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THE LEGISLATIVE COUNCIL SELECT COMMITTEE ON TASWATER OWNERSHIP MET AT 4TH FLOOR, HENTY HOUSE, CHARLES STREET, LAUNCESTON ON WEDNESDAY, 13 SEPTEMBER 2017

Mr WES FORD, DIRECTOR, ENVIRONMENT PROTECTION AUTHORITY TASMANIA, WAS CALLED VIA TELECONFERENCE, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR (Ms Armitage) - You are welcome to make an overall statement and then we will ask you some questions.

Mr FORD -In the first instance I have with me Glen Napthali, section head of wastewater management at EPA Tasmania. If I feel I need to refer to him for technical issues, I will invite him to speak and at that point he can also declare. I have Cindy Ong on the phone with me. Cindy is the manager of the northern operations branch, who Glen reports to. The management of the TasWater lakewater area sits under the northern environmental operations branch.

CHAIR - Thank you.

Mr FORD - Thank you for the invitation to talk to the committee. At the outset I determined it was not appropriate for me to make a direct submission because I am not specifically interested in the ownership question. My interest lies in the regulatory responsibility for environmental management regardless of who the owner is. Having a number of statements made by a number of parties relating to environmental performance of the wastewater treatment component of the business, I thought it was appropriate to make myself available to the committee to take any questions on information the committee might have that relate to the second term of reference rather than the first term of reference. A number of statements have been made about environmental performance.

I start by referring to the memorandum of understanding I entered into with TasWater late last year. My motivation behind that was to require or to seek agreement from TasWater to list environmental performance at the wastewater treatment plant beyond what had been achieved over the previous four or five years. My predecessor and I have been concerned for some time about the ability of TasWater and its three predecessor companies to keep up with a required amount of environmental improvement, and where and how that has been prioritised across the first price and services plan and into the second price and services plan.

I felt that if TasWater were concerned that regulatory action was going to be taken against every non-compliance at every underperforming plant, that would draw everyone's attention from seeking to get a clear commitment from TasWater on what its capital improvement plan was going to be across the wastewater sector. Resulting from the MOU, TasWater then worked with us to set about re-prioritising the activities over the course of the next three years to deliver what we both agreed would be an achievable set of work on plants to improve environmental performance. That is the sort of motivation around the MOU. I am happy to take questions on that.

A general comment in terms of environmental performance of wastewater treatment plants; you will find there is lots of information out there about the levels of performance. One of the challenges we are faced with, as is TasWater, is there is not only one performance indicator that

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tells you how well a wastewater treatment plant is operating. For example, a wastewater treatment plant might be having a high level of performance in dealing with pathogens but a fairly low level of performance dealing with nutrients. That might or might not be an environmental problem, depending on where the charge for it is.

Similarly, a plant might be performing very well in terms of dealing with nutrients or turbidity, but still have a pathogen problem. How you report compliance is a challenge. It is clear from all our conversations with TasWater over a number of years that we have not yet reached a common view about the best way to record and agree on what compliance looks like. You will see in some of TasWater's publications the notion of compliance levels at around 40 per cent. Whereas you see some of ours and, in aspects, you see upwards of 84 per cent. We are measuring very different things over what is sought to be delivered. That is something we need to look into. We need to work with TasWater to determine what performance compliance means. When it is all grossed up and we look at all the parameters, we are seeing in the Government's position the notion that only one of TasWater's wastewater treatment plants is fully compliant. That is a perspective in how you will then deal with compliance.

For us, in terms of environmental performance, a lot of work is associated with risk-weighting to determine what is more important to deal with. For example, is it more important to deal with a pathogen problem or a nutrient problem? Is it more important to deal with an odour problem? Across the 79 plants, every one of them has one or more sets of issues to deal with. The work plan across all of them is significant and it is at least a decade's worth of work to bring them all up to what might be an acceptable, modern technological approach.

Along the way we are seeking to see an increase improvement in the re-use. There are two components of wastewater re-use. Highly treated wastewater, as you would find somewhere such as the Rosny plant, which is potentially available for piped use in agriculture and, more commonly, the direct irrigation or nearby irrigation of wastewater coming out of a wastewater treatment plant. More commonly, the wastewater lagoons, which are level 1 activities, are not part of this current conversation. I do not think they are regulated by councils. They are an issue TasWater still has to manage.

In a broad sense, I will throw it over to committee members for questions about any aspect of what might be in other people's submissions you might like some comment on or if you want any specific detail about the environmental aspects. If there are things we cannot respond to here, we can take the questions on notice and provide a response in writing in a fairly quick turnaround for the committee to use in its further deliberations.

CHAIR - Thank you, Wes. It might be opportune for Glen and Cindy to make the declaration because they may want to answer some of the questions.

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Mr GLEN NAPTHALI AND Ms CINDY ONG WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

Mr GAFFNEY - Thank you for that opening introduction. Wes, a couple of background things to help us understand the relationship the EPA has with TasWater: How would you describe your relationship with TasWater? Do you endorse its general approach and prioritisation methodology? Do you believe it has demonstrated commitment to addressing the environmental challenges facing the state?

Mr FORD - I will start with the relationship. The relationship can be described in a number of ways with different attributes. If you start at the positive end of the scale, we have a positive working relationship with TasWater. It generally keeps us informed of when issues occur, when there are incidents, as it is required to do under its respective various permit conditions. There are times when it does not keep us informed as well as it should. TasWater is generally responsive. At an officer level, the working relationship is functional and is generally positive.

