where people will carry their daily water several kilometres from a dug well or other source. The towns we are talking about have piped water which those with a third world supply could only dream of enjoying.
That sewer overflows are 7 times the national average.	The State Government does not explain the difference in reporting levels between States because it doesn't suit their argument. Tasmania reports above 1,000 litres, Victoria is 50,000 litres. How can a valid comparison be made. The impact of periods of intense rainfall on sewer infrastructure will cause overflows. A good measure of performance is the number of dry weather spills annually as these should be more avoidable through normal TasWater operations. 2014 - 2015 – 91 spills 2015 - 2016 – 109 spills 2016 - 2017 – 66 spills. TasWater has 113 sewerage treatment plants around the State 37.3% of the number of plants in Australia as a whole
That because only 1 of 70 waste water treatment plants are fully compliant and that sewer overflows increased in 2015-2016 this is indicative of the 'crisis'.	The State Government fails to provide context. TasWater takes 51,000 effluent compliance tests a year at sewerage treatment plants around the State. If a plant misses one test irrespective of whether it has an environmental impact it is deemed not compliant. By implication it is tarnished for the whole year. As a result of discussions with EPA in 2016, an agreement was reached on a strategy to concentrate on the worst performing plants. A more realistic measure is to look at the volume of compliant effluent - which reached 86% in 2016 - 2017.
That trade waste charges are decimating businesses.	TasWater has been working with businesses to ensure compliance with the environmental laws of the State Government. The costs of compliance should be borne by those creating the waste rather than being cross subsidised by the wider community.
That they will deliver the capital plan in half the time.	This is a lie as the State Government's own Infrastructure Tasmania Report shows this happening over a seven year period. TasWater have indicated they could deliver the plan in a reduced time.
That through acceleration of the capital plan they will be able to commence work earlier on Macquarie Point and the Launceston Stormwater Project.	As these are not the responsibility of TasWater or part of a TasWater plan, the State Government can undertake these at any time.

3.5. The State Government - Infrastructure Managers or Mis-Managers?

Very real questions exist in relation to whether the State Government is actually capable of delivering on their promises to accelerate the capital works program of TasWater. We only need to look at some recent examples of major capital works projects or managing a 'crisis' by the State Government to have heightened fears. After all the capital works program of TasWater is larger than the State Government's two largest capital works projects combined – Royal Hobart Hospital and Midlands Highway upgrade. It is worth considering how these projects are going to see whether the State Government is competent enough to be handed the keys to the door of TasWater.

3.6 GBE – Government Budgeting Exercise?

It is proposed that TasWater become a GBE – a politically controlled entity with a Board chosen by the Minister/Treasurer to do what they instruct. The Government is expanding its portfolio of GBEs and creating further opportunities to be creative with supporting the State Budget. We have seen their actions with Hydro, Aurora, MAIB, Tas Networks and TT-Line – it will not be any different with TasWater.

It is certainly worth reflecting on the State Government's performance in relation to its GBEs. The **lack of transparency and accountability are the hallmarks of dealings in this area** – look at the secrecy around the aborted sale of Hydro Tasmania's gas-fired power station; refusal of the Treasurer to provide copies of Treasury advice to the Parliamentary Public Accounts Committee; **raiding the coffers** of TT-Line and cross subsidisation between GBEs to make things look better. How can the transfer of \$30 million from TasNetworks to prop up Forestry Tasmania be justified?

Tasmanian **GBEs frequently suffer from excessive political interference**. GBEs like Forestry have been managed at the whim of the Minister, the single shareholder, and have therefore not been able to properly plan for their future. As a GBE TasWater will lose its sense of **independent accountability**, something that is enormously important when deciding development priorities and spending money efficiently. The Tasmanian public has very little opportunity to influence GBE outcomes. **GBEs are not as accountable to community** as TasWater is under its present structure. Councils, on behalf of ratepayers, currently have ready access to TasWater, its management and Board. Should it become a Government GBE, answerable only to the Minister we foresee that this access and therefore **accountability will be diminished**.

TasWater is currently run by an **independent, skills-based board** and a management team of experts in their field. This structure means it is **free from political interference** and makes sound decisions **based on need and not where politicians want to win votes**. Local Government representatives meet with the Board and management regularly to keep councils informed. This process also keeps TasWater accountable to its chief owner, the people of Tasmania.

Under the current TasWater ownership, financial distributions flow through to every council, with funds spent fairly and evenly throughout Tasmania based on the value of their initial investment in water and sewerage infrastructure. As well, TasWater's development priorities are determined on the **basis of need** and professional engineering considerations, **not political desires**. If the Government takes over, it will decide where that money is spent and it's likely it will lead to **unsavoury pork-barrelling to curry political favour**, particularly in the approach to state elections.

History shows the State Government to be a **serial raider** of GBE funds and a program influencer to **suit its own political purposes**, and there's every reason to believe it will treat a TasWater GBE in the same manner. The losers will not only be the existing TasWater and its owner councils, but also Tasmanian taxpayers and the community.

The State Government's reputation in regard to GBE's is characterised by a lack of transparency and using them to shift funds around to prop up other GBES or the state budget.

4. Lack of evidence to support the takeover

Council's General Manager, who holds a Bachelor of Business, is unable to provide the required advice to the Councillors of Break O'Day to support the takeover of TasWater because the State Government has **not provided the information necessary** to enable this to be provided.

On 6 April 2017 the Break O'Day Council wrote to The Premier requesting information relating to the State Government's proposal:

The Break O'Day Council has been monitoring with concern the ongoing argument in relation to TasWater. At the last Council meeting, Council had a further discussion and passed the following motion which has been conveyed to the Local Government Association of Tasmania.

That prior to Council having a formal position on the future of TasWater it request the following information:

- 1. Copy of the financial projections which have been prepared detailing the State Government's proposed financing plan.*
- 2. Dividend projections beyond 2025.*
- 3. Explanation of what happens to the other 50% of the surplus beyond 2025, does the State Government take this?*
- 4. How much cheaper can the State Government borrow funds than TasWater?*
- 5. Assuming that the 5 year works period starts on 1/7/2018 (which is in effect over 6 years from the current point in time); the basis of guaranteeing the works will be completed within 5 years.*
- 6. Assessment of the capability of the Tasmanian construction community to undertake the works in the identified period.*
- 7. Given State Government projects tend to go over budget, what assurances are going to be given that the State Government will meet these excess costs from their Budget.*

The State Government has not provided any information to substantiate the statements it has made and in the interests of transparency we believe that it is essential that this be provided to enable an informed debate to occur rather than the existing focus on trashing the reputation of Local Government.

The State Government response was to provide a copy of a presentation Treasurer Peter Gutwein, had previously provided at a LGAT meeting. This **information is clearly superficial and lacking in detail** and did not meet the requirement for Council to be satisfied it was making an informed decision. As a result Council at a Special Council Meeting on 1 June 2017 was left with no option but to **adopt a 'precautionary principle'** and passed the following motion:

SCM05/17.4.1.102

Moved: Clr G McGuinness/ Seconded: Clr J McGiveron

That the Break O'Day Council not support the State Government's proposal to take control of TasWater for the following reasons:

- 1. The lack of adequate and appropriate information being made available.*
- 2. The uncertainty that the dividend guarantees of the State Government will actually be honoured by the State Government or future State Governments.*
- 3. Concerns regarding the future viability of TasWater under the State Government proposal.*
- 4. It does not appear to be in the best interests of the Break O'Day community.*

CARRIED UNANIMOUSLY

The **failure of the State Government** to provide this crucial and fundamental information which goes to the very core of the proposal demonstrates either a **significant lack of transparency and openness** if the information has been prepared or, **gross mis-management** and a **fundamental lack of understanding** of due diligence and acquisition processes.

The Legislative Council Select Committee is now being forced to undertake the due diligence which the State Government seems incapable of undertaking.

4.1 Where is the Financial Information?

There is a very concerning **lack of transparency** in relation to **critical financial information**. As the Legislative Council very well knows, the current State Government refuses to provide critical information (e.g. advice re sale by Hydro Tasmania of the Tamar Valley Gas Power Station) which could be embarrassing or damaging to their case.

The Break O'Day Council has **sought what it considers to be reasonable** information from the State Government to enable it to make an informed decision in the **best interests of the community**. The information provided by the State Government to date is **lacking in detail**; this does not enable the Council to develop the clear understanding and comfort it needs to support the State Government's proposal. This leads to the question as to what detailed financial information exists?

Despite numerous requests from LGAT and a number of Councils (Break O'Day have written twice) the State Government has **failed to provide crucial information** – the financial modelling and business case which details the funding model and financial projections. The Break O'Day Council can only assume that the State Government has either **not undertaken this crucial work** or if it has the financial projections demonstrate that their proposal will **undermine the financial viability** of TasWater.

Of particular concern is what happens if something goes wrong in the financial projections – what is the impact? A key concept used in financial modelling is a Sensitivity Analysis.

Sensitivity analysis is used in financial modelling to determine how one variable (the target variable – profitability or service pricing) may be affected by changes in another variable (the input variable – increased capital works costs). In the case of TasWater, one of the most obvious uses is the analysis of what variables affect the financial sustainability of TasWater. Input variables include the charges to consumers, increased capital works costs, increased borrowings, cost of borrowings.

This is a very real question which needs to be addressed. Either consumers or the Tasmanian taxpayer is going to have to pay.

5. What does the State Government get out of this?

It is difficult to understand the motivation of the State Government and their **unwillingness to work with Local Government and TasWater** despite being asked for this help by both organisations. Setting aside political gains and budget considerations and in an effort to understand the State Government's plans we have asked ourselves; What else does the State Government gain from a TasWater takeover?

- The opportunity to boost construction activity in the state during its term of office and maybe get another term in office;
- The opportunity to give developers special treatment when it deems necessary such as the Sewerage Treatment Plant affecting MONA's plans;
- The opportunity to use TasWater project to gain favour in areas to support re-election of local State Government members;
- The opportunity to clear Macquarie Point for re-development at ratepayers' cost;
- The opportunity to resolve the politically sensitive Launceston combined sewerage and stormwater system without impact on the State Budget;
- The opportunity to change the rules to assist their supporters such as the Property Council; Housing Industry Association; Australian Hotels Association.

All of the above points, although assumptions, would have impacts on our local community and as the representatives of our community we cannot simply stand by and hope that this will not be the case.

In conclusion

Until Break O'Day Council is **confident and satisfied** the State Government's proposed takeover of TasWater will **not adversely affect** our community, we cannot and will not support their proposal.

Based on the terms of reference; while we understand that our community may experience cheaper water bills under the Government's plan, if their promises are to be trusted, at **what cost** will this come?

- Without adequate funding modelling, will our community be saddled with an additional household debt needed to fund the Government plan?
- Will projects in our community miss out because other projects under the plan might have higher political importance?
- Will our community have the same standards of access and accountability to a Government owed entity?

These questions are currently unanswered and are of great concern to us as they will **disadvantage our community**.

The main challenges faced by the Government's plan we can see are;

- Convincing Councils that their plan will be of benefit to our individual communities.
- That a fair and equitable process will be employed to ensure all projects are prioritised on their merits and not political motives.
- That they will be accountable and transparent owners of the State's water and sewerage infrastructure.

We believe that the State Government has **deliberately aimed to discredit** Local Government and TasWater by spreading **mis-information and loaded rhetoric** designed to confuse the public and paint themselves as political heroes.

In essence, we believe, based on their **lack of transparency** and willingness to provide **relevant documentation**, that the State Government has other motivations for wanting to takeover TasWater. We fear that a State Government takeover will not only **disadvantage our community** but see TasWater used as a **political pawn**, not just by this Government but any that follow.

We urge the Legislative Committee to examine all the facts from both sides of the debate and ultimately make a decision that is in the best interest of Tasmanians.

Appendices

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FROM THE MAYOR

Our Ref:

Enquiries: Angela Matthews

29 August 2017

Legislative Council
Parliament House
HOBART 7000

Dear

Break O'Day Council would like to raise with you the significant concerns it has with the proposed takeover of TasWater by the State Government. For the Council it comes down to one key thing, a matter of trust.

For several months Break O'Day Council (along with LGAT and other Councils) has been requesting information from the State Government, information that it believes is not only reasonable, but vital for anyone, including the Council, to make an informed decision in relation to the State Government's proposal. These requests have fallen on deaf ears – the State Government has failed to provide crucial financial information such as the financial modelling and business case which details the funding model and financial projections of the takeover. Break O'Day Council can only assume that the State Government has either not undertaken this crucial work or if it has, that the financial projections demonstrate that their proposal will undermine the financial viability of TasWater.

TasWater as it currently stands is governed by an independent Board bringing a wide range of expertise. They have a clear strategic direction and program to address the infrastructure challenges that have been identified. In fact they are getting on with the job and this is clearly evidenced by the continuing announcements of boiled water alerts being removed. The Board are answerable to the 29 Councils that own TasWater – these Councils raise matters on behalf of the community and are heard by the Board and management team. If TasWater is owned by the State Government then accountability will disappear – the Treasurer on his/her own (if no Minister is appointed) will set the direction of the organisation and establish priorities. We have seen the lack of accountability and transparency of the State Government in relation to the GBEs it controls.

