

Completing the Reforms

Submission to the Legislative Council Select Committee TasWater Ownership

**Property Council of Australia
September 2017**

Completing the Reforms - Executive Summary

Thank you for the opportunity to participate in the Legislative Council Select Committee – TasWater Ownership.

This submission focuses on addressing:

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 property and construction industry directly employs 13,000 Tasmanians, is the State's largest single contributor to gross state product at 7.8 per cent, and pays over \$927 million in property-specific state and local taxes.

Tasmania is at a unique point in its history with significant prospects to generate local economic activity through capitalising on the opportunities which have presented. It is now a time for boldness and calculated risk-taking to lock in the improvements, but more importantly to create a continuous economic loop which will grow the prosperity of the State. The Property Council remains adamant that Tasmania must continue to run hard and fast to drive economic growth.

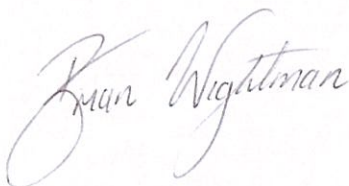
The Tasmanian Division of the Property Council is clear in its view regarding the need to continue reforms that strengthen the State's economy.

Tasmania must achieve continuous economic growth.

To achieve continuous economic growth, urgent action is needed across the board, particularly in relation to: -

1. **Fixing water and sewerage;**
2. **Building participation, retaining talent and growing population;**
3. **Incentivising development;**
4. **Delivering equity across local government;**
5. **Finalising planning overhaul; and**
6. **Leveraging City Deals.**

The Property Council is willing to discuss each of these concepts and their integral role in improving the economic and social prosperity of our state.



Brian Wightman
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Property Council of Australia

Introduction

For more than 10 years the Property Council of Australia has been a strong advocate for the reform of the water sector. Its concerns about the sector primarily centred on: -

- (a) Ageing and neglected water and sewerage infrastructure which failed to meet the potable water and environmental standards expected by everyday Tasmanians;
- (b) Raw sewage, inadequate drinking water, failing pump stations and a general lack of regulatory compliance which was the legacy of the local government sector that historically managed the infrastructure; and
- (c) Inequitable; unfair and discriminatory pricing practices.

The initial structural reform model, which was seriously compromised to appease local government, failed to deliver the reforms required and was to be superseded by the establishment of TasWater.

Reform of pricing was a major milestone achievement, but this was achieved not because of TasWater's initiatives, instead through rulings by the economic regulator.

In recent times, TasWater, whilst being significantly more successful than the original structural model, has experienced apparent difficulties, particularly in the provision and upgrading of infrastructure. There is no doubt that the reason for this is the underfunding of TasWater by its owners, that is, local government authorities. They have been more intent on maximising their returns through dividends and taxation equivalents than properly funding TasWater.

For this reason, over the last several years the Property Council of Australia has argued that the State Government should own and be responsible for a TasWater Government Business Enterprise (GBE). This will enable the entity to be properly funded and not to be held at the behest of local government selfish interests.

The issues that we face as a state about utility provision should be viewed simply and directly – it's not good enough.

The 2008 reforms should now be completed in full.

State Government ownership of TasWater must be the preferred option as the local government sector continues to struggle to grasp the enormity of the task that we face as a State. The shared ownership model for TasWater clearly hasn't worked. 29 vested interests with conflicting agendas is not an ideal leadership model if you want improvement.

Launceston City Council is the State's largest owner of TasWater with a 13.62 per cent stake. Improving the health of the Tamar River through State Government ownership is both a viable option and a long-term solution that is well understood at council level.

The Property Council again raises the regulatory compliance issues which provided damning evidence as to why action was urgently required. 2015 Environmental Protection Authority data succinctly highlights the reasons why a State Government takeover is the preferred option. The Margaret Street pump station spilled raw effluent into the Tamar Estuary 913 times in 2015. That number is staggering

and totally out of step with our clean green image. If this isn't a reason to act with haste, we're not sure there is one.

Salamanca, Battery Point, the Tamar River, the East Coast and the North East are also examples of communities experiencing either sewerage system malfunctions or potable water issues which directly impact upon health, tourism and business opportunities.