At an organisational level, between myself and the CEO, we have a working relationship that based on the acceptance of the fact that a fundamental challenge for TasWater is not of TasWater's making and significantly predates TasWater and the three corporations before it.

Our engagement with TasWater is generally positive. Having said that, there are times when you would say our relationship is frustrating. There seem to be periods where it takes a long time to get something moved through step one to steps three or four. TasWater might assert that applies to us as well. Members may be aware of the Frontier Economics report commissioned last year which made, in our view, some unsubstantiated and inappropriate statements about the functions of the EPA. Notwithstanding that, we still set aside that issue and are working with TasWater.

One of the challenges we see is either in the way it has been financially constrained or the way in which the board, through the price and service agreement, has distributed the funds. There are things that have not been progressed fast enough.

You could also say the relationship is challenging, where I have had to make decisions in order to address issues, and less than perfect or less than seeking a good positive outcome.

For example, in terms of the Electrona and Margate wastewater treatment plant, they were supposed to cease discharging into the marine environment this year and last year respectively. I had no choice but to give them an extension on that because there was no point taking them to task. They could not stop the activity until the Blackmans Bay wastewater treatment plant was built.

It seemed to take them about three years to get through the process to be able to proceed to the Blackmans Bay plant. That is now firmly under construction. When they sort out their pipeline issues, they should be operational within a period of time which would then allow them to start to decommission the Margate and Electrona plants, which means that effectively those plants will disappear.

I can bang on the table all I like or I can take as much legal action as I like against them in relation to discharging from Electrona and Margate, but it will not change the fact that they actually cannot do anything about it in the short term.

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We have a multifaceted relationship that recognises there are challenges in the system, but by and large you can still say it is generally positive.

Can you repeat the second part of the question?

Mr GAFFNEY - Have they demonstrated commitment to addressing the environmental challenges facing the state?

Mr FORD - I think the answer to that is yes, they clearly have, but the challenging process in that is to what degree that is acceptable or not acceptable on behalf of me as a regulator and a range of people impacted from the community point of view.

Absolutely we are going to be spending money. They are committed; they are focused on achieving an improved outcome and they are making some positive gains.

Among the positive gains, there has clearly been general slippage across the entire performance of the whole system. When you look at the system in its entirety across 79 plants, you see a general trend down in terms of performance.

TasWater would acknowledge this. While they are investing in the capital side to deal with replacement and refurbishment, there are ongoing problems with the whole infiltration or failure of the network, pump stations, rising mains. It is not just about wastewater treatment plants. It is about the network that feeds them as well.

Mr GAFFNEY - In the last two years how many environmental infringement notices - EINs - relating to the sewage treatment plants, operations or stills have you issued to TasWater?

Mr FORD - We have issued two in relation to operations at Carrick in terms of their wastewater treatment plant.

Mr GAFFNEY - And sewage?

Mr NAPTHALI - The two EINs we issued related to breaches of thermo conditions surrounding the construction of a new outfall trade waste treatment plant. We have not issued any EINs directly related to the operation of a wastewater treatment plant.

Mr GAFFNEY - Okay.

Mr FORD - This goes back to me and my predecessor taking a view about the circumstances in which we would issue EINs in relation to performance. We had lengthy conversations, for example, about what do you do, if anything, about wet weather spills. I note from the Government submission you have information about spills across the system over the last couple of years.

If you take places like St Helens, for example, where there has been a significant amount of capital investment to stop wet weather spills, you still get high rainfall events and they still occur.

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In my view legal action should not be taken against TasWater because the system is incapable of dealing with the volume of fresh water. In Launceston, every time it rains the combined system is charging and the overflow system through Launceston discharges, because that is the way the system works.

For us, fresh weather spills are a very different issue to deal with than dry weather spills. The question on legal action is to separate the failure of a piece of hardware that may or may not have been anticipated versus something that clearly was either operator error or, even worse, something that was known about but not attended to. From a compliance point, over the last couple of years, our focus continues to be on identifying non-compliances and have TasWater address them from the point of view of the outcome of dealing with the non-compliances rather than making infringement notices.

This is a general comment in relation to environmental performance and regulatory assessment. Many people in the community would measure the success of the EPA by how many infringement notices are issued rather than by assessing how many issues have been identified, rectified and pollution minimised. As yet, our focus is very much around trying to work with TasWater to fix the system rather than tying up all of its and our resources fighting some of these things out in court.

CHAIR - Thank you. You have some more questions, Mike?

Mr GAFFNEY - Has the EPA ever written to the Government saying there is a crisis in water and sewage management issues and TasWater's approach?

Mr FORD - No. Crisis is an interpretive word that means many things to many people. Our position on TasWater's environmental performance has been noted regularly in the EPA board's annual report to parliament. We are finalising the current version. If you refer to our last annual report there are statements around environmental performance. Similarly, we contribute significantly to the State of the Industry Report and are largely responsible for writing the environment performance section for wastewater treatment plants in that report. That is in effect our report to the Government and the community on TasWater's performance. They are publicly available documents that specifically stand alone.