The State Government has failed to prove that there is a 'crisis' in relation to TasWater. The use of rhetoric and emotive statements such as "third world" and "damaging the brand" need to be seen simply for what they are. Defining the situation with the term "crisis" needs to be seen as a definition of convenience.

from the mountains to the sea



We only need to cast our minds back less than 12 months when Tasmania was facing the worst energy shortage in its history with the potential for power rationing – did the State Government refer to this as a 'crisis'? Of course not – this would have cast them in a bad light!!!

It appears to Break O'Day Council that the State Government has demonstrated they:

- DON'T have a business case;
- HAVEN'T developed a funding model and financial projections;
- HAVEN'T undertaken a sensitivity analysis on the financials to assess the impact of increased costs;
- HAVEN'T demonstrated their capacity to deliver a major capital program on Budget;
- DON'T understand the feasibility of their proposal;
- DON'T know if TasWater will be profitable or financially sustainable in the future;
- HAVEN'T modelled the impact of the spike in construction over the coming years and then a subsequent crash of \$175 million proposed under their plan;
- HAVEN'T demonstrated how they can keep prices lower and avoid future price shocks, other than through unsustainable legislation;
- HAVEN'T considered alternative models including direct injections of funding into TasWater;
- DON'T understand the importance of due diligence in this process;
- DON'T want to be transparent and accountable; and,
- DON'T want to work cooperatively with TasWater and Local Government on the matter

The issue of trust is significant and can't be avoided. The State Government has made promises about revenue being provided to Local Government, this sounds all well and good but who says the State Government will not change arrangements at a later date once they have their own way. How often in the past has a State or Federal Government said something along the lines of "The situation is far worse than we thought and we can't do what we said we would...." with no real justification for their statement. They simply get away with it!!!

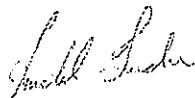
The State Government has no interest in whether TasWater is financially sustainable or makes a profit, under the proposed legislation they do not share in the profits which means they will simply not care.

Unfortunately the Legislative Council is once again being forced to deal with Legislation and a State Government action which is unsound and half baked.

Break O'Day Council asks that you as a member of the Legislative Council, the 'House of Review' set aside the rhetoric and emotive statements of the State Government and look at the facts and arguments which are put before you. Do we really need another unaccountable GBE where the State Government can hide behind the veil of secrecy and lack of transparency it creates?

As the Legislative Council very well knows, the current State Government refuses to provide critical information (e.g. advice re sale by Hydro Tasmania of the Tamar Valley Gas Power Station) which could be embarrassing or damaging to their case.

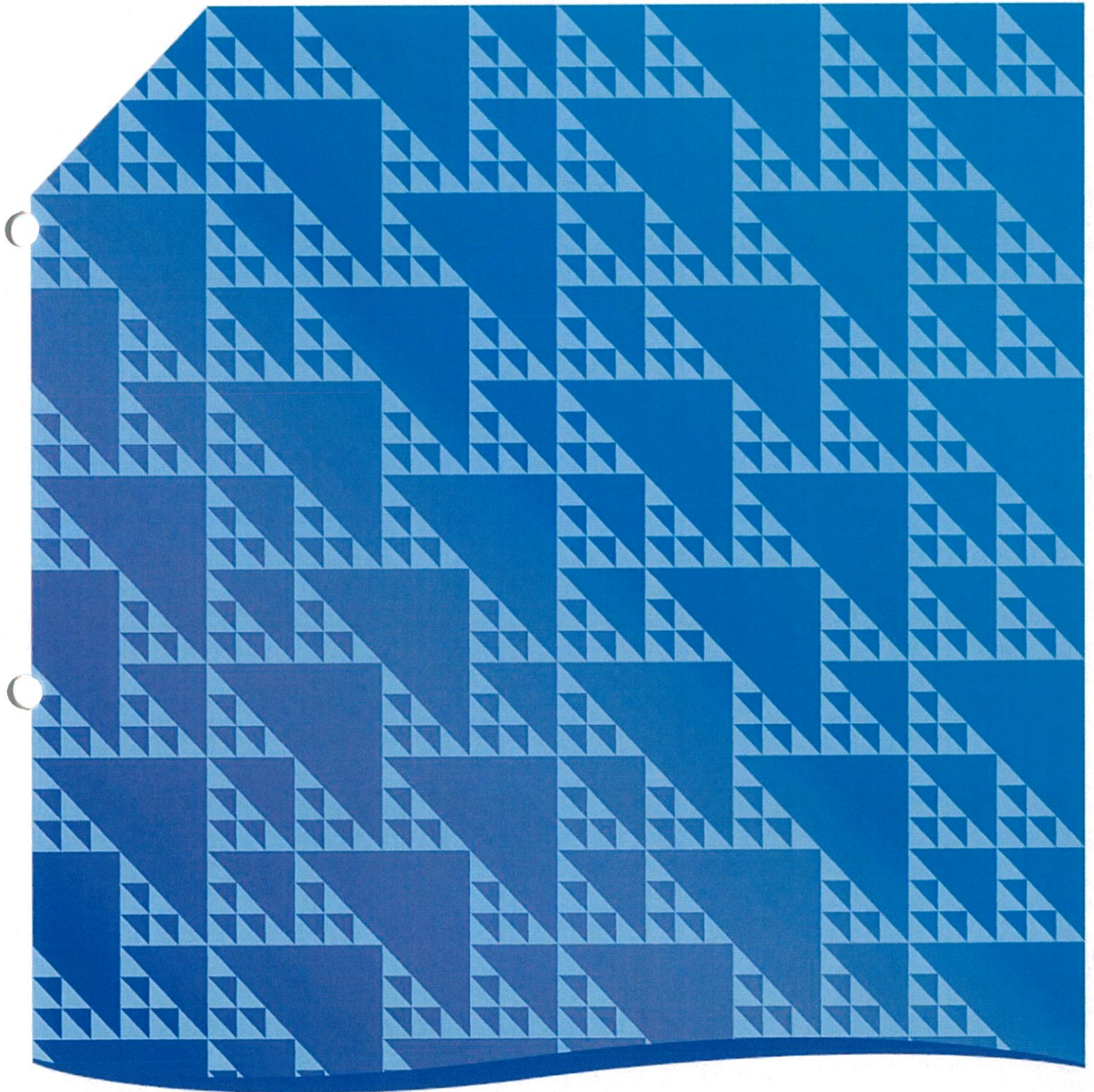
Yours faithfully,



Mick Tucker
Mayor

July 2017

Accelerated infrastructure investment delivery in Tasmania's water and sewerage sector



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Introduction

The Government has requested that Infrastructure Tasmania provide a report regarding an accelerated infrastructure investment plan for Tasmania's water and sewerage sector. Specifically, Infrastructure Tasmania has been tasked to:

- Prepare a re-profiled capital investment plan, to deliver TasWater's 10 year plan within five years of the Government's proposed acquisition of TasWater (ie by 2022-23); and
- Identify any potential risks and/or constraints to achieving the accelerated investment plan.

1. Could you please provide a copy of the request and brief which was sent to Infrastructure Tasmania including the parameters and the information which was provided as part of this brief?

The re-profiled capital investment plan has been prepared based on TasWater's current 10 year financial plan 2016-17 to 2025-26 (issued 17 January 2017)¹, being the most current information available at the time of preparing this report.

Infrastructure Tasmania has been advised to assume there are no financial constraints to delivery of the projects and programs within the nominated timeframe.

2. Why is the financial modelling not considered relevant to the delivery of the projects and programs within the nominated timeframe? What are the potentially increased costs from a changed project management strategy?

In preparing this report, Infrastructure Tasmania has engaged with a number of local and national water industry stakeholders and experts. These include representatives of consulting and contracting firms and peak bodies. Input and feedback has been sought from other relevant stakeholders,

3. Who were the peak bodies and relevant stakeholders who were consulted as part of formulating this report?

particularly those with experience in delivering or managing large capital programs. Infrastructure Tasmania has also consulted with agencies across Government, including Tasmanian Irrigation, Entura and regulatory bodies.

Prior to finalising its report, Infrastructure Tasmania engaged an independent expert to undertake a high-level review of both the re-profiled capital expenditure plan, and the risks and constraints to achievement of the accelerated infrastructure plan as identified by Infrastructure Tasmania.

Infrastructure Tasmania's report, supported by Pitt & Sherry, confirms that the accelerated investment plan is deliverable and identifies, at a high level, the critical success factors or preconditions that should be considered in preparing for and the delivery of the accelerated plan.

4. Why have the community engagement considerations not been taken into account?

¹ All references to TasWater's 10 year financial plan in this report should be read as meaning the 10 year financial plan 2016-17 to 2025-26 (issued 17 January 2017).

Summary of Findings

Infrastructure Tasmania is of the view that an accelerated capital program is deliverable, provided that the necessary funds and resources are available and an overarching "program delivery model" appropriate for the Tasmanian context is put in place.

5. Could you provide details of this overarching model as it is key to the success of the Tasmanian Government's proposal?

This view is supported by Pitt & Sherry which has undertaken an independent review of Infrastructure Tasmania's assumptions and approach to accelerating the capital program.

There are numerous precedents for the delivery of a program of such size over a similar timeframe in other water utilities and in other capital intensive businesses in Tasmania, across Australia and internationally.

The precedents cited raise substantial concerns, see page 12

Program objectives will need to be set and will assist with decision making at a program and project level. A strong governance framework, involving the right resources, with the right allocation of roles and responsibilities and with a mandate to deliver the capital program and provide clear direction will be a critical part of facilitating project and the overall program delivery within the proposed timeframe.

With respect to industry resources, Infrastructure Tasmania is of the view that a combination of local and national skills and expertise (across both the consulting and contracting sectors) will be required to fulfil the workload associated with an accelerated water and sewerage capital program, particularly noting the level of activity already underway and planned across other sectors in the State.

6. How will this be procured?

7. What is the additional cost above in-house project management experience for this strategy?

Development of a new, fit-for-purpose procurement strategy will also be a critical part of effective engagement with industry and the overall timely delivery of the program. In addition, providing industry with visibility of the program of work will also be an important part of ensuring the necessary resources are available to deliver the program.

This is already occurring from TasWater

The injection of resources from outside the State will be an opportunity to build capacity and transfer skills and knowledge that will strengthen the local industry. Going forward this would mean that not only is there increased capacity and capability in the sector locally, but there is a reduced likelihood of requiring the same level of 'external' expertise and support in the future.

Capacity and capability also exists within other Government agencies, including Entura and Tasmanian Irrigation, to assist with development and delivery of an accelerated infrastructure program. This assistance exists in the form of skills, experience and physical resources.

Importantly, there is a significant resource base and capability within TasWater's own workforce. Early engagement with the business will be important to not only provide clarity for employees, many of whom have been through past phases of reform in the sector, but also to ensure all of the above preconditions for success can be appropriately designed and developed.

In this regard, and overall, early engagement with TasWater and a detailed piece of work to identify and design the program delivery model, governance arrangements, and procurement strategy are the critical next steps that need to be undertaken to underpin successful delivery of an accelerated capital program for Tasmania's water and sewerage sector.

8. Why is a change in ownership to the Tasmanian Government necessary to actually make this happen?

Re-profiling TasWater's 10 year capital plan

Infrastructure Tasmania has been asked to re-profile TasWater's 10 year capital plan² into a delivery period of seven years (five years post the State Government's planned takeover of TasWater on 1 July 2018).

The re-profiling and underpinning assumptions and principles, which are described in this section, have been based on TasWater's 10 year financial plan, which includes very limited detail on capital projects and programs aside from forecast expenditure over the period and some high level descriptions of large projects (ie those greater than \$20 million in value).

Given the amount of detail in TasWater's 10 year financial plan, the re-profiling must be considered in the context of the feedback received through stakeholder discussions held for the purpose of this review and subsequent observations and findings in this report.

9. What was the feedback which was received? Provide copies of feedback received

It is also important to note that TasWater submitted its draft Price and Service Plan for the three year period commencing 1 July 2018 (PSP3) to the Tasmanian Economic Regulator on 30 June 2017. TasWater's draft PSP3 does not include a full detailed update of the projects and programs included in the 10 year capital plan, however, it does provide an update for the three years of PSP3 together with an updated aggregated expenditure profile for the period 2017-18 through to 2036-37.

The draft PSP3 includes some significant changes to the estimated cost and timing of some major projects valued at greater than \$20 million. For example, the Bryn Estyn Water Treatment Plant Upgrade was included in the 10 year capital plan with an estimated project budget of \$35 million and not completed within the period (ie by 2025-26). In the draft PSP3, however, it has an estimated value of over \$164 million and expected completion in 2021-22. An explanation of this variation (and others) is not included in the draft PSP3.

Importantly, and for comparison, the total level of expenditure over the initial 10 year period appears to be similar in both the draft PSP3 and the 10 year financial plan at around \$1.5 billion.

The principles used to guide the re-profiling include:

- A smoothed ramp up in capital spending to allow the business time to prudently accelerate its pace – this is considered necessary based on feedback suggesting it is difficult to have a significant step change due to acceleration programs typically being a bit “clunky” in their first year.

² Refer TasWater 10 year financial plan Appendix B.