Historically, a lack of system connectivity, local government self-interest, too many inefficient sewage treatment plants and pump stations, dual stormwater/sewerage system (in Launceston), ageing pipes and poor planning processes have delivered a disconnected spider web of infrastructure that neither delivers environmental and public health compliance or structural efficiencies.

Most importantly The Tasmanian Division of the Property Council of Australia continues to express dismay at TasWater paying dividends to 29 Councils across Tasmania. The Property Council firmly believes that the estimated profits should be re-invested into infrastructure development and not used to deliver "reward payments" to councils who failed to upkeep services over many years.

The Tasmanian Division acknowledges the reassurances of the State Government regarding possible rates rises with commitments made that increases in rates and services charges won't be the consequence of a changed ownership model.

Regulatory compliance improvement

It is both embarrassing and dangerous that 78 out of 79 Water Waste Water Treatment Plants do not meet 100 per cent compliance standards.

Available - [http://www.energyregulator.tas.gov.au/domino/otter.nsf/LookupFiles/2015-16%20SOIR.PDF/\\$file/2015-16%20SOIR.PDF](http://www.energyregulator.tas.gov.au/domino/otter.nsf/LookupFiles/2015-16%20SOIR.PDF/$file/2015-16%20SOIR.PDF)

The issues facing TasWater and the broader Tasmanian community cannot be made any clearer.

A significant opportunity exists for a TasWater GBE to immediately invest additional funds in capital infrastructure to speed the process of improvement. Council dividends should be quarantined and combined with the aggregated revenue forecast and invested in infrastructure improvement of the highest priority.

The Property Council of Australia also understands that the debt profile of TasWater is significantly lower than other like organisations around the country. Further, it is our belief that this is because of TasWater's owners, the Councils preventing required borrowing from occurring, thus diminishing the opportunity to significantly improve infrastructure. If this is indeed the case, business decisions should be made by a TasWater GBE and not restricted by owners who aren't held to account and who have failed to contribute to an equity drive which is desperately required.

The State Government should: -

- a. take ownership of TasWater;
- b. quarantine any efficiency savings for use by the Corporation to fund infrastructure improvements; and

- c. change the dividend, income tax equivalents, and guarantee fees policies, to ensure that revenue for the next five years goes to the Corporation for the provision of infrastructure and/or pricing relief, rather than providing windfall funding to councils; and
- d. expand the debt profile of TasWater to bring it more into line with like utility providers across the nation through utilising the State Government's balance sheet; and
- e. plan for the future.

Current TasWater ownership model percentages

Member	Class of Share	Percentage
Break O'Day	"A" ordinary shares	1.94%
Dorset	"B" ordinary shares	0.97%
Flinders	"C" ordinary shares	0.18%
George Town	"D" ordinary shares	1.13%
Launceston	"E" ordinary shares	13.62%
Meander	"F" ordinary shares	2.78%
Northern Midlands	"G" ordinary shares	2.34%
West Tamar	"H" ordinary shares	3.28%
Burnie	"I" ordinary shares	4.14%
Central Coast	"J" ordinary shares	4.77%
Circular Head	"K" ordinary shares	1.58%
Devonport	"L" ordinary shares	5.46%
Kentish	"M" ordinary shares	0.44%
King Island	"N" ordinary shares	0.33%
Latrobe	"O" ordinary shares	1.91%
Waratah Wynyard	"P" ordinary shares	2.81%
West Coast	"Q" ordinary shares	1.81%
Brighton	"R" ordinary shares	3.08%
Central Highlands	"S" ordinary shares	0.51%
Clarence	"T" ordinary shares	11.06%
Derwent Valley	"U" ordinary shares	1.36%
Glamorgan-Spring Bay	"V" ordinary shares	2.07%

Infrastructure improvement

pitt&sherry - *Accelerated investment delivery in Tasmania's water and sewerage sector*

Available -

[http://www.stategrowth.tas.gov.au/data/assets/pdf_file/0017/153071/Infrastructure Tasmania report - water and sewerage accelerated infrastructure plan - July 2017.pdf](http://www.stategrowth.tas.gov.au/data/assets/pdf_file/0017/153071/Infrastructure_Tasmania_report_-_water_and_sewerage_accelerated_infrastructure_plan_-_July_2017.pdf)

The Tasmanian State Government has articulated their desire to complete TasWater's 10-year infrastructure improvement plan in half the time suggested by the Corporation.