Because we are part of an agreed co-regulatory model with multiple regulators, I meet regularly with the Director of Public Health, those who represent the regulator for dam safety and the Economic Regulator. Many decisions on achieving the capital spend in pricing services agreements 1 and 2 have required trade-offs between regulators where we have collectively agreed that public health safety through provision of fresh water has the highest priority. We have collectively agreed TasWater needs to increase its focus on dam safety. There are some significantly risky assets there. As a part of that process there will inevitably be some trade-offs. For example, some of the areas you might say at a community level need to be addressed, such as discharging into the Bass Strait environment. In a prioritising and risk sense, discharging into Bass Strait several kilometres off the coast is probably not the highest risk any of us needs to deal with.

No, I have not specifically written to the Government to express any concerns about what is happening. Having said that, I do not have the view that everything is well from their point of view. It is clearly an underperforming sector. It has a significant number of non-compliances

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associated with it and needs long-term capital investment to rectify its problems and long-term management attention to ensure it does not slip back again.

Mr GAFFNEY - Thank you. You point out a trade-off. TasWater has been operator and there have been trade-offs between the regulators and in discussions with you. When that first come out and the government was attacking TasWater about its role, likening the crisis to a third world status. Did you ever feel as though the Government was effectively questioning your effectiveness as a retailer? Do you think the EPA has done the job and the inferred criticism is appropriate?

Mr FORD -The EPA has done a good job. We do the job we resourced to do by the Government. With the resources we do a good job. Whether we have adequate resources to meet everyone's needs, some people take the view that, yes, we need more resources to ensure there is more attention on environmental compliance and management for entities like TasWater or any other entity in the state. On the flip side is yes, in Tasmania we all need more nurses and paramedics. We do well with the funds we are allocated.

Our concern with TasWater and its three predecessors is of them being slow to get themselves organised to make some changes. It is disappointing to us when we are putting capital in and doing upgrade work, yet overall performance seems to have plateaued or be declining - seeking to understand why that has occurred. I think TasWater has done that. Hence we went into the conversation with them around the notion of focusing on the top 13 plans for us to provide. Outside those top 13 plans, what are the top 20 issues that would significantly lift environmental performance? In one plant in might be odour - Rosny still has significant work to do with odour; odour is an issue at Cameron Bay; Sheffield has a discharge problem. If you live at Longford, there is a significant problem with trade waste.

Mr GAFFNEY - Thank you. I will pass back to the Chair.

CHAIR - Thank you, Michael, and other members. Mr Armstrong, would you like to ask your questions?

Mr ARMSTRONG - With a lot of our submissions, small operators such as a hairdresser, a small takeaway or hotel are saying there is a huge cost from \$800 to \$1000 for trade waste. Who sets the guidelines for grease traps to be installed? Is it the EPA or TasWater? Can you elaborate for me?

Mr FORD - Trade waste has a significant impact upon the operation of a plant. For example, there is an issue active in the media at the moment about Macquarie Point. Macquarie Point receives trade waste through the network and it also receives trade waste in liquid form via pump traps and disposed of into the system. Trade waste is responsible for causing much of the odour problems at Macquarie Point. The challenge for TasWater is how to manage trade waste.

Due to the way the urban water and sewerage act dealt with trade waste, it effectively put the regulatory control of what happens within the system with the operator - so with TasWater. They get to determine what they are prepared to accept, how, what level of quantity and what level of treatment. It is a fundamental challenge in terms of managing trade waste as to who pays. Does the community at large pay for management of trade waste by increased rates for everyone? Or do those who contribute to the trade waste problem need to pay either through a fee-based trade

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waste agreement or do they deal with it by putting pre-treatment in - like grease traps - so that they are not paying a loading rate for the trade waste they are discharging; they are pre-treating.

TasWater has been going through the state over the last couple of years and has made some fairly significant improvements in wastewater quality by working with a whole range of companies to deal with trade waste. Now it has been through a big group in town. It has dealt with a lot of the larger reducers of trade waste. It is now moving into the smaller sector. That is why I think we are seeing some significant disquiet in the retail food, restaurant and bakery-type sector, because of both the production of trade waste and TasWater seeking to have the trade waste dealt with at the disposal or receival end rather than having to deal with it in the plant themselves.

One of the conversations we had with TasWater about six months ago was that they had modelled the total cost of managing trade waste in terms of non-performance or core performance from wastewater treatment plants to be about \$79 million. If you could eliminate the trade waste, reduce the amount of trade waste or have it pre-treated, clearly the costs to TasWater to refurbish its system play out in a different way. This is most stark in places like Longford with the operation of JBS Swift's abattoir and the discharge into the Longford wastewater treatment system.

Mr GAFFNEY - On the trade waste, if Rob does not have any other questions on it -

CHAIR - We are getting fairly short on time and there are other members with questions. Could I come back to you after checking if other members have questions, Mike?

Mr GAFFNEY - Okay, this is about the trade waste.

CHAIR - Quickly, ask yours, if the answers can be concise, Wes.

Mr GAFFNEY - It is interesting about the residential, how TasWater approach it. They want the people who create the trade waste to actually pay for it. Are they actually acting in accordance with what is required of them under the act? Do you measure that? Is TasWater doing what is required under the relevant act regarding trade waste?

Mr FORD - I cannot answer that because I am not the regulator of trade waste. The regulator of trade waste is the minister, Mr Rockliff.

Mr GAFFNEY - Thank you.