- Any apparent sequencing of projects is to be maintained, albeit the timeframe for project works may be condensed.
- Projects that are presented in TasWater's 10 year plan with planning/approvals in one financial year and works in the next financial year (ie a year of small spend followed by a larger spend) will continue to be separated to ensure ample planning time, though the timeline of project works will be condensed if sensible.
- Project works in FY17 and FY18 were left untouched on the basis that the State Government takeover would only apply from 1 July 2018 and the earliest it may be able to engage formally with TasWater would be late in 2017 (assuming the successful passage of legislation).
- Capital spend on programs and the renewal works on water and wastewater treatment plants either require less planning or are smaller in nature and therefore are areas where initial acceleration could be commenced, including in the period between the passage of legislation and formal takeover.
- For major projects (eg the Hobart and Pardoe Sewerage Improvement Plans), no assumption was made about bringing these works forward into FY18 as there will likely need to be time for the State Government to decide on a new capital program delivery model, governance and procurement strategy/s to be applied to these major undertakings.

10. Why will the Tasmanian Government not provide a copy of their funding model for these works or doesn't it exist?

- Works in FY18 that continue on over future years will be condensed if sensible.
- No priority was given to one asset class over another (eg making faster progress on wastewater treatment compliance), with the spread of projects by class to be maintained, just over a shorter time frame.

11. Infrastructure Tasmania and Tasmanian Government agree with the current TasWater prioritisation

It should be noted that Infrastructure Tasmania has not sought to include the updated project information from TasWater's draft PSP3. This approach was taken as the draft PSP3 only covers three years and does not give any indication of how the changes affect the back end of the 10 year plan in terms of the possible displacement of other projects. However, as noted, the total ten year spend is still similar and given the apparent uncertainty over individual projects (based on the changes in TasWater's planning in a six month period), it is likely the quantum of the total plan spend that is of most importance.

Projects over \$1 million (\$1.005 billion in total)

TasWater's 10 year financial plan includes a list of 95 projects with a value of \$1 million or greater, with project works set out by financial year for each of the ten years between FY17 and FY26. For the purpose of re-profiling, each of these projects has been considered in the context of the above principles to determine whether the project commencement or timeframe could be varied. Any changes and reasoning have been documented and independently reviewed³.

Post completion of this project by project assessment, an analysis of works by local government area has also been undertaken to determine if there are any locations where project overlap may occur and whether such overlaps would cause difficulties in delivery, either by the sheer quantum of works occurring in, for example, the same suburb or the flow on impacts to traffic flows and the inconvenience this may cause.

³ The outcomes of the independent review are discussed later in this section.

Launceston is the only location where it appears that significant project overlap will see works occurring all over the greater city area, particularly in the last three years of the re-profiled plan (FY21 to FY23).

While not impacting on timing of, or spend on, individual projects, it was also noted where there may be regional opportunities to package works for efficiency and in order to attract larger companies to the process.

- 12. Who have Infrastructure Tasmania and the Tasmanian Government identified as the larger companies they can attract to this process?**
- 13. Do these companies currently have a base of operations in Tasmania?**

Wastewater and Water Treatment Plant Works (\$70 million in total)

TasWater's 10 year financial plan includes estimates of minor water and wastewater treatment plant works (valued at less than \$1 million) required during the period but does not profile these in any individual financial years. Instead the total value of the individual works are simply listed by plant⁴.

In the absence of an existing expenditure profile, it has been assumed that there is the flexibility in this small scale, largely renewal based work, and that they would be delivered reasonably evenly across the 10 year plan period (eg around \$7 million combined of works per year). Consequently, it has also been assumed the works could equally be delivered evenly over a seven year period (\$10 million per annum) should existing financial constraints be removed.

- 14. Why does Infrastructure Tasmania not consider that the funding solution for these works is relevant?**

Consistent with the principles outlined above and the nature of these works, to the extent that existing resourcing and financial constraints are relaxed, Infrastructure Tasmania is of the view that there is scope for such capital to be delivered sooner, including in the last six months of FY18 potentially.

These projects also lend themselves to being packaged, either regionally or by plant type, as this would likely lead to efficiencies for consultants and contractors in delivering a number of smaller works in an area that would otherwise be let individually, or possible efficiencies based on having to deal with the same plant technology. On this basis, Infrastructure Tasmania has assumed a profile over the seven years of these projects being delivered at:

- \$6,980,000 in FY17 (10% of total spend— Infrastructure Tasmania has assumed this is what TasWater would have spent yearly even though it did not provide a yearly profile for these works);
- \$10,469,000 in FY18 (15%);
- \$17,449,000 in FY19 (25%);
- \$10,469,000 in FY20 (15%);
- \$10,469,000 in FY21 (15%);
- \$6,980,000 in FY22 (10%); and
- \$6,980,000 in FY 23 (10%).

Bringing these works forward enables early acceleration of the overall program without compromising the planning that needs to occur on some of the bigger projects.

⁴ Refer TasWater 10 year financial plan pages 42-48 (inclusive).

TasWater Capital Programs (\$487 million in total)

TasWater's 10 year financial plan includes a number of programs which cover (among others) the renewal of water and sewer mains, sewer pump stations, dam safety, electrical, metering and SCADA. Over the period the total of all programs is \$486.7 million.

The program works categories have dedicated yearly budgets and by their nature (eg water main renewals or plant and equipment purchases) require less planning than projects. Infrastructure

Tasmania is of the view that these are areas where initial acceleration could also occur if financial constraints are removed. The TasWater plan also shows an already significant level of spend in each program in FY17 which is maintained reasonably evenly for each program across the entire planning period. This suggests that there is a good base level of work to be delivered in each program, particularly given what is known about the renewals backlog for the business.

TasWater's 10 year financial plan includes an expenditure profile for each program over the period and as such needed review only to redistribute the final three years of spending (some \$164 million).

15. Given the Tasmanian Government's claim of a 'crisis' why is there not greater urgency in the ramp up of projects?

However, in doing this, sensitivity was given to the profile of the total capital spend and as such an even allocation of this program spend across the post takeover years was not applied. Instead consistent with maintaining a smoothed ramp up in the overall capital program the final three years have been re-profiled in the following manner:

- An additional \$8,206,000 in FY18 (5%)
- \$16,412,000 in FY19 (10%)
- \$24,618,000 in FY20 (15%)
- \$32,824,000 in FY21 (20%)
- \$41,030,000 in FY22 (25%)
- \$41,030,000 in FY23 (25%)

An unchanged spend for each program was maintained in FY17, but a small increase in FY18 was assumed possible if engagement with the business occurs as soon as legislation passes and direction can be provided from a new administration to this effect.

Financial Year 2024 – Financial Year 2026

Consistent with the State Government's policy position, it is assumed that investment will continue at around \$100 million per annum in the financial years freed up as a result of accelerating the total plan (ie FY24 to FY26). This equates to a total infrastructure investment of \$1.8 billion over the 10 year period, compared to the \$1.5 billion provided for in TasWater's current 10 year financial plan.

16. Could the Tasmanian Government provide a copy of the financial modelling including financial projections for the 10 year period commencing 1 July 2018 to enable Council to understand the financial position?

The acceleration of the total plan spend by three years provides the opportunity to bring forward projects and works not previously included in TasWater's 10 year capital plan. For example, TasWater's renewals backlog⁵ could begin to be addressed on a larger scale and earlier than previously planned.

⁵ TasWater describes the renewals backlog as the amount that theoretically should have been spent if all assets had been replaced when due for renewal according to its most recent data.

TasWater's 10 year financial plan shows that at the end of its \$1.5 billion spend, there will still be a renewals backlog of around \$400 million. Assuming there are no financial constraints and there is continuing investment in the order of \$100 million per annum, a concerted effort may be possible in the years freed up to take significant steps to eliminating or substantially reducing the backlog.

Alternatively, projects such as the combined stormwater and sewerage system in Launceston and the removal of the Macquarie Point wastewater treatment plant to allow full development of the old rail yards site, neither of which are currently included in TasWater's 10 year capital plan, may be made possible as a result of accelerating TasWater's plan.

17. Is the Tasmanian Government saying that TasWater customers are going to be meeting the full cost of the Macquarie Point and Launceston upgrade projects?

18. If not, how are these works going to be funded?

19. And, what commitments have been sought from which other parties?

The possibility of bringing forward such works is subject to successful delivery of the accelerated program and may be affected by any changes to priorities that may occur during the intervening years.

20. Given this statements it appears that it is going to be more than 7 years before works are commenced on the Launceston upgrade, where does this actually fit in the Tasmanian Government program?

Independent Review of Re-profiled Capital Plan

Infrastructure Tasmania engaged local engineering firm Pitt & Sherry to undertake an independent assessment of its re-profiled capital plan, including underpinning assumptions and principles.

A copy of Pitt & Sherry's advice is provided at Appendix 2. In summary, however, Pitt & Sherry conclude that:

- the assumptions used by Infrastructure Tasmania to re-profile the capital plan are sound;
- the accelerated program as re-profiled by Infrastructure Tasmania is feasible;
- the accelerated plan does come with some risk that will need to be managed; with the risks relating to local industry capacity and capability, statutory approvals and stakeholder management, TasWater's approach to program delivery, and reform fatigue within TasWater;

21. It is acknowledged within the consulting industry that significant changes to an organisation such as the original creation of the regional water authorities and subsequent creation of TasWater can take 18 months to be bedded in and for an organisation to start performing effectively. How has the Tasmanian Government recognised this in its claims of poor performance and its plans for Tasmanian Government ownership?

- local industry will play a significant role in delivery of the program, and in doing so will need to upskill and gear up; and
- delivery of the accelerated program will require TasWater to provide visibility and certainty on the proposed plan, together with a consistent means of planning, procurement, delivery and implementation.

22. Why has Pitt & Sherry ignored the community engagement aspects of the process?

Overall results of re-profiling

Table 1 provides a summary of the forward water and sewerage capital plan as set out in TasWater's 10 year financial plan. It shows that capital expenditure would peak in 2020-21 at \$179 million, and would average \$156 million per year.

Table 1: Capital plan under TasWater's 10 year financial plan (\$'000)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	10 year total
Projects	75,631	91,147	99,291	111,409	127,245	120,946	116,751	100,646	96,053	65,943	1,005,062
Programs	50,894	36,700	47,790	43,210	44,990	49,440	49,550	54,890	54,290	54,940	486,694
STPs	4,587	4,587	4,587	4,587	4,587	4,587	4,587	4,587	4,587	4,587	45,870
WTPs	2,393	2,393	2,393	2,393	2,393	2,393	2,393	2,393	2,393	2,393	23,925
Total	133,505	134,827	154,061	161,599	179,215	177,366	173,281	162,516	157,323	127,863	1,561,551

On the basis of Infrastructure Tasmania's re-profiled plan, which did not require amendment as a result of the independent review undertaken by Pitt & Sherry, the accelerated plan would peak at around \$288 million in 2020-21 and would average \$256 million per year over the period 1 July 2018 to 30 June 2023. This is shown in further detail in Table 2.

Table 2: Capital plan as re-profiled by Infrastructure Tasmania (\$'000)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24 ¹	2024-25 ¹	2025-26 ¹	Revised 10 year total
Projects	75,631	91,147	113,465	167,272	199,835	179,222	178,490				1,005,062
Programs	50,894	44,906	64,202	67,828	77,814	90,470	90,580				486,694
STPs	4,587	6,881	11,468	6,881	6,881	4,587	4,587				45,870
WTPs	2,393	3,589	5,981	3,589	3,589	2,393	2,393				23,925
Total	133,505	146,522	195,116	245,569	288,118	276,672	276,050	100,000	100,000	100,000	1,861,551

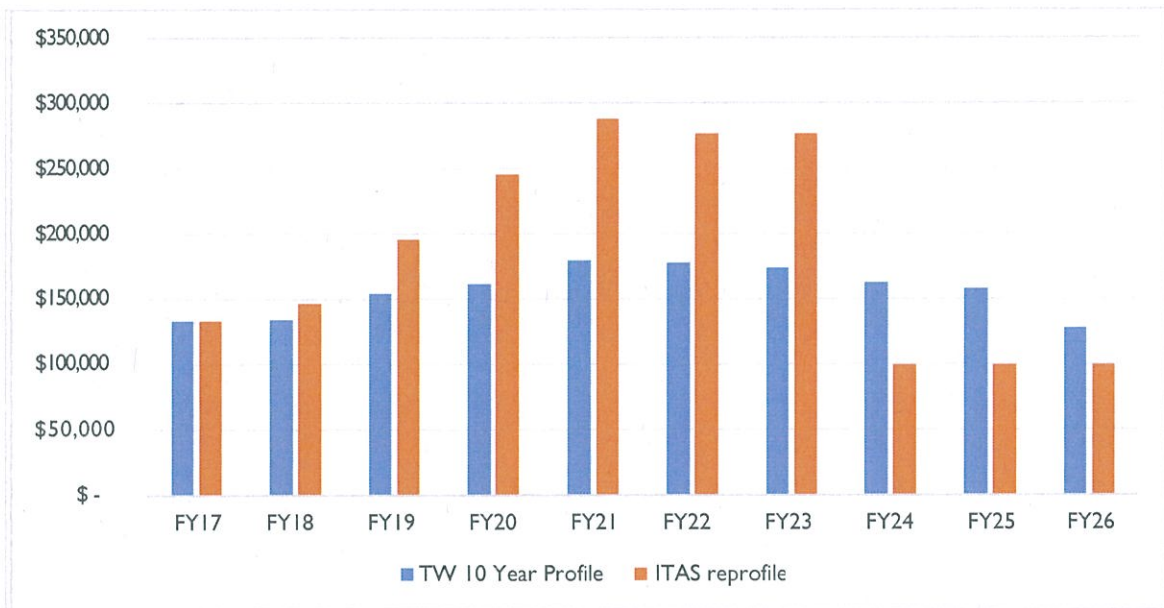
Note 1: Allocation of the ongoing investment is not possible at this time without further detail on priorities, projects and programs. As described in the previous section, it could be allocated to projects not included in TasWater's current 10 year plan or to address the renewals backlog earlier, for example.