To support the plan, Infrastructure Tasmania commissioned a report prepared by pitt&sherry.

The Property Council of Australia remains of the view that a plan which hastens improvement in water and sewerage infrastructure should occur without delay. Tasmanians have waited far too long to have a coordinated and strategic approach to the delivery of the most basics services. To deliver a 10-year plan bringing forward an addition \$300 million investment in just five years should not result in a debate, it should drive cooperative advocacy which puts the State's needs ahead of what is, pure politics.

The Tasmanian Division is concerned that following the proposed \$1.5 billion 10-year TasWater plan, there will still be \$425 million of work to be completed. Therefore, the 10-year plan, is more likely a 15-year plan which is clearly unacceptable. Investment and development will be negatively impacted as a result if this is left to occur and State Government intervention blocked by the Legislative Council.

The Launceston City Deal has provided the perfect impetus to consider the challenging requirements of fixing the dual system. A Taskforce has been put in place to consider the health of the Tamar Estuary and to plan for the water and sewerage infrastructure challenges. The State Government is confident that it can deliver the \$270 million required to deliver a permanent solution at least three years quicker than TasWater. For residents and the business community of Launceston, and we suspect the City Council, this is welcome news which can't happen quick enough.

The Property Council suggests that to maximise the potential of securing a Hobart City Deal, stakeholders should be on the same page regarding the infrastructure needs of Macquarie Point and Cameron Bay. Any fracturing of relations may highlight a lack of consensus to the Federal Government, putting at risk our ability to successfully advocate as a community. The implementation of a TasWater GBE would send a clear sign that Tasmania has a plan.

Much has been made of concerns raised by TasWater and the local government sector regarding the need to raise service charges and rates because of accelerating the infrastructure plan. The Tasmanian Division is of view that this hypothesis should be challenged at every opportunity. TasWater's Price and Services Plan indicates that prices will rise at a rate of 4.6 per cent per annum. With the move to a State Government Business Enterprise, prices will be capped between at 2.75 per cent and 3.5 per cent from 2018/19. Further, under the Water and Sewerage Tasmania Bill 2017, dividends will be enshrined in legislation ensuring that the local government continues to profit while not being required to provide any capital injections for the infrastructure that they so poorly maintained.

**Office of the Tasmanian Economic Regulator
Tasmanian Water and Sewerage State of the Industry Report 2015-2016
March 2017**

Available - [http://www.energyregulator.tas.gov.au/domino/otter.nsf/LookupFiles/2015-16%20SOIR.PDF/\\$file/2015-16%20SOIR.PDF](http://www.energyregulator.tas.gov.au/domino/otter.nsf/LookupFiles/2015-16%20SOIR.PDF/$file/2015-16%20SOIR.PDF)

The Office of the Tasmanian Economic Regulator via the Tasmanian Water and Sewerage State of the Industry Report 2015-2016 could not be more damning of the performance of the water and sewerage sector in Tasmania. Put simply, if you wish to understand the desperate need for strategic leadership through the creation of a Government Business Enterprise, just read the report.

The Property Council points to the findings of the Economic Regulator who makes it explicitly clear that very little progress has been made in improving compliance levels in Tasmania during the past five years.

The Tasmania Division encourages the Legislative Council to consider the following findings from the report as clear indicators as to why urgent reform of the sector is required:

- In 2015-16, the number of sewer overflows increased by more than 20 per cent from 164 to 201;
- The rate of sewer overflows in Tasmania (4.3 per 100 km of sewer main) is up to eight times that of similar sized utilities on the mainland (0.5-1 per 100 km of sewer main);
- The total number of sewer main breaks and chokes also increased from 57 to 61 per 100 km of sewer main, almost double the rate reported nationally for similar size utilities;
- Only 1 of 79 sewage treatment plants (Cygnet) achieved full compliance with discharge limits;
- In 2015-16, complaints to TasWater were up 24 per cent. The largest group of complaints were in relation to water quality (38 per cent);
- Thirteen water supplies had chemical contaminants detected above safe health limits;
- In 2015-16, twenty-five systems were operated under a temporary or permanent boil water alert while another five systems had a public health alert (do not consume) in place; and
- Six systems reported metal concentrations above safe health limits.