Mr VALENTINE - It is up to TasWater to basically to regulate trade waste - I guess that is what you are saying. They determine what they are prepared to accept. Do you place any strictures on operators - TasWater obviously - about odour emissions that might result from the trade waste they are accepting?

Mr FORD - Odour is really challenging to deal with. Odour is largely dealt with in three separate ways. One is by modelling associated with odour impact at the point of new development; another is monitoring of odour, particularly odour areas known to produce odour; and the third area is the complaint-driven response process. Where there are complaints and we keep getting repeated complaints, we continue to engage with TasWater about improvements in the system.

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For example, for places like Macquarie Point, our current understanding is to just address the odour issues at Macquarie Point, leaving the site where it is and functioning the way it is. It is probably about \$5 million-worth of work that could be done that would reduce the odour emissions. I know we have odour problems at places like Ti-Tree Bend; we know we have odour problems at Rosny. It is one of the areas and priorities that TasWater is progressively working through.

Ms RATTRAY - If TasWater is able to meet its compliance obligations, say, in five years' time, do you see that the bar will be lifted again and again? Are we ever going to reach the compliance requirements? It appears to me that the bar keeps being lifted. It may not necessarily be your department and it may be something to do with COAG. Can you give me some view on that?

Mr FORD - It is a very valid point, Tania, about the size or reality if you look at what is now deemed to be acceptable modern technology for treating wastewater compared to what was acceptable modern technology 20 years ago - they are very different. The reality is, I would reasonably predict that compliance standards will increase as community expectation for cleaner discharge increases. You are correct in identifying that as a national issue because the direction we take comes out of national guidelines in terms of water quality or via solid re-use. It is the challenge we face as a society to try to reduce human health and environmental impacts, but not make the cost of treatment so prohibitive we cannot afford it. It is something we all have to be mindful of.

Ms RATTRAY - Thanks, Wes.

CHAIR - I have a question regarding grease traps as well. You mentioned bakeries. We did get a submission from several bakeries but one in particular said that he had contacted the EPA with regard to the Grease Guardian. I am sure you are familiar with what a Grease Guardian X is. He was told by the EPA that it was approved under PDI and ASME and complied with certain standards that he has listed. Obviously, the Grease Guardian isn't accepted in Tasmania. Can you give me some advice on whether you believe they meet the requirements? I believe they are used at a lot of places on the mainland but this baker says in the older building he has, he simply cannot fit in the requirements he has been told to put in by TasWater, but a Grease Guardian would do the job. Can you confirm that the EPA thinks that would be acceptable?

Mr FORD - We believe a range of technologies are acceptable, not just that one.

CHAIR - But that one would be acceptable?

Mr FORD - Yes, that would be acceptable, but we are not the regulator so we cannot approve it. The advice we offered was that it is our view this would be acceptable. From my point of view, you look at trade waste there are four options that need to be available for the management of trade water.

Whether they are currently are or aren't is a matter for TasWater. Of those four options, the first option is that you just take the tried and true approach that the provider requires you to have - in this case a grease trap. The second option is you seek to get an approval to use something already demonstrated to work elsewhere and has approval elsewhere. The third is you go through a process to get approval to trial new technology and install that. The fourth option remains the

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option that you get to discharge your trade waste but you pay for it. This, in the regulatory environment, the trade waste in the future, has to be looked at fairly carefully. For some people the option might be, 'I can't treat my trade waste and I will pay a premium on my discharge to be able to discharge my trade waste into the sewer system'.

CHAIR - Thank you, because some of the submissions say they have no options. They have that one option to put something in that they can't put in. It was interesting to get the EPA's perspective.

Mr FORD - Obviously, one of the challenges for TasWater and the political issue is if they start pricing trade waste as to the real cost of treatment, similarly I would expect a number of people complaining about having to pay a significantly higher discharge fee on their sewerage on their TasWater bill.

CHAIR - Thank you. Rob Valentine has some more questions on a different area.

Mr VALENTINE - In terms of storm events and discharges, have you officially informed TasWater of its obligations with respect to performance during major storm events and what your long-term expectations are? Obviously, a situation like Launceston or indeed a situation like Hobart where you have incursions into the sewer system from stormwater. Have you ever laid out what the long-term goal is in terms of how those situations need to be dealt with? Detection of - I won't call them illegal entries - inappropriate stormwater entry and the incursion into sewerage lines etc.?

Mr FORD - Probably the best way to answer that, Rob, is that on a plant-by-plant basis we have had some conversations with TasWater about performance in terms of particular plants. Take the Cambridge plant: because of its problems in discharging into Pittwater and the oysters, they set out building something that would retain the water. I don't know what the exact number is off the top of my head, it is a one-in-20 or a one-in-50 year flood. If you build a system to retain something that is one-in-20 or one-in-50 and you get a one-in-100, it is going to flood but what you have done is reduce the likelihood that if the events occur and significantly reduce the incidence.

At the end of the day, the Launceston fix is highly problematic and highly expensive; I expect it will require major capital injection from the federal government. It is really a plant-by-plant basis. My predecessors spent time working with the then Ben Lomond Water dealing with the issue on the George River. In terms St Helens, we are exactly again trying to minimise the amount of time the oyster industry is closed because of an overflow event.

Mr VALENTINE - Isn't there a need to identify that it is the incursion of stormwater into sewerage lines that is causing the problem, not the sewer system itself?