- 23. What is the additional project management cost which will be incurred by using additional mainland consultants?**
24. What is the difference in project management costs involving internal and external sourcing?

A comparison of TasWater's capital plan, as set out in its 10 year financial plan, with Infrastructure Tasmania's re-profiled capital plan is shown graphically in **Error! Not a valid bookmark self-reference.**

- 25. What is the impact on the Tasmanian economy of this sudden \$175million (64%) reduction in a capital works program?**
26. How many jobs does this equate to?
27. How many of these jobs relate to people who have been hired from the mainland because Tasmania does not have the available labour?

Figure I: Comparison of TasWater capital plan and Infrastructure Tasmania re-profiled plan



Capital Program Delivery

In order to appropriately consider the risks and constraints to the delivery of an accelerated water and sewerage infrastructure plan in Tasmania, it is important to consider the critical success factors for capital delivery in a general sense. It is also relevant to consider the quantum of the challenge/task at hand and factors such as business and industry capacity and capability, and precedent (both successful and unsuccessful) elsewhere.

All of these elements provide context and a frame of reference against which TasWater's current performance, including perception thereof, and ability to deliver can be compared and improvements identified.

Program magnitude and precedent

Within the Australian water sector, and across the world, there are many precedents for the delivery of capital programs both larger and of similar size to TasWater's. In a relative sense, TasWater's forward capital program (accelerated or not) is not large, notwithstanding it would be the biggest delivered by the business.

By comparison, Sydney Water, which is one of Australia's largest water companies, has annual capital expenditure of over \$500 million each year. This level of expenditure is currently, and has been for the past five years, focussed on core investment such as renewals and to provide for growth⁶.

28. What is the size of Sydney Water's annual budget?

29. Why is Sydney Water a valid comparison when they have nearly \$1.9million connections compared to TasWater's \$200,000?

30. How many individual projects is on average reflected in the \$500million program?

SA Water, another relatively large water company, delivered capital expenditure of \$319.5 million in 2015-16, which is down from over \$600 million in 2011-12.

31. Why are they quoting a decrease when we are talking an increase?

Barwon Water in Victoria, which is the State's largest regional provider (and possibly TasWater's closest comparative organisation in terms of population served, with 300,000 residents, swelling to around 500,000 in the summer peak), delivered capital expenditure of \$79.9 million in 2015-16 down from over \$223 million in 2011-12.

32. This is a decrease of \$143million over 4 years, the Tasmanian Government proposal involves a decrease of \$176million in 1 year – what is the impact on the organisation at this time and given the Tasmanian Government proposal talks about building internal capacity how many people will be made redundant and at what cost?

⁶ Sydney Water 2015-16 Annual Report, page 29.

In 2003, Gold Coast Water went from delivering a capital program of some \$50-60 million annually at a completion rate of 50 per cent to delivering a capital program of \$150 million by 2005 and over \$300 million by 2008 (at completion rates of near 90 per cent), after a redesign of its procurement strategy.

33. What was the nature of these projects? Were there many small projects or a very large project?

34. What was the lead time for the large projects?

Similarly, prior to 2009 Hunter Water was experiencing significant problems with getting its wastewater treatment projects through engineering studies, permitting and to project completion within its regulatory timeframes. After a procurement strategy review, a package of 13 wastewater treatment plant projects with an estimated cost of over \$200 million were bundled into a single contract package and successfully delivered over the 2009-2014 five year regulatory period.

35. This is talking about 13 projects over 5 years, TasWater is 95 projects > \$1million, why is this a valid comparison?

While the context and details of these specific examples may be different to those presented in Tasmania, at a high level it does demonstrate that acceleration is possible and has been achieved elsewhere when necessary.

TasWater itself has demonstrated a capacity to vary and increase its own capital program (albeit off a small base) and was aiming to deliver \$130 million of capital in 2016-17, up from \$74 million in

2013-14 (the first year of the combined new business TasWater). While the peak years of the re-profiled capital spend would be more than a doubling of TasWater's current output, it occurs in a stepped fashion with the largest annual increase being around 30 per cent of the previous year's spend.

These figures demonstrate there is both variability in capital expenditure requirements for water businesses over time, which are not dependent on their size and scale. It also suggests that a number of other Australian water companies are in a different phase with respect to asset condition and compliance, notwithstanding they have likely dealt with similar issues in the past.

Large capital program delivery also occurs regularly across a number of other sectors. For example, Tasmania's own State Roads division manages the delivery of an annual roads program, including maintenance and renewal, ranging between \$160 and \$200 million. This expands and contracts with large, one-off projects such as the Midland Highway and a future new Bridgewater Bridge and in 2017-18 is \$294 million. The business as usual level of expenditure is in the order of \$180 million.

36. What was the original budget estimate for the upgrading works occurring between Breadalbane and Perth in northern Tasmania and what is now the likely final cost of the project?

37. What is the estimated cost of the substantial over engineering of this project?

These few comparisons suggest that delivering a capital program of \$1.5 billion in the timeframe proposed is achievable, subject to consideration of resourcing and the "settings" and supporting arrangements in place.

It should also be noted that the value of public and private engineering construction work in Tasmania in the year to March 2017 (ABS Cat. 8762.0) shows that around \$1.2 billion of works were completed. Of this, over \$1.0 billion relates to economic infrastructure like roads, highways and subdivisions, bridges, railways and harbours, electricity, water storage, supply, sewers and drains and telecommunications. In this context, an additional \$100 million in water and sewerage spend per year at the peak of the accelerated program represents around a 9.4 per cent increase. Of the total construction work completed in the State

on an annual basis (around \$2.5 billion) this represents only a 4.0 per cent increase. While this is material, it is not unachievable.

The Department of Treasury and Finance has separately undertaken some high level analysis of the economic impact of accelerated infrastructure and provided this to Infrastructure Tasmania for consideration. Treasury observes that the re-profiling of TasWater's capital program is expected to have a significant impact on the Tasmanian economy over the five years to 2022-23 but that, based on past experience, it is expected that the economy can absorb this additional economic activity without major disruption of other private investment in the State. Further detail is provided at Appendix 3.

38. Are there any labour market shortages being experienced by contractors on the Midlands Highway works when this is operating at full steam and not during the current period of winter slowdown in activity?

Critical success factors

Successful program delivery (for any business, in any sector) is underpinned by a number of key elements:

- Clear objectives and expectations

What the overall program is aiming to achieve will help to guide decision making at both a program and project level.

- Well-defined governance arrangements

Appropriate allocation of roles, responsibilities and risk thresholds can significantly enhance the ability of a business to deliver its capital program, eg too tight control from the Board impedes the business to be nimble, while too much delegation of authority with the aim of getting money spent may risk a lack of coordination and achieving value for money.

- Ensuring the right resourcing is allocated to the task

The capacity (quantum of resources) and capability (mix of resources) can either enable or constrain delivery.

- Agreed behaviours, systems and processes are in place at all levels

An expertly resourced project management office (PMO) function (led internally or externally) which has the ability to coordinate scope, design and manage all aspects of the delivery of a large number of projects using fit-for-purpose procurement models is central to the successful delivery of capital programs.

39. What is the cost of the project management office?

40. Where is this cost disclosed in the Tasmanian Government plan as no provision is evident?

Each of these elements inform the choice of delivery model for a capital program, which must be fit-for-purpose and appropriate to the local context.

41. What about the risk of over-resourcing and inefficient resource allocation when undue haste occurs?

With respect to governance structure, if well designed and implemented, it will underpin the appropriate allocation of roles and responsibilities which will in turn enable timely and effective decision making. It will also ensure there are appropriate program controls and reporting obligations in place for oversight of the capital program delivery, including with respect to time and cost.

42. What is the proposed governance structure?

In relation to systems and processes, the approach to procurement is critical. Successful procurement strategies are typically flexible in that they provide for different contracting methods to be used for different projects and programs of work within the broad program. They also appropriately manage project and program risk between the business/client and its contractors.

Feedback received from stakeholders consulted for this review separately and consistently raised these factors as being essential elements for the successful delivery of any capital program, including an accelerated water and sewerage program in Tasmania. Stakeholder feedback from local and national consulting and construction firms engaged in the sector also consistently described the last success factor listed above as currently lacking in Tasmania and requiring change in order to deliver an accelerated program.

43. Who were these stakeholders? Please list them and provide copies of the information they provided.

A number of studies, including specific project case studies, on the issue of large capital project and program delivery have been undertaken in recent times. In 2011, the Business Council of Australia published a research study titled "Delivering Large Scale Capital Projects in the Infrastructure Sector – A Baseline of Performance in Australia". This study found that resources, pre-planning and quality of design were all key factors that are likely to lead to a successfully delivered project.

COAG has also commissioned studies through the federal Department of Infrastructure and Transport on tender strategies to improve design and construct infrastructure delivery outcomes and Infrastructure Australia has published best practice guidelines for issues such as public private partnerships. The Victorian Department of Treasury and Finance has published guidelines on Alliance Contracting as well as guidance on procurement within the framework of the Investment Lifecycle Guidelines.

Another element important to capital project and program delivery is approvals frameworks that facilitate timely outcomes. While the business and its broader resource base (ie consultants) require the knowledge and expertise to navigate approvals frameworks, it is equally important that approving authorities, including regulators, are sufficiently equipped to appropriately manage the level of activity associated with delivery of an accelerated capital program.

44. What is meant by this statement?

45. Is the Tasmanian Government going to legislate to avoid the need for Land Use Planning Approval?

Risks and constraints

Consideration of the critical success factors described above, together with feedback obtained during stakeholder engagement, has resulted in identification of a number of key non-financial risks to successfully delivering an accelerated water and sewerage infrastructure plan. These include:

- TasWater "settings" such as ownership, role of the Board, internal structure, systems and processes;
- Choice and establishment of overarching capital program delivery model;

- Industry capacity and capability, including local industry and ability to attract larger national industry participants which have demonstrated increased capability;
- Environmental approvals process, including approach of the environmental regulator; and
- Stakeholder engagement and management.

Each of these risks is described in further detail throughout this section, with reference to feedback received from stakeholders engaged for the purpose of this review.

46. What about the risk of escalated costs through the project management approach which is going to be established?

47. What about increased contract costs due to the 'bounty' of work being available and a reduction in competition in the market place?

TasWater

Feedback from stakeholders suggests that the "settings" in TasWater are inhibiting delivery of the capital projects and would need to be modified to enable the effective delivery of a larger investment program, should additional funding be available now or in the near future. Some of TasWater's most important processes to facilitate the rollout of capital, ie procurement, have been described by stakeholders and participants as problematic, difficult to navigate effectively, inconsistent and lengthy. These issues appear to be impeding the delivery of TasWater's current plan let alone an accelerated plan.

With respect to the project lifecycle⁷, which is critical to the effective delivery of individual projects and programs of work, TasWater has a gating process which sets out the various steps for project development and realisation. Internally the business has a division responsible for asset portfolio planning and delivery (ie the front-end of the project lifecycle/gating process), including options assessment and the development of project business cases. These are approved by TasWater's Board and transferred to the Works Delivery division which is responsible for delivery of the capital program. While this might be sensible in theory, feedback indicates that the business struggles to move through the various project lifecycle gates in an efficient and timely way. For example, it is understood that multiple 'approved' business cases have been redone or reworked once received by the Works Delivery division, adding time and duplication into the process. While the specifics and rationale are unknown, such outcomes suggest a current breakdown in process which will hinder the delivery of capital projects over time if unaddressed.

48. Why has no effort been taken to ensure the accuracy of these claims or to understand the basis for this occurring prior to including in this report?

Infrastructure Tasmania understands that TasWater's Board currently has a role in approving the business case for many individual capital projects. Feedback suggests that the current approach, and the Board's level of involvement, is highly risk averse and does not lend itself to enabling the timely development of projects. The governance structure for both the business and program management has the potential to either facilitate the timely and efficient delivery of a capital program or lead to a slow, inconsistent and inefficient program roll out.

49. Given the level of scrutiny on TasWater why is it not understandable that they may be highly risk averse?

⁷ Project lifecycle involves the following steps in the development of a project: identification, evaluation, business case, tender, contractual commitment and construction.

Feedback from a number of consultants and contractors who have worked with and for TasWater suggests that TasWater's engagement with industry is inconsistent, with limited meaningful opportunities to provide feedback and little demonstration of feedback being reflected in changes to processes and systems. The absence of meaningful and constructive relationships with industry participants has the potential to negatively impact the delivery of the capital program.

50. This obviously relates to internal systems, management and culture, how will a change in ownership actually change this at a speed which facilitates acceleration of the program?

