

AUSTRALIAN WATER

ASSOCIATION

Friday 8 September 2017

Ms. Natasha Excel
Inquiry Secretary
Legislative Council Select Committee
Parliament of Tasmania
Parliament House
HOBART TAS 7000

4500+

*individual
members across the
whole
water cycle*

Dear Secretary,

Submission to the Legislative Council Enquiry into TasWater to consider:

'The benefits, disadvantages and challenges associated with the Tasmanian Government's proposal to control of TasWater and any other matters incidental thereto.'

Background

The Australian Water Association (The Association) is pleased to provide this submission for the Committee's consideration. The Association is the peak national water industry body representing nearly 600 corporations, over 100 water utilities, and 4,000 water practitioners across Australia. The Association's Tasmanian Branch has brought the Inquiry to the Association's attention.

The Association understands that the Tasmanian Government is proposing a new ownership structure for TasWater that would replace the current owners of 29 local councils with the ownership transferring to the Government of Tasmania. The Association remains completely agnostic on the ownership of our water utilities. The issues around customer focus, asset management and maintenance, water quality, and service levels remain equally relevant to water utilities regardless of who owns them in either the public or private sectors.

We understand that the proposed change of ownership structure is proposed by the Tasmanian Government to accelerate the implementation of TasWater's \$1.5B 10-year capital plan by completing it three years earlier than scheduled. We understand that the proposed changes also include:

- The establishment of a new entity to take effect from 1 July 2018 and to be called Water and Sewerage Tasmania.
- Government will take over responsibility for pricing and cap price increases at 3.5% (minimum 2.75%) per annum for the foreseeable future.

Tasmania presents particular challenges relating to the supply of water and sewage services. These include:

- the remote and dispersed locations to be provided with services;
- the limited customer base to fund the services;
- the large number of treatment and storage assets relative to the population they serve;

600+

*corporate members
including utilities,
large water
users contractors,
consulting firms,
research
and suppliers.*

100+

*water utilities
servicing 20+
million customers*

50+

*years servicing the
water sector.*

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- health issues relating to the provision of sub-standard drinking water; and
- high levels of wastewater discharge non-compliance.

Many of these issues have been confronted and managed by water utilities across Australia and the experience gained by these utilities is relevant to Tasmania.

The Association has observed many changes and reforms to the government owned water utilities across Australia over the past 50 years. We have assisted members through a variety of structural, strategic, and functional reforms to the water utilities. These changes have usually shared a common goal of improving the water and sewage services provided to customers and communities and the Association understands the same goal is motivating the proposed changes in Tasmania.

Through observing the evolution of the Australian water sector the Association is in a position to provide some comments based on the reform experienced in a range of urban, regional, and remote locations across all States and Territories.

The Association advocates that any changes to the governance structure of TasWater takes consideration of the following three fundamental principles for the proper management of Tasmania's water services:

1 A governance model that ensures independence and accountability

The boards of water utilities need independence to make the right decisions for their customers based on independent evidence and the commercial and technical capabilities of the utilities themselves. There is a vital need to preserve managerial prerogative to provide transparent governance structures that remain truly accountable for the quality of the utility services. Interference in the management of water utilities can be exercised directly from government or indirectly via utility shareholders influencing political representatives for government intervention. Both need to be removed to secure the best results for the customers of the utility and the wider community. Government or ministerial intervention in the routine management and operations of water utilities will result in the erosion of management authority. This in turn, leads to sub-optimal performance and reduced accountability.

Over the past twenty years all state and territory governments have pursued reformed governance models for their respective government-owned water utilities. There are successful models in other states and territories where the water utilities have proved to be very successful in driving reform based on a model of an independent board that is accountable for the performance of the utility and whom report to the Minister. Examples where such models have worked include Sydney Water, Melbourne Water, South Australian Water, Water Corporation (Perth) and Ikon Water in the ACT. These water utilities have legislation, procedures, and experience that are relevant to compare with the Tasmanian model. In all these locations the reform has included corporatisation focused on improved efficiencies, reduced costs, improved asset management and customer services. Whilst there is some variation on the corporatised models being applied it is generally agreed across the water sector that those utilities that have been provided with the highest degrees of management independence from Government, operate more efficiently and achieve higher levels of customer approval. In these examples the Minister does not have the right to interfere in the management of the staff of the utilities with the exception of the appointment and removal of the CEO.

The Association understands that the reforms being proposed in Tasmania increase broad-based powers for the Minister and the Treasurer that include an ability to jointly direct the new corporation in any area of operation. For example, if it can be shown that a particular employee(s) has effected (this does not have to be a negative effect) the utility's ability to perform services, they may direct the utility to deal with the employment of an employee. Such a direct interference with the management of the utility carries serious consequences to the effectiveness of management and to the morale and culture of staff.