Mr FORD - I think it is well identified by all parties that it is not the treatment system at the end that is causing the problem, it is the networks.

Mr VALENTINE - If it is fundamentally the issue that stormwater is getting into the sewer network, the answer is to stop the incursion of stormwater into the sewer network.

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Mr FORD - Yes, that problem needs to be addressed. It is clearly a relationship issue between the respective councils and TasWater because TasWater doesn't control the stormwater network.

Mr VALENTINE - No, it doesn't.

Mr NAPTHALI - If we are looking at this -

Mr VALENTINE - Sorry, it is very difficult to hear because there is something causing a bit of electronic interference.

Mr FORD - It is the bells going in the House. Do you want me to hang up and ring back?

Mr VALENTINE - No, unless you put it on mute.

Mr NAPTHALI - I am employed trying to deal with these issues, Rob. The first one being the EPA produces sewerage pump station guidelines that essentially talk about the receiving environment and the design criteria to be applied to ensure that spills are minimised.

The other strategy we are using at the moment, and it has come out under the MOU, is TasWater has developed a statewide I & I - inflow and infiltration - management plan and they are going through their network and strategically looking at what sections of the network need to have investment first to reduce I & I essentially.

Mr VALENTINE - To me, it is the elephant in the room. It exists in Hobart, certainly on that Davey Street spine. There are 4300 homes on that spine and every time there is a major storm event there is an overflow and it goes into the Derwent.

It is no different to what is happening in Launceston for that matter, but the answer is to identify where those inappropriate connections are happening from the various roof tops into the sewerage system. That is clearly the answer. To fix it is a huge cost. It does not matter who owns TasWater at the end of the day, isn't this the case? You are still going to have those problems and they have to be addressed at some point.

Mr FORD - Rob, you are right - it is not about a question ownership. One of those challenges is around prioritisation, too. The amount of money to investigate and fix that problem, investigate and fix other problems will make the system at a continuous operational level better off environmentally.

The challenge in a prioritisation process is you put money in to fix things that are less frequent event-based when you can control other things. When Launceston is discharging untreated effluent into the system, it is typically on a very high flow river in winter when people are not using it. The public health risk is lower than it might be in the middle of summer.

How do you trade off between fixing the problem so that it is actually not occurring during summer? This is the whole challenge for the TasWater board, along with the regulator. When we had a collective work plan and picked a figure out of the air throughout the collective work plan, over the course of the next 10 years it was \$3 billion. We have \$1.6 billion available and allocated. Where is the other \$1.4 billion to come from to address the problem?

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Our concern is, even if you do have the \$1.4 billion available, can you actually deliver on all the work that is required?

Mr VALENTINE - Thank you for that.

CHAIR - Thank you, Wes. If we have no further pressing questions from members, Mark, Craig?

Mr FARRELL - During TasWater's time, has there been a noted improvement since the council-owned system from EPA's point of view?

Mr FORD - The answer to that is that it is patchy. The problem is it is a general-type question. Across the 29 municipalities there has been a considerable improvement in some municipalities as a result of either TasWater or its predecessor. In other municipalities, a particular council might have already been at the front-end of the curve and done significant upgrade work.

It is a very hard question to answer. We know that collectively - and this is a no-fault question; it is a reality across all of our infrastructure - we have a significant amount of post-World War II infrastructure across the state. There was a significant underinvestment during the 1970s, 1980s and 1990s whether it was in roads or sewerage or freshwater systems. Some councils performed better than others.

What we see in terms of success and where we see the positive side of this is that we get a more coordinated response out of a single entity than we did out of three, than we did out of whatever the previous number was because it was not 29. Hobart Water had come together in the water space. Then you had the sewerage space. If you look at all those, maybe it was 29, just the sewerage side of things.

Having a single entity gives us a better opportunity for coordination and balancing priorities in terms of work flow. For us, the priorities can be focused on the top 13 plants and the top 20 issues will be what provides the most significant short-term change in environmental improvement than having a scattergun approach.

Mr FARRELL - Thanks, Wes. One other short one. The working relationship you mentioned is pretty good. How does that compare to the working relationship you have with any of the GBEs, government-owned businesses, you have to deal with? Is it similar, better, worse?

Mr FORD - We have no relationship with TasNetworks because of the way linear infrastructure process operates. We pretty much generally do not get involved in TasNetworks at all. Our relationship with Hydro is sporadic. We engage with Hydro when we need to or if they need to. There are only a couple of premises we regulate for Hydro.

Tas Irrigation again is very sporadic. It is very hard to compare them because if you look at our business, we now regulate about 600 premises across the state, which includes 45 marine farms for salmon. We regulate 600 premises and 79 of those are TasWater's. It represents around about 16 per cent, 17 per cent or 18 per cent of our total business as a single client. They are the single biggest entity we regulate. As a single entity they hold the most permits; they have the most conditions, and we have the most staff dedicated to one company with the TasWater

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relationship than we have with any other. So they are a very different beast to any other client we deal with.

Mr FARRELL - Thank you, Wes.

CHAIR - Thank you very much and thank you, members, for your questions. Thank you Wes, Cindy and Glen for advising today. It has been very important and very interesting. So thank you very much for your time.

Mr FORD - Thank you very much.

THE WITNESSES WITHDREW.