As previously stated, delivery of TasWater's capital program and continuing to provide business as usual (BAU) services and operations will require appropriate resources. An important component of the resource requirements is TasWater's employee base. As at 30 June 2016 the number of permanent employees totalled 817, with an additional 116 contract, fixed term and labour hire staff⁸. Many of these employees have been through the previous iterations of reform in the sector over the past decade. There is a risk that a further round of reform, which changes ownership and may or may not impact on organisational structure and the capital program delivery model, will challenge some employees (reform fatigue). It is also possible that there is a level of frustration internally about structure and processes, meaning that reform may be seen as positive and an opportunity by at least part of the workforce. The longer it takes to engage with TasWater about reform, the longer the extent of this potential risk/opportunity, and consequent impact on delivery of the accelerated capital program, remains uncertain.

It should be noted that a number of these observations and risks associated with TasWater's "settings" are not uncommon, and many utilities, particularly with a maturity level similar to TasWater, have faced these issues, or a subset thereof, at some stage in their journeys. Rarely does any utility begin as an expert in project and program management, nor do they know all the questions to which they require answers. That said, this set of issues does present a degree of risk and challenge to the successful delivery of a capital program.

51. How is this identified risk being addressed with the accelerated program as this acceleration is substantially increasing this risk?

Industry

An accelerated capital program would, at its peak, see additional expenditure of around \$100 million annually (\$275 million total) in the water and sewerage sector. The capacity of the industry to deliver this amount of work, including the availability of local contractors and consultants, will be dependent on the timing of the ramp up as well as other activity across the Government sector as well as in the private market.

With respect to the Government sector, at this time it is known that State Roads and Tasmanian Irrigation will both have significant programs of work to be delivered in the coming years. Other Government businesses and entities will also be delivering capital programs of varying sizes. When combined, it is anticipated there will be in the order of \$1 billion being spent annually. While this level of activity in the State is positive, it brings with it two key risks which may materialise and will need to be managed:

1. the capacity in the local industry to deliver the water and sewerage capital program within the timeframes proposed; and
2. consultants and contractors bid for work in such a way that the cost of capital projects/program for all parties is higher.

⁸ TasWater Annual Report 2015-16, page 17.

These are important risks to manage in the planning for an accelerated water and sewerage capital program, particularly when feedback suggests that the local construction industry is already in a growth phase.

52. Where is the assessment of these risks, the likely consequences of industry being able to meet requirements?

53. How has the potential for increased costs been assessed and quantified?

54. What has been the response of industry to the dramatic drop of \$175million per annum after year 7?

Feedback received during the review also suggests that TasWater, and Tasmania generally, lacks some key expertise and capability required to deliver the capital program. Further, there is limited to no visibility of the forward program of work (beyond the coming 12 months), meaning that some local firms have chosen not to 'gear up' for an increased workload. It is understood that industry has been seeking detail of the forward pipeline from TasWater for some time without success. To the extent there are deficiencies in local industry capacity and capability, there is a need to look to the national water industry to supplement and participate in delivery of the water and sewerage capital program.

Since 2009, however, when the three regional corporations assumed responsibility for providing water and sewerage services in the State, there has been little interest and involvement in Tasmanian projects from highly experienced Tier 1 businesses operating in the sector nationally. This has continued since the establishment of TasWater, with the exception of the Kingborough Sewerage Upgrade project which was awarded to a joint venture between BMD Constructions and Acciona Agua; two businesses that are well established in the Australian and international water industry respectively. More recently, TasWater has also engaged an interstate firm as the lead party to deliver its Small Towns Water Supply Program.

Under an accelerated plan, and with visibility of the pipeline of works over a medium term period, the Tasmanian sector will likely be a more attractive proposition for major industry participants and local firms may also be motivated to expand their operations to gear up for the approaching work. Noting that resourcing, capacity and capability have been identified as critical success factors, not drawing on the industry nationally, or through interstate recruitment by local firms, presents a risk which may impact on the deliverability of the accelerated capital program.

Environmental Approvals

A key element of delivering a capital plan such as TasWater's is obtaining the requisite approvals. Feedback suggests that obtaining approval from the Environment Protection Authority (EPA) currently contributes significantly to the time required to plan and deliver a project.

55. Why has the State Government not addressed the approvals process which they ultimately control through the EPA?

56. What action is the Tasmanian Government going to take to address this problem?

57. Will the Tasmanian Government be changing the reporting requirements for sewerage spills etc if they gain control of TasWater to make it look like they have fixed things?

Infrastructure Tasmania understands that the EPA and TasWater have entered into a Memorandum of Understanding (MoU), the aim of which is to build a more collaborative relationship and progress matters of high strategic importance.

It will be important that this relationship is maintained and fully developed to ensure that environment approvals are delivered in appropriate timeframes and that projects meet all necessary environmental conditions.

That said, it presents a risk to delivery of the capital program within the proposed timeframes at this time given a significant proportion of the capital program is focussed on environmental performance and wastewater treatment plant upgrades.

Stakeholder engagement and management

Part of the success of delivering an accelerated water and sewerage capital program will be meeting the needs and managing the expectations of key stakeholders including regulators, industry, customers and the Tasmanian community.

The importance of meaningful and constructive engagement with industry has already been touched on, as has the relationship with the EPA and the approach to environmental approvals. In a similar way, and given the amount of activity that will likely be occurring at any point during an accelerated capital program, it will also be important that TasWater's delivery model provides for the necessary skills and resources to manage and engage with all relevant stakeholders.

Role of other Government agencies

Consistent with the Government's stated intention to utilise existing resources within other Government agencies, Infrastructure Tasmania has engaged with Entura and Tasmanian Irrigation (TI) regarding an accelerated water and sewerage capital plan.

Entura

As a business unit of Hydro Tasmania, Entura's key strengths and expertise arise from its intrinsic association with Hydro Tasmania's asset creation, operation and renewal activity supplemented by nearly 30 years of consulting to external asset owners nationally and internationally. Entura's core areas of expertise have developed around design and asset management in the disciplines of: civil, mechanical and electrical engineering, power systems, geotechnical and hydrological assessment, survey, GIS, planning and environmental science. These technical skills are supported with systems and experience in project, contract and program management. Entura has core skills and knowledge in dam safety and electrical installation and currently performs work for TasWater in asset assessments and upgrades in this space.

Entura plays a key role in the development of Hydro Tasmania's capital program management and asset management planning and played a key role in its acceleration, which included a risk based methodology, attention to program delivery and successfully doubling the size of Hydro Tasmania's capital program over a relatively short period of time.

Entura has well established relationships with many local contracting firms and interstate specialised consultants and contractors in the water industry. In addition, it has undertaken work for most water utilities across Australia and has experience in various roles, for example as a designer, owners engineer and advisor.

Through its engagements with other water utilities Entura has had exposure to and been involved in a number of delivery models for major capital programs. In the case of SA Water this includes outsourcing of the PMO function to an external third party provider. This, combined with the project management capability within the business, means Entura is well placed to understand the key elements of successful capital program delivery models and provide input relevant to the Tasmanian context.

Overall, Entura has both relevant expertise and knowledge and existing capacity within its business, and within the broader Hydro Tasmania group, that the Government could draw on for the purpose of an accelerated capital program.

Tasmanian Irrigation

TI is a somewhat different business in that it has, over a relatively short period of time, designed and constructed a number of new irrigation schemes across the State. It was created out of three smaller businesses, which were largely responsible for operating relatively small existing irrigation schemes, and quickly grew in both size and (more importantly) capability in order to deliver a priority infrastructure program for the Government. It has successfully navigated environmental (and other) approvals processes and has operated schemes in parallel to program delivery, including through a period where there was a ramp up in capital.

TI and TasWater have some overlapping areas of interest as a result of reuse irrigation schemes that TasWater currently operates but are not within its core business functions. The two businesses have a productive senior-level working group where these issues are discussed as well as the potential for resource sharing.

Both Entura and TI have relevant skills, resources and the ability to contribute to the planning for and delivery of an accelerated capital program for Tasmania's water and sewerage industry. Further and more detailed consideration of the specific contribution/s of each business is required once the direction of reform is clear and will be dependent upon the format and structure for transition and implementation of the Government's proposed reforms.

Appendix 1: Re-profiled water and sewerage capital program

Table 3 and Table 4 set out the detailed listing of projects and programs contained in TasWater's 10 year financial plan with the expenditure as re-profiled by Infrastructure Tasmania. The total spending aligns with the summary tables provided in the body of the report.

Profiled expenditure for individual water treatment plans and sewerage treatment plants is not included as this has been undertaken at a summary level. Refer Table 2.

Table 3: TasWater 10 year plan capital projects as re-profiled by Infrastructure Tasmania

Project Title	Asset Class	Region	Driver	Project Budget	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	10 Year
Launceston Sewer Improvement Program	Sewage	North	Compliance	270,000	-	1,000	15,000	60,600	60,600	62,800	70,000	-	-	-	270,000
Hobart Sewer Improvement Plan	Sewage Treatment	South	Improvement	435,650	-	-	1,650	6,000	18,000	33,000	40,000	-	-	-	98,650
Northern Midlands Sewerage Improvement Plan	Sewage Treatment	North	Compliance	56,000	345	1,500	3,000	9,000	13,000	14,000	15,000	-	-	-	55,845
Pardoe Sewer Improvement Plan	Sewage Treatment	North-West	Growth	25,000	-	-	500	8,800	13,000	9,000	4,563	-	-	-	35,863
Greater Launceston Water Improvements	Water Treatment	North	Growth	45,000	-	-	-	-	10,000	14,000	9,000	-	-	-	33,000
Kingborough Sewerage Strategy - Treatment	Sewage Treatment	South	Growth	30,000	3686	7,900	14,000	4,000	-	-	-	-	-	-	29,586
Bryn Eslyn Plant Upgrade Strategy	Water Treatment	South	Growth	35,000	-	-	-	300	3,000	11,000	11,000	-	-	-	25,300
Small Town Water Supply Strategy	Water Treatment	State Wide	Compliance	25,000	1500	18,000	5,500	-	-	-	-	-	-	-	25,000
Ridgeway Dam - Upgrade Post Tensioned Anchors	Catchment	South	Compliance	22,000	147	-	-	6,000	14,000	-	-	-	-	-	20,147
Distillery Creek - Trunk Main replacement	Water Treatment	North	Renewal	20,000	-	-	-	-	-	10,000	10,000	-	-	-	20,000
Wynyard Sewer Treatment Plant Upgrades	Sewage Treatment	North-West	Compliance	15,000	-	-	1,000	7,500	6,500	-	-	-	-	-	15,000
Kingborough Sewerage Strategy - Network	Sewage Collection	South	Growth	14,000	2000	4,000	4,600	3,000	-	-	-	-	-	-	13,600
Tolosa Dam Replacement Infrastructure	Catchment	South	Compliance	18,550	8900	600	1,000	3,000	-	-	-	-	-	-	13,500
King Island Treated Water Supply	Water Treatment	North-West	Compliance	15,805	5225	7,200	1,000	-	-	-	-	-	-	-	13,425
Ulverstone Sewer Treatment Plant Upgrade	Sewage Treatment	North-West	Improvement	10,150	-	300	-	503	3,650	5,697	-	-	-	-	10,150
System optimisation - Sewer	Sewage Collection	State Wide	Improvement	10,000	500	5,000	4,500	-	-	-	-	-	-	-	10,000
System optimisation - Water	Distribution	State Wide	Improvement	10,000	500	5,000	4,500	-	-	-	-	-	-	-	10,000