The Association recommends that any reform of the ownership and governance structure of TasWater strengthens rather than dilutes the level of operational and managerial independence for the entity. The Association sees the role of governments to shape water policies and the regulatory environment that enables the water utilities to function in the most cost-effective manner to deliver the water services demanded by the community at a fair and reasonable price. The role of the utilities is to effectively manage and maintain their assets and services to meet community demands. If these roles get blurred or confused the Association strongly believes that the community suffers the consequences of poorer service delivery, more expensive asset management, and potentially lower quality water.

2 Certainty for change management and capital expenditure projects

Australia's water utilities have undergone significant reform over the past 20 years. The reform journey started more than 20 years ago with amalgamations, corporatisations, reduced operating costs, and now new levels of community engagement. Tasmania's process to catch up with these reforms made real progress when TasWater was formed in 2013. Whilst challenges remain, the progress that has been made by TasWater in the last four years has been rated very highly by the Australian water industry. The Government of Tasmania and the board and management of TasWater are to be commended on the progress achieved. The board and management of TasWater have the full support of the water industry for the reforms undertaken. These include the reform of TasWater's structure, the new capabilities and relevant experience of the restructured management team, and the strategy and approved \$1.5 Billion capital works program for the provision of clean drinking water and sewage services required by Tasmania.

The controversial but necessary process of forming TasWater with the support of 29 local councils and the rebuilding of the team to implement TasWater's strategy and capital works program is now showing real and measurable results. The Association strongly recommends that the Government of Tasmania does not dismantle this progress by establishing a new entity that will require significant resources, time, and an extended period of instability for the key stakeholders of the management, staff, councils, and the community. By establishing a new entity the progress made by TasWater in the provision of improved water and sewage services will be at serious risk. At best, the establishment of the new entity will cause a period of disruption for up to four years with concomitant delays to the implementation of the much-needed capital works program. At worst, the progress made by TasWater could be put back by 20 years with an outdated model of increased Government integration of water and sewage services.

The proposed integration of the new entity back under increased Government control will run a very high risk of causing a damaging loss of momentum in the progress now being made by TasWater. A major risk to the Tasmanian community is that the proposed governance model has the potential to disrupt proper long-term planning for the delivery of water and sewage services based on independent evidence with short-term political outcomes.

Likewise, significant disruption to the delivery of TasWater's capital program presents risks to the local water industry. While TasWater has been challenged in effectively ramping its' capital spending, it's important to note that significant progress has been made, including the roll-out of independently managed, asset-specific works programs that are supporting the fast-tracking of works delivery and providing significant local industry opportunity. In doing so they are applying many of the principles identified by the State government as being essential to effective program delivery. Any efforts to further accelerate the capital program must maintain the momentum that has already been achieved while maximising local content and industry collaboration, as well as supporting capacity building to grow Tasmania's water industry in a financially sustainable manner. A stronger Tasmanian water industry will provide a real on-going economic benefit for Tasmania.

3 The importance of an independent economic regulator

The Australian water industry remains strongly supportive of independent economic regulation of the water sector. This independence of the economic regulator is cardinal in the maintenance of transparency and predictability of pricing policies needed to underpin the performance of the water utilities in Australia.

An independent water regulator is also vital in building the confidence of the customers, industry stakeholders, and the wider community that the pricing structures for water and sewage are both equitable and sufficient to provide the services that the community require. Independent economic regulation is also central to attracting private sector investment and partnerships to enhance the delivery of water and sewage services.

A fundamental principle of the National Water Initiative implemented across the country during the Millennium Drought was the recognition of the need to move to full cost recovery for the provision of our water and sewage services. Any changes that may limit the independence of the economic regulator in Tasmania may result in pricing decisions that are not based on an economic model that provides for full cost recovery with an acceptable rate of return to the water utility. The erosion of the principle of full cost recovery risks returning to the policies endured for decades of under investment in our water and sewage infrastructure.

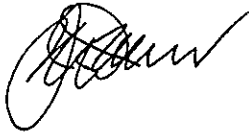
The capped prices proposed by the Tasmanian Government are only 0.6% lower than the average price increases proposed under TasWater's fully funded 10-Year Plan. However, such a change could result in significant additional debt (up to \$550 million depending on the selected pricing path) and requires an additional \$140 million to be transferred from consolidated revenue to offset returns councils would have received under TasWater's Plan. In addition there is no allowance for the impacts of accelerating the program which could further increase the level of debt or require increased customer prices.

The Association recommends that the Tasmanian Government maintains a fully independent economic regulator and any further integration of TasWater's structure into government will present real or perceived issues of the independence of the Tasmanian Economic Regulator.

Conclusion

The Association recommends that TasWater's existing structure and strategic plan (including the 10- Year Capital Works Program) be fully maintained and supported by the Government of Tasmania. The progress being made is significant and for the first time in decades the Australian water industry feels confident that Tasmania has a plan and an industry structure with the capability to radically lift the performance of the state's water and sewage services. The changes being proposed carry serious risks to the progress already made and could damage the ability of the State to address the long term issues being managed by TasWater.

Yours sincerely,



Jonathan McKeown
Chief Executive



Tim Gardner
President – Tasmanian Branch