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Mayor DAVID DOWNIE AND Ms JANET LAMBERT COUNCILLOR, NORTHERN MIDLANDS COUNCIL, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Ms Armitage) - Thank you. We welcome you to these public hearings. I advise you that all evidence taken at this hearing is protected by parliamentary privilege. I remind you that any comments you make outside the hearing may not be afforded such privilege. A copy of the information for witnesses is available if you have not read it or if you are not aware of the process.

The evidence you present is being recorded and the *Hansard* version will be published on the committee website when it becomes available. By way of introduction, the procedure we tend to follow is that first you have the opportunity to speak to your submission and then members of the committee will ask some questions. I assume you know everyone here. The honourable Rob Valentine, Rob Armstrong and Tania Rattray, and on the phone we have Craig Farrell and Mike Gaffney and myself, Rosemary Armitage. If you would like to start by making a short overview if you like and then we will ask some questions.

Mr DOWNIE - Thank you. The Northern Midlands Council has presented a brief submission. More comprehensive ones will be delivered by others within local government. The first point we would like to make is we believe there is no crisis in water and sewerage. The Government has been propagating there is a crisis and we strongly believe that is not correct. Water and sewerage assets in the state need fixing. TasWater has the task of fixing those assets and it is actually proceeding to do that job.

The state Government will not do a better job of running TasWater than the existing independent board that is accountable to the people of Tasmania. There is a lack of consultation with stakeholders. There is a lack of financial data and modelling to substantiate the many claims made by the state Government. We would also cite that there would long-term impacts if the state Government were to be successful with its takeover of TasWater. There would be a lack of funds flowing through to local communities right throughout Tasmania.

Over time in the Northern Midlands we have been very passionate about the assets we have in our municipality, and we were working on fixing assets within our municipality. We have developed water schemes and we have developed re-use schemes for our sewerage ponds. I know people found it very offensive when this letter came out from the Hodgman Government. It is actually insinuating that there are problems. Just before this letter came out, the Town of Avoca actually received treated water. The Northern Midlands Council would never have been able to deliver treated water to places like Conara, Epping Forest or Rossarden. The only way that water can ever be achieved is through an organisation like TasWater which has a holistic approach and is able to use the finances of the whole state.

Also the sewage lagoons - the Northern Midlands Council fixed every sewage lagoon in our municipality, except for two, 18 years ago. We put in re-use schemes back then. The only two that did not have a re-use scheme were the scheme at Ross - and we could not achieve that because we could not find a farmer who would use the outflow from that lagoon - and the Longford lagoon.

Mr DOWNIE - The Longford lagoon infrastructure caters for a city the size of 100 000 people, but the people of Longford number only 3500. There is no way that town could ever

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cover the cost of providing the waste delivered to that lagoon through the abattoirs operating there. That is a statewide facility providing a facility to the agricultural industry throughout the whole of the state. I would like to have it on record. It is an example -

CHAIR - Do you want to table the letter? I don't know if other members have seen that letter.

Mr DOWNIE - Yes. To quote Mayor Doug Chipman, that is an example of weasel words. I think that is the best way to describe it.

We would argue that when the assets went to Ben Lomond Water the people of the Northern Midlands were paying approximately \$450 in water rates. They are now paying close to \$900. They received a fairly hefty increase in costs. We made the point that we would do something about these price increases. You have to have one price for water across the whole of Tasmania, we accept that but the price increases needed to deliver this infrastructure a few years ago meant TasWater were pushing 12 per cent, 10 per cent and 6 per cent. It is because of the work that we have done that we have been able to put pressure on TasWater to have those price increases reduced.

If you look at their present plans into the future, their price increases will reduce to CPI. The Treasurer points out that over 40 per cent of people in Tasmania live on welfare. Their income is going up by CPI so it is unsustainable for them to have these increases along with the increases that have been put upon people in Tasmania by the Hydro, the energy sector. I know those increases have diminished just recently, but the affordability was a real issue that we took up with TasWater. We were able to get a package delivered that includes an increase in efficiencies and they are driving efficiencies out of that business as we speak. They have agreed to increase their debt; they have taken dividends away from councils and they are keeping their price increases, and they are working back to CPI.

I would argue that our council has worked vigorously to put pressure on TasWater to deliver a better outcome for Tasmanians and that is not what happens with the GBEs. The GBEs that the state Government runs are unaccountable to the people of Tasmania. You can have a legislative inquiry, the Estimates hearings - questions are asked but what are ever the outcomes? We have real outcomes through working with TasWater and we have built a relationship, we have pushed the barriers, we have pushed the buttons and we have achieved results.

CHAIR - Thank you. Do you have any comments before questions?

Ms RATTRAY - I am interested, David, in you answering the question I asked Wes about the bar continuing to be lifted. Do you see, representing the council and in your capacity as the head of the owners' representative for council, that we will ever be able to reach the compliance requirements? Will it ever end when it comes to this area of compliance?

Mr DOWNIE - I believe it will. A lot of work has been done. The water sector since the water reform has spent something like \$750 million. They have done a lot of good work and there is some more work to be done. They have a plan that does not include the big ticket items of the Tamar Valley and Macquarie Point. There will need to be some outside help, which is one of the issues that we have been grappling with. We have found it very difficult to get the state Government to go in to bat for Tasmanians with money to help fix the infrastructure. These assets can be fixed and they will be fixed.

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Ms RATTRAY - That moves me to my next question. In your submission you said, 'It is critical that state and local government work together on this issue, taking joint responsibility'. You have touched on that.