Project Title	Asset Class	Region	Driver	Project Budget	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	10 Year
Sorell, Midway Point Strategy	Sewage Collection	South	Improvement	10,550	-	100	150	4,300	5,000	-	-	-	-	-	9,550
Brighton Sewer Treatment Plant Upgrade	Sewage Treatment	South	Compliance	8,870	35	100	500	2,460	5,510	-	-	-	-	-	8,605
Ti Tree Bend Sewer Treatment Plant Biosolids Dewatering Facility	Sewage Treatment	North	Compliance	8,385	-	-	200	3,835	4,350	-	-	-	-	-	8,385
Pet Dam Safety Upgrade	Catchment	North-West	Compliance	7,710	-	600	6,664	-	-	-	-	-	-	-	7,264
Lake Mikany Dam Safety Upgrade	Catchment	North-West	Compliance	7,120	330	6,660	-	-	-	-	-	-	-	-	6,990
Rosny Sewer Pump Station Strategy - Project	Sewage Collection	South	Compliance	6,380	-	-	-	1,000	3,000	2,380	-	-	-	-	6,380
Port Sorell Reservoir & Network Upgrades	Distribution	North-West	Growth	6,000	-	300	3,700	2,000	-	-	-	-	-	-	6,000
Asset Management Information System (AMS) - Stage 2	Business Systems	State Wide	Improvement	13,300	5908	-	-	-	-	-	-	-	-	-	5,908
Old Beach No 1 (Green Point Strategy)	Sewage Collection	South	Compliance	5,799	-	-	200	2,599	2,900	-	-	-	-	-	5,699
Flagstaff Gully - Dam Safety Upgrade	Catchment	South	Compliance	5,200	100	200	4,900	-	-	-	-	-	-	-	5,200
Tailored waste removal station strategy and	Sewage Treatment	South	Compliance	10,200	-	-	-	-	-	-	5,000	-	-	-	5,000
Forth Water Treatment Plant Upgrade	Water Treatment	North-West	Compliance	4,595	-	100	737	3,758	-	-	-	-	-	-	4,595
Queenstown Sewer Treatment Plant Major Plant Upgrade	Sewage Treatment	North-West	Compliance	4,500	-	300	2,100	2,100	-	-	-	-	-	-	4,500
Tullah Water Treatment Plant Upgrade/ Replace	Water Treatment	North-West	Compliance	4,300	-	300	2,500	1,500	-	-	-	-	-	-	4,300
Cambridge Wet Weather Emergency Storage & Plant Process Improvements	Sewage Treatment	South	Compliance	4,570	10	3,250	1,000	-	-	-	-	-	-	-	4,260
Orford Sewage Pump Stations & Network Upgrade	Sewage Collection	South	Compliance	4,563	-	-	2,086	2,135	-	-	-	-	-	-	4,221
Longford Water Supply System (Railway Bridge - Moundford Farm) Trunk Main	Distribution	North	Growth	4,057	3658	20	519	-	-	-	-	-	-	-	4,197
Rosebery Water Treatment Plant - Construction	Water Treatment	North-West	Compliance	6,010	4032	153	-	-	-	-	-	-	-	-	4,185
Westbury Sewer Treatment Plant Upgrade and Reuse	Disposal/Reuse	North	Compliance	3,795	-	250	3,545	-	-	-	-	-	-	-	3,795
Smithton Sewer Treatment Plant Upgrade	Disposal/Reuse	North-West	Compliance	3,707	-	-	-	1,200	2,507	-	-	-	-	-	3,707
Ti Tree Bend - Digester	Sewage Treatment	North	Compliance	3,989	1255	1,450	1,000	-	-	-	-	-	-	-	3,705
Conglomerate Dam Upgrade	Catchment	North-West	Compliance	4,188	2549	500	-	-	-	-	-	-	-	-	3,049
Ringarooma Valley Treated Water Supply	Water Treatment	North	Compliance	13,989	2851	120	-	-	-	-	-	-	-	-	2,971
Flinders Island Water Supply	Water Treatment	North	Compliance	10,979	2447	620	-	-	-	-	-	-	-	-	3,067
Winnaleah Treated Water Supply	Water Treatment	North	Compliance	3,800	3035	-	-	-	-	-	-	-	-	-	3,035
Gawler Water Supply - 10 ML Reservoir	Distribution	North-West	Growth	3,000	-	-	-	100	2,900	-	-	-	-	-	3,000
Glenora / Bushy Park / Glenora Water Supply Upgrade	Water Treatment	South	Compliance	3,337	1500	1,500	-	-	-	-	-	-	-	-	3,000

Project Title	Asset Class	Region	Driver	Project Budget	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	10 Year
Swansea (Mercedi) Dam – Rectification and Improvement	Catchment	South	Compliance	3,000	-	3,000	-	-	-	-	-	-	-	-	3,000
Huonville Main Road Sewer Pump Station Replacement	Sewage Collection	South	Compliance	2,928	-	-	-	2,728	-	-	-	-	-	-	2,728
Prince of Wales Primary Digester Roof Replacement	Sewage Treatment	South	Renewal	3,500	223	2,500	-	-	-	-	-	-	-	-	2,723
Kingsford Sewer Pump Station E Pump Main	Sewage Collection	South	Renewal	2,700	1,698	1,000	-	-	-	-	-	-	-	-	2,698
Margate Water Main Upgrade Stage 2	Distribution	South	Growth	4,662	2641	-	-	-	-	-	-	-	-	-	2,641
Sheffield Sewer Treatment Plant Upgrade	Sewage Treatment	North-West	Improvement	2,500	-	-	-	-	1,250	1,250	-	-	-	-	2,500
Sorell Reservoir Upgrade	Distribution	South	Improvement	2,500	-	-	-	500	2,000	-	-	-	-	-	2,500
Tribuna Water Supply Rectification Reservoir Project	Distribution	South	Growth	2,500	-	100	2,300	-	-	-	-	-	-	-	2,400
Scottsdale to Bridport Pipeline	Distribution	North	Growth	3,400	-	100	-	1,500	1,800	-	-	-	-	-	3,400
Aveira Full Treated Water Supply	Water Treatment	North	Compliance	4,790	2,728	-	-	-	-	-	-	-	-	-	2,728
Lighting Protection for Critical Assets	Other	State Wide	Improvement	2,500	-	-	-	800	1,500	-	-	-	-	-	2,300
Wynyard Sewer Treatment Plant - Dedicated By Pass Line	Sewage Collection	North-West	Improvement	2,300	300	2,000	-	-	-	-	-	-	-	-	2,300
Bicheno Water Supply Upgrade	Distribution	South	Improvement	2,300	-	-	-	2,283	-	-	-	-	-	-	2,283
Geeveston Outfall	Disposal/Reuse	South	Compliance	2,250	-	-	-	250	2,000	-	-	-	-	-	2,250
St Marys Reuse Upgrade	Disposal/Reuse	North	Compliance	2,240	-	-	1,200	1,040	-	-	-	-	-	-	2,240
Burnie Cam Pipeline Construction	Distribution	North-West	Improvement	2,820	-	-	2,220	-	-	-	-	-	-	-	2,220
Low Head Common Rising Main	Sewage Collection	North	Improvement	2,207	-	-	-	-	1,150	1,057	-	-	-	-	2,207
Snug Reservoir	Distribution	South	Growth	2,200	-	-	-	-	-	2,200	-	-	-	-	2,200
Maydens Sewer Treatment Plant upgrade	Sewage Treatment	South	Compliance	2,190	-	100	2,090	-	-	-	-	-	-	-	2,190
Lower Prosser Dam Safety Upgrade	Catchment	South	Compliance	2,140	-	-	-	2,140	-	-	-	-	-	-	2,140
Orford Lower Prosser Dam Storage Works	Catchment	South	Improvement	2,000	-	100	150	1,750	-	-	-	-	-	-	2,000
Paratrah Water Supply	Water Treatment	South	Improvement	2,000	-	-	500	1,000	-	-	-	-	-	-	1,500
Bicheno Sewer Treatment Plant Upgrade	Sewage Treatment	South	Compliance	2,000	-	-	-	-	2,000	-	-	-	-	-	2,000
Franklin, Elderscare Reservoir Replacement	Catchment	South	Renewal	10,000	-	-	-	-	2,000	-	-	-	-	-	2,000
Girdlestone Reservoir Rectification	Distribution	North-West	Renewal	3,082	2,000	-	-	-	-	-	-	-	-	-	2,000
Rocky Creek Reservoir	Distribution	South	Improvement	2,000	-	-	-	-	-	-	2,000	-	-	-	2,000
Upper Reservoir Outlet Conduit & Bypass Channel Repairs	Catchment	South	Compliance	3,400	-	-	400	1,500	-	-	-	-	-	-	1,900

Project Title	Asset Class	Region	Driver	Project Budget	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	10 Year
Rocherlea Redevelopment	Other	North	Improvement	1,900	55	-	500	1,200	-	-	-	-	-	-	1,755
Lodge Hill Reservoir Duplication	Distribution	South	Growth	2,100	-	100	100	1,700	-	-	-	-	-	-	1,900
Burnie Sewer Treatment Plant Upgrade	Sewage Treatment	North-West	Growth	3,360	1041	840	-	-	-	-	-	-	-	-	1,881
Dover Sewer Treatment Plant Upgrade	Sewage Treatment	South	Compliance	1,800	-	-	-	250	1,550	-	-	-	-	-	1,800
Colles Bay - Full height filter buttress	Catchment	South	Compliance	1,800	-	-	-	150	1,650	-	-	-	-	-	1,800
Shark Point Road Trunk Renewal	Distribution	South	Renewal	1,800	-	-	-	200	1,600	-	-	-	-	-	1,800
Stanley Sewer Treatment Plant Upgrade	Sewage Treatment	North-West	Compliance	1,704	-	-	-	-	1,704	-	-	-	-	-	1,704
Smithton retic Odour Control	Sewage Collection	North-West	Compliance	1,650	-	50	1,600	-	-	-	-	-	-	-	1,650
Mole Creek Water Supply	Water Treatment	North	Compliance	4,104	1,395	120	-	-	-	-	-	-	-	-	1,515
Chlorination Upgrade (Various Sites)	Water Treatment	South	Compliance	1,500	-	-	750	750	-	-	-	-	-	-	1,500
Strahan Water Supply and Raw Water Gravity Main	Catchment	North-West	Improvement	1,500	-	-	-	150	1,350	-	-	-	-	-	1,500
St Helens Sewer Treatment Plant Inlet Works & Esplanade Sewer Pump Station	Sewage Collection	North	Compliance	1,698	593	1,605	-	-	-	-	-	-	-	-	2,198
Wynyard Sewer Improvement Plan	Sewage Treatment	North-West	Compliance	1,470	-	-	1,470	-	-	-	-	-	-	-	1,470
Disaster Vacuum-Pressure Relief Valve Upgrade	Sewage Treatment	State Wide	Improvement	1,500	300	350	800	-	-	-	-	-	-	-	1,450
Davis St. Smithton Sewer Pump Station Upgrade	Sewage Collection	South	Compliance	1,701	210	1,200	-	-	-	-	-	-	-	-	1,410
Wairatah Dam Safety Upgrade	Catchment	North-West	Compliance	1,350	-	-	-	-	-	1,350	-	-	-	-	1,350
Ph Correction Per River	Water Treatment	North-West	Compliance	1,300	-	-	-	-	1,300	-	-	-	-	-	1,300
Prince of Wales Belt Press replacement	Sewage Treatment	South	Renewal	1,172	1,172	-	-	-	-	-	-	-	-	-	1,172
Dasher Pipeline (Sheffield)	Disposal/Reuse	North-West	Compliance	1,167	-	-	-	1,167	-	-	-	-	-	-	1,167
Torren St. Richmond Sewer Pump Station Renewal	Sewage Collection	South	Compliance	1,534	1,216	-	-	-	-	-	-	-	-	-	1,216
Lake Isandula - Increase spillway capacity	Catchment	North-West	Compliance	1,900	-	100	-	1,000	-	-	-	-	-	-	1,100
Legana Sewer Treatment Plant Upgrade	Sewage Treatment	North	Compliance	8,686	-	1,002	-	-	-	-	-	-	-	-	1,002
Rocky Creek Water Supply	Water Treatment	South	Compliance	1,000	-	-	-	-	-	-	1,000	-	-	-	1,000
Minor Projects	Various	Various	Various	73,740	9,546	9,857	13,334	9,524	9,064	11,488	10,927	-	-	-	73,740
Sub-total				75,631	91,147	113,465	167,272	199,835	179,222	178,490	-	-	-	-	1,005,042

Table 4: TasWater 10 year plan capital programs as re-profiled by Infrastructure Tasmania

Programs	Asset Class	Region	Driver	FY17 (\$'000)	FY18 (\$'000)	FY19 (\$'000)	FY20 (\$'000)	FY21 (\$'000)	FY22 (\$'000)	FY23 (\$'000)	FY24 (\$'000)	FY25 (\$'000)	FY26 (\$'000)	10 Year Cashflow (\$'000)
Water Main Renewals Program	Distribution	State Wide	Renewal	4,200	4,821	6,631	7,582	8,592	10,503	11,043				53,370
Sewer Treatment Plant Renewal Program	Sewage Treatment	State Wide	Renewal	5,530	2,719	6,188	6,917	7,706	8,525	8,285				45,870
Metering Program	Distribution	State Wide	Improvement	4,300	7,690	7,840	4,650	5,200	6,250	6,250				42,180
Sewer Main Renewals Program	Sewage Collection	State Wide	Renewal	4,525	4,559	5,657	6,356	7,104	8,323	8,913				45,435
Non-network other	Other	State Wide	Renewal	4,300	4,850	7,000	7,250	8,000	8,750	8,750				48,900
Sewer Pump Station Renewals Program	Sewage Collection	State Wide	Renewal	5,301	2,002	2,723	4,435	5,006	6,458	6,678				32,601
SCADA Program	Business Systems	State Wide	Improvement	5,000	394	3,957	3,841	4,214	4,598	4,448				26,450
Water Treatment Plant Renewal Program	Water Treatment	State Wide	Renewal	3,310	1,334	3,057	3,401	3,774	4,598	4,448				23,920
Non-network IT	Business Systems	State Wide	Improvement	2,000	2,450	3,400	4,350	4,800	5,250	5,250				27,500
Electrical Program	Other	State Wide	Compliance	2,000	3,250	3,639	3,149	4,478	5,358	5,198				27,110
Dam Safety Program of Works - Compliance Reports	Catchment	State Wide	Compliance	2,400	2,576	2,811	3,077	3,372	3,678	3,568				21,480
Reservoir Renewal/Upgrade Program	Distribution	State Wide	Renewal	1,388	1,213	1,685	2,178	3,330	5,143	4,993				19,928
Asset Safety Rectification Program - Unplanned	Other	State Wide	Improvement	1,000	1,203	1,886	2,119	2,372	3,065	2,975				14,620
Dam Safety Program of Improvement Works	Catchment	State Wide	Compliance	1,600	1,720	1,870	2,050	2,250	2,450	2,370				14,310
Combined System Program	Combined System	North	Renewal	1,140	1,230	1,330	1,460	1,600	1,750	1,690				10,200
CCTV Inspection Program	Sewage Collection	State Wide	Renewal	1,300	882	1,173	1,285	1,406	1,538	1,488				9,070
Inflow and Infiltration Rectification Program	Sewage Collection	State Wide	Improvement	500	613	1,225	1,338	1,450	1,313	1,313				7,750
Environmental Management and Sustainability Program	Sewage Treatment	State Wide	Compliance	600	690	780	870	960	1,050	1,050				6,000
Fireplug condition assessment	Distribution	State Wide	Compliance	300	375	650	725	800	875	875				4,600
Ambient Monitoring	Sewage Treatment	State Wide	Compliance	200	300	700	800	1,400	1,000	1,000				5,400
Sub-total				50,894	44,906	64,202	67,828	77,814	90,470	90,560				486,694

Appendix 2: Pitt & Sherry review

17 July 2017

Alison Turner
Director Infrastructure Review & Evaluation
Infrastructure Tasmania
Department of State Growth
10 Murray Street
HOBART TAS 7000

Dear Alison

Review of Proposed Condensed TasWater Ten Year Delivery Plan

Infrastructure Tasmania has engaged **pitt&sherry** to provide comment on their assessment of TasWater's 10 Year capital works programme and the desk top assessment as to how this can be condensed into seven years.