The naysayers often explain away the data - it provides an easy and unsophisticated technique to counter damning findings. The Property Council believes that the Economic Regulator delivers an independent review of the state of the sector and clearly highlights the reasons why the Legislative Council must act in the best interests of Tasmania. A TasWater Government Business Enterprise with a clear, strategic direction and a hard-working balance sheet is the most effective way to lead the infrastructure improvement of Tasmania's most basic service provision.

The Water and Sewerage Tasmania Bill 2017

Available - <http://www.treasury.tas.gov.au/Documents/Draft%20Water%20and%20Sewerage%20Tasmania%20Bill%202017.PDF>

The Property Council of Australia maintains that the passing of the Water and Sewerage Tasmania Bill 2017 provides the best opportunity to fix historically neglected and mismanaged infrastructure across the State.

It is difficult to consider a legislative mechanism for essential infrastructure provision that would enshrine ownership across 29 separate and parochial local government municipalities. That that was the result of the 2008 reforms which although cumbersome should be viewed as a significant stepping-stone towards improvement. However, the result has been a complicated ownership structure which neither delivers compliance, strategic direction nor clarity of purpose.

The Water and Sewerage Tasmania Bill 2017 creates a Government Business Enterprise (GBE). A GBE is a mature and sophisticated governance structure, accountable to the people of Tasmania via their parliament, answerable to a Minister and underpinned by scrutiny at an annual Budget Estimates Session.

The Bill ensures that TasWater cannot be privatised. This important decision will provide comfort to many Tasmanians who are deeply concerned when any moves are afoot to privatise government services such as the Hydro. It will also provide clarity for a Board who will be both certain of their future and their purpose.

The Property Council of Australia has been a long-term detractor of TasWater and the local government sector for their reliance and want to remove dividends from the Corporation when the need for reinvestment in infrastructure improvement is both obvious and necessary. To alleviate any unnecessary concerns, particularly from small municipalities, the Water and Sewerage Tasmanian Bill 2017 guarantees dividends at current rates until 2024-25 and then at 50 per cent of future profits. This most generous offer should be considered carefully by the local government sector who will continue to be rewarded for their mismanagement and neglect along without being required to fund infrastructure improvement which should have occurred during their ownership period.

From 2026-27, 50 per cent of profits will be reinvested into infrastructure improvements. The Tasmanian Division accepts the rationale behind the State Government's decision, however remains of the view that all dividends which should not be considered profits must be reinvested into infrastructure improvement.

The people of Tasmania

The Tasmania Division of the Property Council of Australia recently released figures highlighting that most Tasmanians support the State Government's proposed takeover of TasWater.

The ReachTEL telephone survey of some 1,622 Tasmanians revealed 50.6 per cent supported the State Government taking over water and sewerage, while 27.2 per cent did not and 22.2 per cent of the community did not know or were undecided.

The survey highlighted the fact one in four Tasmanians have had difficulties with TasWater charges, water and sewerage supply or connections while nearly half or 45 per cent had to wait for more than a month for the problem to be rectified.

The majority support for the State Government to take over TasWater and high levels of poor service highlighted in the survey, indicates that the community supports equitable water and sewerage services across the state.

Put simply, the community owns TasWater and the survey shows high levels of dissatisfaction with the job that has been done by local government, so it is time for the State Government to fix the problem to ensure all Tasmanians have the water and sewerage services they deserve. TasWater says it can deliver first world services in ten years, but the State Government says they can do it in nearly half that time, while also ensuring price rises are kept to a minimum.

The results

ReachTEL conducted a survey of 1,622 residents across the state of Tasmania on the night of 10 May 2017.

Who do you think runs TasWater now?

	Total	Female	Male	18-34	35-50	51-65	65+
State Government	9.4%	10.4%	8.3%	13.8%	8.5%	6.3%	9.4%
Local Council	16.8%	14.2%	19.5%	17.6%	18.3%	15.3%	15.3%
TasWater	59.3%	58.8%	59.9%	51.0%	59.0%	68.7%	57.8%
Unsure	14.5%	16.7%	12.2%	17.6%	14.2%	9.7%	17.5%

It is local council who owns and operates TasWater. The State Government wants to take control of TasWater so there is accountability, do you support this move?