Given there seems to be a tenuous relationship, how do you see that working arrangement in future if we need to be working together - state and local government and, I expect, federal government? There has not been much success in gaining the funds the state needs. How do you see that in future?

Mr DOWNIE - In the past, all this work has been done with the different tiers of government working together. That is how it has to be done in the future. The problem is too big for the people of Tasmania to fund. It is as simple as that. We need help from Canberra. The access to the funds in Canberra comes through the state Government. We all have to work together to try to deliver that.

TasWater pressured and local government lobbied the state Government but we were not successful. TasWater produced a plan that was fully funded under the financial capabilities that it had. Into the future, as we have said in all the press releases we have ever put out and as I always try to say, we have to work together.

Ms RATTRAY - Do you see an opportunity for local government to put enough pressure on the federal government of the day? Local government has a fair bit of clout. Do you see they will have enough clout to ensure the federal government comes to the party?

Mr DOWNIE - Of course. There are other examples - I cannot quote them off the top of my head - around Australia where funds have gone into specifically water and sewerage, into sewerage assets. That has been delivered. Even the member for Hume, Angus Taylor, is doing some good work in Launceston. In his own electorate, money has gone into sewerage assets. It is available. It is a matter of presenting your case.

Mr VALENTINE - You talk about councillors meeting on 20 March, resolving three matters. The second point, 'Council reconsider its position once government provides a business case behind the State Government's proposed takeover of TasWater, its 10-year Financial Plan and 10-year capex plan'. What is your opinion on the information the Government has provided to date? Is it sufficient? Do you have a comment?

Mr DOWNIE - No, it is not sufficient. The Government has claimed that it would save \$550 over the period. We have asked for the modelling as to how that figure was derived. I personally rang up Sarah Courtney when she put out a press release and asked if she could provide those figures. She said she would contact Treasury and get back to me. That was probably a month or so ago. I have not received any information on that. This is one of the issues we have been bringing up. We have not been able to work out how those figures have been arrived at.

Mr VALENTINE - Have you seen the Government's submission to this inquiry?

Mr DOWNIE - No, I understand that is not made available until -

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Mr VALENTINE - It is on the website now. I was interested to know whether you thought that was sufficient for you to make -

Ms RATTRAY - In fairness, it probably only went on yesterday.

Mr DOWNIE - I have seen a list of the submissions, but I have not been able to -

Mr VALENTINE - That is okay. I was interested in that. Do you have any comments on the fairness and equity arguments about ratepayers versus taxpayers and how the Government is viewing this takeover? Do you have any comments on whether it is fair that it is spread across the whole taxpayer base as opposed to the ratepayer base? Do you have any comments at all?

Mr DOWNIE - Yes. I am not quite sure what you are asking. Can I use an example? The levy bank around Longford was financed through the people of Longford paying an extra rate and the people of Northern Midlands Council paying an extra rate. We were able to attract funding from the state Government and funding from the federal government.

There were various packages and there were various arguments put up with the risk of the cost when the cost was spread over a wide range of people in various categories. I would argue that is the same principle that should be applied with water and sewerage assets - like at Tamar Valley. The Tamar Valley is going to take a lot of work and that will probably be too big for the people of Tasmania. We will need help from other tiers of government, particularly the federal government, which has access to most of the fiscal money available for the government sector in our Commonwealth.

Mr VALENTINE - Looking at that, we are talking about dividends coming back to councils in all of this as being a bit of an issue if there is a takeover. What is the quantum of your investment as a council in TasWater at the moment? What do you stand to lose if indeed it is taken over? Do you know how much value you have in assets or in TasWater as a council?

Mr DOWNIE - It is about \$30 million although I stand to be corrected. The dividends were \$700 000 and they were dropped down to about \$400 000.

Mr ARMSTRONG - It was \$468 000.

Mr DOWNIE - Thank you, \$468 000.

Mr VALENTINE - What would you be funding with that money?

Mr DOWNIE - In our submission we have put in a number of projects we have helped.

Mr VALENTINE - Is that the current projects in progress you are alluding to there - the treated water solution for Conara and Epping Forest?

Mr DOWNIE - No, that is to do with what TasWater is doing. There were issues like the Woolmers bridge and the playground equipment at Longford, to name a few. If those dividends are removed from the local government sector, it will make local government live from cap in hand. If local government can maintain the ownership of TasWater, this will set up local government to be financially sustainable into the long term. It is a game changer. To remove these assets without paying due compensation, I believe would be detrimental to the whole local

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government sector. This is probably an issue we would want to bring out tomorrow with our submissions of the whole of TasWater.

As far as the Northern Midlands is concerned, we are a financially sustainable council. We have developed - if we can get the airport to pay its rates, which is another issue -

Mr VALENTINE - It is a fight with the feds, isn't it?

Mr DOWNIE - That is right, yes and that will be taken up further. We have developed, through good planning, an area around the airport - TRANSlink. TRANSlink and the airport, with the airport paying its rates, delivers something like 15 per cent of our rateable income. With dividends from TasWater, it will make our council a very sustainable council so that we can grow the communities within our municipality.

For an icon of the Northern Midlands, look at what has happened in Campbell Town. Everyone drives through that town. There is now full employment there. The people who have businesses go to the school and headhunt kids into their businesses because they need people to work. There are people who drive to that place for work. It is an example of what you can achieve in government.