The following documents were provided to **pitt&sherry** to undertake this review:

- TasWater's 10 Year Financial Plan, Financial Years 2016/17 to 2025/26, Version 2.0 dated 17 January 2017
- A draft Copy of Infrastructure Tasmania's advice regarding an accelerated infrastructure investment plan for Tasmania's water and sewerage sector
- Infrastructure Tasmania's spreadsheet calculations used to develop the accelerated infrastructure plan

TasWater's 10 Year Financial Plan is a high-level document that lists the proposed project by name, municipal region, asset class, state region, project driver and projected cashflow. There are no details on project scope, risk or any breakdown of how the budget was derived. This lack of information makes it difficult to undertake any rigorous assessment of the Plan.

From the information provided, the TasWater 10 Year Financial Plan proposes \$1,550 Million of capital expenditure over ten years, with the annual expenditure varying between \$130 Million and \$180 Million. The works can be split up as follows for the purposes of further assessment:

Capital Expenditure Sector	Expenditure (\$'000)
Programs	\$486,694
Capital Works	
Minor Projects	\$73,740
Sewage Treatment Plants	\$299,441
Water Treatment Plants	\$151,421
Other Projects	\$474,552
Financing/Business Costs	\$64,142
	\$1,549,990

pitt&sherry ref: LN17159H001 infrastructure report comments let 31P Rev00/RAC/bc



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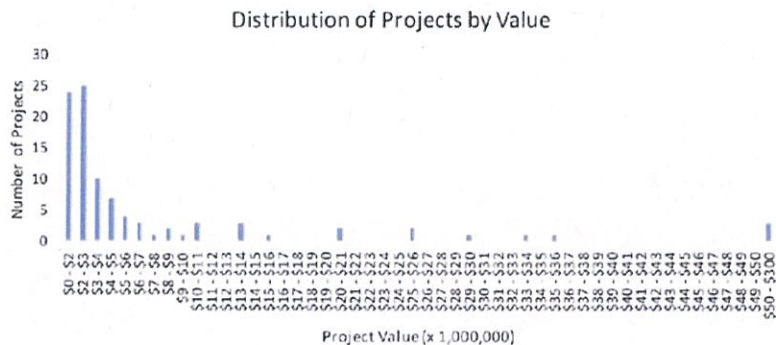
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Please note that a review of the Financing and Business Costs is outside the scope of this assessment. The distribution of Project Values for the Capital Works (excluding Other Projects) can be presented in the following chart.



In summary, over half the Major Projects are values at under \$3,000,000, with 70% less than \$5,000,000. Three projects are greater than \$50 Million in value, and these are:

- Launceston Sewer Improvement Program (\$270 Million)
- Hobart Sewer Improvement Plan (\$98 Million)
- Northern Midlands Sewerage Improvement Plan (\$56 Million)

These major projects amount to just over 40% of TasWater's 10 Year Financial Plan capital works spend.

From this it can be concluded that TasWater will require considerable support from the local water industry consultants, contractors and service providers to deliver the programme and, unless works can be grouped together, there is little scope to make use of larger interstate Tier 1 Consultants and Contractors. Even if a Tier 1 Consultant or Contractor is engaged to deliver a group of projects, they will rely on local subcontractors to undertake most of the actual design / construction work.

It is **pitt&sherry's** opinion that the success of capital delivery is determined by the upfront planning, approvals and scoping. This takes significant effort and resource prior to delivering the works. To deliver effective capital and outcomes for the community, each project requires a business case that would incorporate items such as, but not limited to the following:

- Options
- Net present values and cost estimates
- Impacts including social, environment and financial
- Risks and opportunities
- Approvals
- Program
- Stakeholder requirements including regulatory and community.



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TasWater will require a significant investment in the upfront scoping – either through internal resources and/or external consultants. This is typically the approach taken by authorities such as SA Water, Sydney Water and Melbourne Water.

For a program of works with this number of projects, it is essential to have robust project management systems and reporting. The discipline and governance required for a small project is similar to a large project. To reduce the program to 7 years more project management resources will be necessary.

Due to the volume of projects to be developed, it will be essential that the approvals from the regulatory authorities such as the EPA and local Government, will also need to be adequately resourced to enable the TasWater program to be met. This demonstrates the importance during the planning phase and potential involvement of external expertise to assist with the early engagement and processes for authority approvals.

For the nominated capital spend, the Tasmanian based consultants and contractors have the capacity and capability to deliver the TasWater condensed program, especially considering the infrastructure demand in Victoria and New South Wales.

Infrastructure Tasmania proposes to condense TasWater's ten year plan by bringing forward select projects from beyond year four. The condensed plan has been prepared on the following basis:

- There is no substantial change in the first two years, while the proposed new ownership structure is implemented and TasWater's own skills, processes and systems are geared up to meet the increased expenditure Works in FY18 that continue over future years will be condensed if sensible
- The overall apparent sequencing of projects has been maintained, albeit with possible condensing of the individual project schedule
- The amount of expenditure on the latter years (financial years 2021, 2022 and 2023) are the highest, giving the business time to prudently accelerate its pace
- The risk of overlapping of works has been included by cross checking works locations in the condensed schedule
- The provision of upfront project planning (assumed to be the smaller funding allowance in the first year of the project) is maintained although capital spend may be condensed in subsequent years
- The condensed plan gives no priority is to be given to a certain asset classes, with the spread of projects to largely be maintained but delivered over a shorter time frame.

Given the amount of information provided, the above methodology appears reasonable.

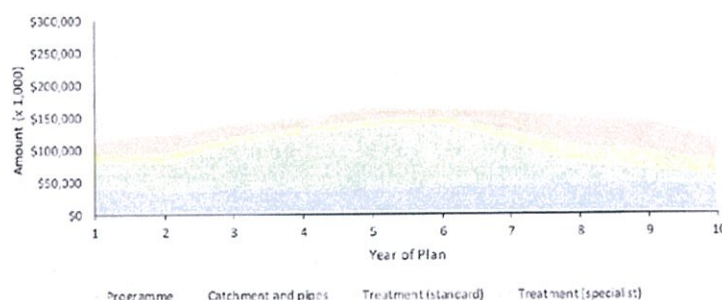
Under the condensed plan, expenditure peaks at around \$280 Million in years five (2023), six (2024) and seven (2025). While this is considered a substantial programme, it is not dissimilar to programmes delivered by other Tasmanian Infrastructure agencies such as the Department of State Growth's Roads programme.

The following chart compares TasWater's ten year programme with the proposed condensed programme with the works broken down into treatment plants, catchment/pipes and programme works. Generally, the Tasmanian Water sector is not equipped to deliver water and wastewater treatment projects on a large scale and assistance from specialised interstate suppliers will be required. As a rule of thumb, about 40% to 60% of a treatment plant's capital cost will require specialist process and equipment works. This is depicted on the charts below as dark and light orange.

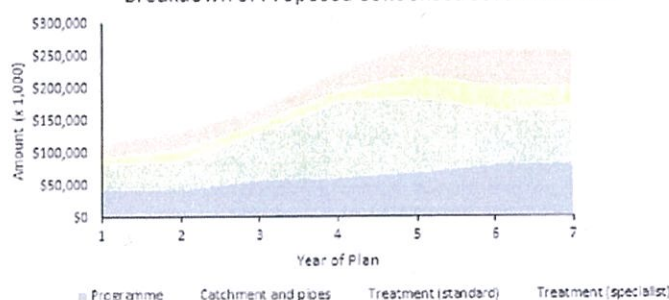


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Breakdown of TasWater's 10 Plan



Breakdown of Proposed Condensed Seven Year Plan



A number of conclusions can be drawn from the above analysis that are relevant:

- For the TasWater's ten-year plan, capital expenditure on catchments and pipes drops by a third after year 7. This scenario may make local contractors reluctant to mobilise for years 1 to 7 if they are unlikely to have continuity of supply for subsequent years
- For the condensed programme, the maximum increase in annual expenditure for the catchment and pipes work when compared to the ten-year plan is 24%. This occurs in year 4. However generally, the condensed plan increase is around 10%, which is considered to be well within the capability of the local industry, provided:
 - They can be provided with clear advanced warning of the likely increase in expenditure in order to gear up to meet the higher demand
 - There are no external constraints such as large parallel capital expenditure programs by other Tasmanian Government agencies
 - TasWater can develop a method of procurement that provides certainty and consistency of project delivery
- If it is assumed that 40% of the capital spend on treatment plants will require the support of local industry, then the condensed seven year plan will increase the annual expenditure for local suppliers by 35% in years 4 and 5 when compared to TasWater's ten-year plan. Again, this level of increase is not considered unreasonable provided the steps above are implemented.

pitt&sherry ref. UN17255H001 infrastructure report comments let 31 Rev00/RAC/bc

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- For the specialist treatment plant works, the condensed programme increases the annual expenditure by 2 – 3 times after year 3, with a 400% increase in year 6. Given the size of the Australian Water industry market, when compared to TasWater's expenditure, the interstate specialist suppliers should be able to accommodate this provided TasWater develops systems and processes that make it a reliable and consistent customer.
- For the condensed plan, the programme works annual expenditure gradually increases by just over 80% in years six and seven. This level of increase will require gradual gearing up of the contractors involved and is not unreasonable provided both TasWater and the service industry work collaboratively to meet the increased workload.

From the above, it appears that a condensed seven year capital works programme for TasWater is feasible. It should be noted, however that this assessment is only based on high level data and this needs further evaluation to confirm that the assumptions made are valid.

Implementation of this condensed programme is not without risk and the following will need to be considered as part of the planning process:

- The programme depends heavily on the ability of the local industry to deliver the works. To meet the increased demand, local industry will need to upskill and gear up to achieve this. TasWater can assist this process by providing certainty on their proposed plan, along with a consistent means of delivery, procurement and implementation
- The programme would be put under considerable strain if other infrastructure agencies propose a similar ramping of expenditure. This is recognised in the Infrastructure Tasmania report and it is suggested that a whole of government approach is required to plan and manage all of Tasmania's infrastructure spend
- Statutory approvals and stakeholder management are a substantial risk to any project delivery and while this can be managed to a certain extent by careful up-front planning, it is likely that some projects will experience delays. To offset this, it is prudent to bank some future projects that can be brought forward to fill any programming gaps that will inevitably arise
- Alternative models such as service agreements, stewardship arrangements and schedule of rates contracts will be required to deliver a \$100 Million annual spend on program works. This type of model is not too dissimilar to how the State delivers its road maintenance program. The Infrastructure Tasmanian report does investigate alternative delivery models and we would add that, for large projects, conventional design and construct processes do put a large strain on the Tasmanian construction industry resources because of the large duplication of effort required at the front end
- We believe that it is important for TasWater to consider delivery models that encourage development and retention of water industry capability in Tasmania thus ensuring that there are sufficient local resources available to support the future longer term maintenance requirements of this new infrastructure
- The condensed programme will rely heavily on procurement of interstate specialist water industry contractors and is therefore at risk of external market forces such as a ramping of water sector work in other states. This risk can be best offset by developing a culture whereby TasWater is the agency of choice for high performing suppliers. This is best achieved by ensuring a consistent approach to planning, procurement, delivery and finalisation.



RS

It is our opinion that, given the limited data available, the approach taken by Infrastructure Tasmania to investigate options to condense TasWater's ten year plan into seven years is reasonable. The amount of expenditure in the condensed plan is substantial in the latter years, but we believe that it is achievable under a collaborative approach by the entire Tasmanian Water Industry sector.

We trust that the above addresses your concerns.

Yours sincerely,

Robert Casimaty
Senior Principal

Appendix 3: Department of Treasury and Finance assessment of the economic impact of accelerating the water and sewerage capital program

The re-profiling of TasWater's capital expenditure program by Infrastructure Tasmania results in additional investment of \$437 million in the five years to 2022-23. This would generate a significant additional level of economic activity in the State. Relative to the level of infrastructure investment each year in TasWater's original 10 year plan, the re-profiled program would lead to higher levels of employment, particularly in the construction industry, over this period.