	Total	Female	Male	18-34	35-50	51-65	65+
Yes	50.6%	47.4%	53.9%	37.2%	58.4%	54.3%	51.6%
No	27.3%	22.9%	31.9%	29.5%	21.4%	29.7%	29.4%
Unsure	22.2%	29.7%	14.2%	33.3%	20.1%	16.0%	19.1%

Do you trust local council to run TasWater?

	Total	Female	Male	18-34	35-50	51-65	65+
Yes	41.8%	38.5%	45.3%	49.0%	36.1%	38.7%	44.8%
No	58.2%	61.5%	54.7%	51.0%	63.9%	61.3%	55.2%

Have you had a problem with TasWater charges, your water and sewerage supply or connections?

	Total	Female	Male	18-34	35-50	51-65	65+
Yes	25.0%	21.9%	28.2%	23.6%	30.4%	25.5%	18.2%
No	75.0%	78.1%	71.8%	76.4%	69.6%	74.5%	81.8%

If so, how long did it take TasWater to fix it?

	Total	Female	Male	18-34	35-50	51-65	65+
Two Days	23.3%	30.6%	17.2%	8.2%	26.6%	27.3%	32.8%
One Week	26.2%	21.9%	29.9%	24.7%	30.9%	29.1%	12.1%
Four Weeks	5.2%	7.1%	3.6%	0.0%	5.0%	8.2%	10.3%
Longer	45.3%	40.4%	49.3%	67.0%	37.4%	35.5%	44.8%

Note: Only respondents who answered 'Yes' to Question 4 were included in Question 5

City Deals

For a City Deal to be a real deal it must engage all levels of government and the community – because it is a contract that lasts longer than the political cycle. A City Deal will only work if it focused on the long-term and is based on a broad bipartisan consensus about the future.

The Tasmanian Division applauded the local government sector for getting behind the push for a STEM facility. The twelve southern councils have shown great leadership in joining forces to champion the STEM proposal. Credit should be given to leaders who put the good of the State before politicking.

However, a City Deal must include a plan for water and sewerage reform. And for that to occur, and for Hobart to be positioned for success in the extremely competitive City Deal market, all leaders must be untied regarding the future of TasWater including the Macquarie Point and Cameron Bay relocation projects.

It is undeniable that Tasmania must continue to deliver positive educational investment which encourages our young people to aspire to secure the highly skilled jobs which will be required as the result of a transitioning economy. An education economy can be a reality, with ongoing jobs in the property and construction industry, along with enhanced training opportunities a preferred future.

The Tasmanian Division notes that the community must remain cognisant of the many economic and social challenges which place a handbrake on growth in our State. With the lowest weekly full-time wages in the country, health levels that historically lag the nation, and in a State with a dispersed regional population, we also have the lowest percentage of people with a bachelor's degree in the country, which is a major impediment to improving on this situation. A goal of continuous economic growth will only eventuate in Tasmania through investment in education.

However, the Tasmanian Division reiterates its concern that all the challenging leadership undertaken to bring stakeholders together could be undone if in-fighting regarding TasWater was considered an impediment to a funding deed at a national level.

The Property Council of Australia acknowledges that there are lessons to be learned from the Launceston City Deal. To provide the best possible chance of ensuring that STEM is funded, stakeholders must be united early, and bring their respective communities along with them to ensure that we are not ignored. This cannot be achieved without consensus across all levels of government regarding the significant infrastructure needs of TasWater.

Our industry believes in City Deals. We have been calling for them for two years and we believe, if properly developed, they can be the source of jobs and continuous economic growth.

For further information read the **What Makes A City Deal A “Real Deal”?** discussion paper at:
[file:///C:/Users/BWightman/Downloads/What%20makes%20a%20city%20deal%20a%20real%20deal.p
df](file:///C:/Users/BWightman/Downloads/What%20makes%20a%20city%20deal%20a%20real%20deal.pdf)

TEN BUILDING BLOCKS OF REAL DEAL CITY DEALS

1. A clear objective: Economic productivity and growth
2. A deal is a deal – a contract between all levels of government
3. Core challenge is growth
4. Medium to long term horizon
5. A framework for investment and action
6. Built to last – through political and economic cycles
7. Based on deep consultation
8. Consolidate existing government funding
9. Encourages private sector innovation
10. Success gets rewarded – ongoing funding is linked to performance

WHAT MAKES A CITY DEAL A ‘DUD DEAL’?