These economic benefits would occur earlier than under TasWater's original plan. As one example, in the case of the Launceston Sewer Improvement Program, the estimated \$270 million expenditure is scheduled to be completed in 2025-26 in TasWater's original plan, with an average expenditure of \$30 million per year. In the re-profiled program, this work is completed in 2022-23, resulting in average annual expenditure of \$45 million per year. This would result in a higher level of employment in the Launceston area over this period, including from the impact on other industries, including local manufacturing.

It is expected that this additional employment will largely be sourced from within Tasmania. If TasWater is able to align its projects and its contracts over the five year period to provide a sustained high level of work for the major construction firms in the State, this will encourage these firms to expand their workforce, including taking on more apprentices. It is expected that the greater the longer term certainty for these businesses, the less TasWater will have to source firms from interstate for its infrastructure projects and programs.

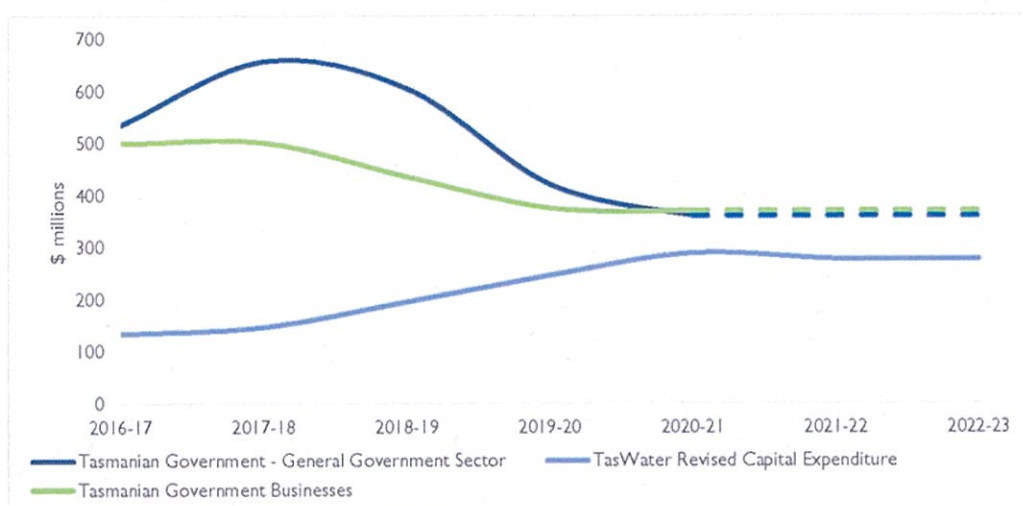
The increase in activity may result in shortages in Tasmania of labour with specialist skills in the water and sewerage industry, and potentially in project management, which may only be addressed by utilising labour from interstate or overseas.

In cases where an accelerated expenditure program simply brings forward investment that would otherwise have occurred over a longer period, the overall level of economic activity is unchanged. Such a program leads to a sharp reduction in investment when the program ends, which detracts from economic activity in the State in the latter years. In the case of the re-profiled TasWater investment program, however, this outcome does not arise because TasWater will still need to invest at historically high rates from 2023-24 onwards. It will still have, for example, an asset renewals backlog of around \$400 million at the end of the five year program. In addition, it is likely that new infrastructure demands will emerge. For the decade from 2016-17, the overall level of investment under the re-profiled program is therefore greater over the period of TasWater's original 10 year plan.

An important issue to examine is the extent to which the Tasmanian economy has the capacity to absorb this additional investment activity without crowding out other public and private sector projects and without resulting in major cost increases in the construction and related sectors.

This can be assessed by examining forecast investment by the General Government Sector of the State Government and by the State Government's businesses over this period. As Figure 2 shows, over the next four years, investment at the General Government Sector level, and by the State Government's businesses, is forecast to be substantially greater than TasWater's investment under the re-profiled program. Importantly, at the time when TasWater's investment begins to ramp up, investment in these other two sectors is forecast to ease.

Figure 2: Forecast and projected public investment in Tasmania, in current prices, 2016-17 to 2022-23



Source: 2017-18 Tasmanian Budget: Budget Paper No 1; TasWater 10 year plan as re-profiled by Infrastructure Tasmania; projections by the Department of Treasury and Finance.

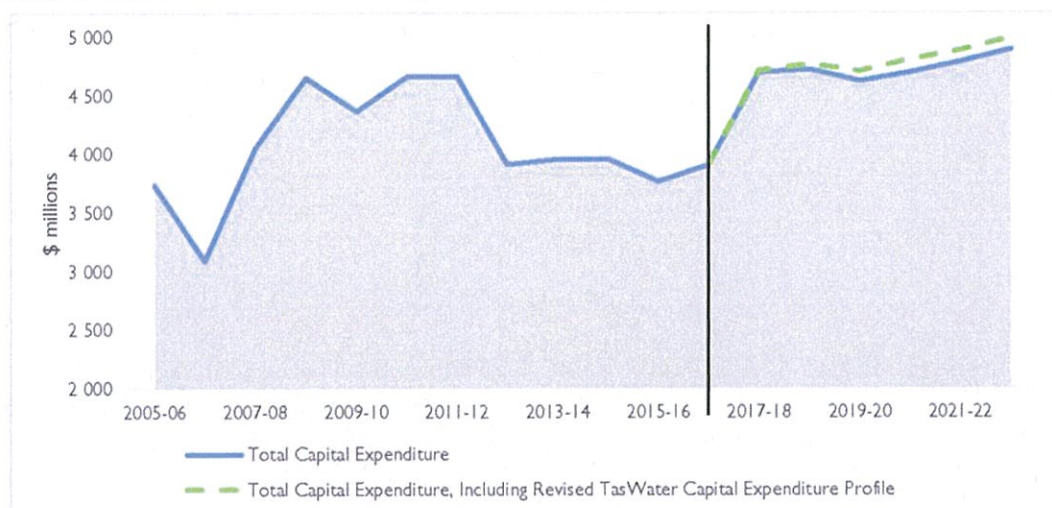
While there will be some differences in the type of investment activity, this does suggest that a substantial amount of capacity will become available to accommodate much of TasWater's re-profiled investment program. There may, nonetheless, be local cost pressures but these are likely to be temporary and may only be significant if the overall level of public and private investment were substantially higher than current levels.

The potential economic impact of the re-profiled investment program can also be assessed by examining the significance of the additional investment relative to an estimate of future total public and private capital investment in Tasmania. Projections of future public and private capital investment in the State have been prepared based on forecast investment by the State Government's General Government Sector and the State Government's businesses, and by increasing other public and private investment categories from current levels based on long term trends. Dwelling investment has been excluded.

As Figure 3 shows, total capital investment in Tasmania has been highly volatile over the past decade. The construction industry and other related industries have a history of expanding and contracting as economic conditions change.

Figure 3 also shows that the additional investment in TasWater's re-profiled program ramps up as the overall level of capital investment is projected to decline. This additional investment accounts for no more than 2.4 per cent of the total level of projected total capital investment over this period. Furthermore, in real terms, the projected level of annual capital expenditure over the five year period to 2022-23 is likely to be lower than in the years immediately following the global financial crisis, even with the additional TasWater-related investment. This suggests the economy does have the capacity to absorb this additional investment.

Figure 3: Capital Investment in Tasmania, in nominal terms, 2005-06 to 2022-23



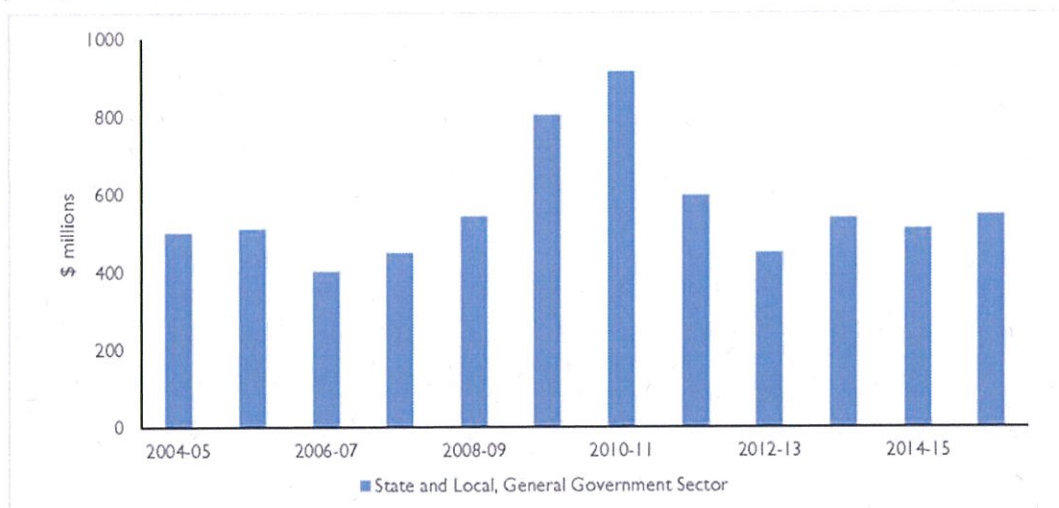
Source: 2005-06 to 2016-17 data - Australian National Accounts: National Income, Expenditure and Product, ABS Cat No 5206.0. 2017-18 & onwards - Treasury projections; 2017-18 Tasmanian Budget: Budget Paper No 1 and TasWater 10 year plan as re-profiled by Infrastructure Tasmania.

The potential impact of the re-profiled TasWater investment can also be assessed by examining the very substantial increase in investment by the State Government's General Government Sector and at the local government level from 2006-07 to 2010-11 (Figure 4). This public investment increased from \$400 million in 2006-07 to \$914 million in 2010-11 in real terms (which removes the impact of any inflation in the construction and other investment-related industries). This was a much greater increase than under the re-profiled program for TasWater.

Over the period when this public investment increased, private sector business investment also increased, in real terms, from \$2.5 billion in 2006-07 to \$2.7 billion in 2010-11. Even the construction component of business investment increased over this period, from \$460 million 2006-07 to \$580 million in 2010-11.

Equally, in the subsequent period when this public investment declined sharply, business investment also declined, from \$3 billion in 2011-12 to just over \$2.4 billion in 2013-14. The construction component of business investment also declined over this period.

Figure 4: Tasmanian Government General Government Sector and Local Government investment, constant prices, 2004-05 to 2015-16

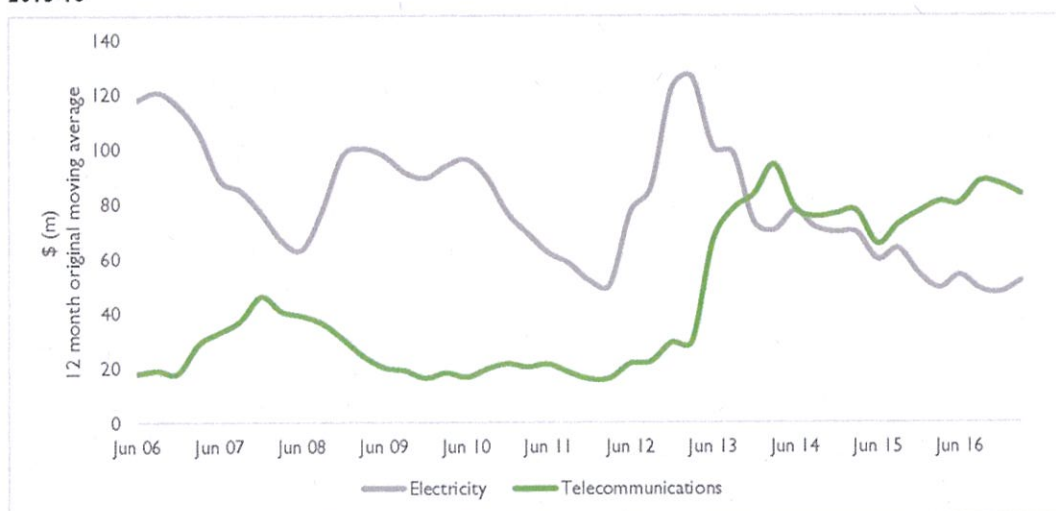


Source: Government Finance Statistics, Australia, 2015-16, ABS Cat No 5512.0

These examples suggest that there are different drivers for public sector investment and business investment and that any increase in public investment would not necessarily crowd out private sector investment projects.

Due to the relatively small size of Tasmania's economy, Tasmanian capital expenditure has often been variable as a result of particular investment projects. The Tasmanian economy has absorbed short-term spikes in the past of a similar scale to that of the re-profiled TasWater program. This volatility in investment activity is illustrated by the data on engineering work done in the State in the electricity supply and telecommunications industries (Figure 5). As Figure 5 illustrates, Tasmania's electricity and telecommunications industries have been subject to a number of spikes over the past decade. These spikes have involved investment in that sector increasing by more than \$50 million in one year.

Figure 5: Value of engineering work done in Tasmania by selected categories, current prices, 2005-06 to 2015-16



Accelerated infrastructure investment delivery in Tasmania's water and sewerage sector

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Source: Engineering Construction Activity, Australia, ABS Cat No 8762.0.

In summary, based on past experience, Tasmania's economy has the capacity to absorb the additional level of infrastructure investment in the re-profiled program prepared by Infrastructure Tasmania without any significant disruption to other public and private sector investment projects in the State.



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