City Deals have the potential to drive economic growth in our regions. However, even the best policy idea can fail if it is poorly designed or executed. Here are five potential traps to avoid a City Deal becoming a ‘dud deal’.

City Deals shouldn’t just be...

1. **A quick headline** - with no long-term plan for creating growth, jobs and improved productivity in our cities.
2. **A project wish list** – an infrastructure wish list that bears no relationship to the core objective of economic growth, project benefit or funding reality.
3. **A toothless tiger** – a document that doesn’t shape the infrastructure investment decisions of federal, state, territory and local governments.
4. **An every child gets a prize approach** – a failure to transparently assess and set out strategies to deliver economic reform, and stick to the plan for realizing them.
5. **Ivory tower planning** – a document produced with little or no community or stakeholder engagement.

Conclusion

Tasmania continues to face the challenges of a transitioning economy. If we truly wish to embrace the Launceston City Deal and potentially a Hobart City Deal, and become a world class University State, then we must address water and sewerage infrastructure. Jobs and investment will flow if the conditions for development are attractive.

The Property Council of Australia encourages the Legislative Council to efficiently deal with the Ownership of TasWater via the Select Committee. It would be extremely disappointing if the legislation was blocked prior to the State Election and it would be a terrible outcome for Tasmania and for TasWater customers.

It's difficult to understand why some leaders in the community refer to the proposed reforms as addressing a confected crisis when just one of our 79 Water and Sewerage Treatment Plants in Tasmania is deemed 100 per cent compliant. Further, in recent times the Property Council was left dismayed when TasWater and their owners, the councils showcased their leadership by spending rate-payers' money on a campaign war chest, to fight against improvement instead of infrastructure improvement.

The Tasmanian Division encourages the local government sector to reconsider their position for the good for all Tasmanians. Councils should grasp this opportunity with both hands. They will retain their cherished dividends and not have to spend another cent on the infrastructure that they neglected so badly and failed to upkeep during the last century.

The Legislative Council should carefully consider the following facts:

Fact – The State Government reimbursed TasWater for headworks charges for two years between 01 April 2014 and 31 March 2016 with a \$5 million grant to stimulate investment and development.

Fact - after the two years TasWater voluntarily removed the headworks charges, though for many developments headworks charges still apply through their permits. The removal of headworks charges by Taswater changed the model from a fixed tenement arrangement to a model where at any given time an assessment is made as to the capacity of the infrastructure and that cost if any, is passed on to the developer.

Fact – just one out of 79 Water and Sewerage Treatment Plants in Tasmania is 100 per cent compliant with no penalty incurred by the owners.

Fact – 25 Tasmanian towns are on boil water alerts and five on do not consume notices.

Fact – Launceston's Dual System, Macquarie Point and Cameron Bay require significant capital infrastructure and the owners and managers have absolutely no plan to fund it.

Fact – Under the State Government's proposal, the councils will receive seven years of dividends and 50 per cent thereafter without being required to inject any capital to fix the legacy of their leadership.

The State now has both major political parties committed to water and sewerage reform. They may have different approaches, but they now have a clear, shared objective to drive improvement.

The change in attitude has occurred because the old way of thinking just won't do.

For a solution to be found, all levels of government must work together to deliver improvement. If they don't, water and sewerage improvement and all its challenges will continue to place an economic handbrake on Tasmania's future prosperity.

And for this to occur, the Property Council of Australia remains of the view that the State Government must provide bold leadership and own the assets via a Government Business Enterprise.

Through ownership, the State Government can establish a 10-year capital investment and infrastructure network for the State, delivering a major economic catalyst. Delaying the inevitable

takeover is just wasting time and opportunities.

Rates shouldn't go through the roof as councils will be compensated as a result, but the change to a single owner provides the best chance of raising the capital required.

It is time for our political leaders to focus on an approach which is in the best interests of the whole state, not their individual municipalities.

If they don't, we will continue to focus on the old way of doing things, and that just won't do.