Mr VALENTINE - Do you see it as a fair and reasonable way forward, without trying to put words in your mouth, that achieving this 10-year plan, taking three years longer than the Government is proposing, is actually more sustainable or is providing better benefits back to your community? Are you saying the dividends you are currently getting out of TasWater are providing facilities and things for your community, and you would not want to see those facilities foregone just for a three-year speed-up?

Mr DOWNIE - The dividends are important but it is more important to have these assets refurbished. Down the track, those dividends might come into play; you don't know. At the moment, the most important thing for our council is that we have time to readjust. You want things to evolve, you don't want a revolution. You do not want the dividends to be cut off overnight. That allows people to adjust. I think that is the context to what has happened with the recent package put together by TasWater working with the local government.

Mr VALENTINE - Thank you.

Mr ARMSTRONG - David, you are still the owner's rep?

Mayor DOWNIE - Yes.

Mr ARMSTRONG - I am reading here that you received \$702 000 in 2016-17 reducing to \$468 000 in 2018-19 if the takeover happens, which is a loss of \$234 000. If you wanted to continue to deliver those services you have been delivering through those dividends, what would be the rate increase that you would have to put on your ratepayers to make up for those dividends?

Mr DOWNIE - Probably 3 per cent.

Mr ARMSTRONG - That is for the \$234 000?

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Mr DOWNIE - Approximately. Our council still has to make a decision into the future, but if we are prepared to look at cost savings through working with our neighbouring councils, that is another way of sourcing funds. The whole thing is a moveable feast, I would argue.

Mr ARMSTRONG - I know this is not part of the takeover, but stormwater always raises its head because water and sewerage and anything to do with stormwater go together. Do you think the Government should be looking at whether stormwater comes under the control of TasWater? It is going to come with a cost and it would have to be subsidised somewhere along the way by the state Government, but they go hand in hand.

Mr DOWNIE - They do. I have no opinion on that. Stormwater has been segregated as far as who has responsibility for it. A major problem in Tasmania is stormwater implications in the sewerage systems that you were talking about with the EPA. It is a big issue and it is going to take a long time to sort out. One of the things I put to you is that TasWater is run by an independent board of people who have been specially picked with special skills, and they would be the best people who should be consulted once that political decision is made. I was involved in the selection process where we selected three directors. There were 114 people who applied for those three jobs. We specifically picked skills that were required. One of the things that came through from the applicants we interviewed was that they saw that this was an organisation that had started from a low base, has made huge advancements and is going to have huge advancements in the future, and they wanted to be part of it. It is an organisation that people thought had been put together to actually sort out a problem: sewerage and water assets in Tasmania.

Mr ARMSTRONG - Thank you.

Mr GAFFNEY - According to your submission, some councils will be quite envious of the projects undertaken by TasWater in the Northern Midlands. I think that is a good thing because TasWater working with the EPA, DHHS and various regulators undertakes priority projects and the ones in the Northern Midlands have been important. Have you any concerns then with the proposal to have ministerial and government control over water and sewerage project prioritisation? With this bill and if the Government takes it over, the minister and the Government actually will have project control. Do you have any comment to make on that?

Mr DOWNIE - Well, yes, I do not believe it is a good thing for all the power to be in one person. At the moment, TasWater works with local councils and they work on those which they can achieve and deliver. If you go back to the Northern Midlands, it was successful when gaining a lot of projects early on, but before the water reform came into existence, the Northern Midlands Council was working vigorously at raising money, putting money away every year to develop projects like the treatment plant at Campbell Town and other projects. We had these projects 'shovel ready' - I think that is the term people use - so that when Ben Lomond Water was created it was easy for them to deliver those projects. We were very proactive and had a clear focus in the Northern Midlands to try to fix these assets and improve these facilities within our municipality.

Mr GAFFNEY - At the moment, with the way it is controlled, TasWater's priorities depend upon what they see is in the best interests of the whole state, regardless of the population that might be around. One of the concerns mentioned is that when a government of the day takes over that role, maybe it is looking at voter numbers instead of what is really the most important aspect. Has that issue been raised at the local government level?

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Mr DOWNIE - The issue of political prioritisation of projects is a concern. Macquarie Point is a project case in mind. There is no reason to upgrade that sewerage facility. There are other facilities in Tasmania that are far more in need of refurbishment but a government could prioritise a project such as that for its own political expediency. We would argue that the present structure is a lot freer from political influence so is a better way to go.

Mr FARRELL - I noted your point in regard to the funding councils will miss out on. Has there been any discussion with the minister or anyone in the Government about how that might be ratified?

Mr DOWNIE - The Treasurer is saying dividends will be guaranteed up to a certain point and then half the profits will be delivered from that point onwards. Let us not hide away. These assets are worth a lot of money. The Treasurer himself has said they could be worth \$3 billion. The net asset backing at the moment is \$1.5 billion, so why should councils give up and walk away from an asset? Let us line up a field of merchant bankers and see if they want to buy this asset and see what they will pay for it. Why should we give it up for nothing? It would be a point we would want to make tomorrow. This is about the sustainability of local government into the future.

Ms RATTRAY - Janet, this might be one you might like to address your mind to. I attended a community forum about a month ago in the Break O'Day community and the feeling I got from that community forum was that the council was very opposed to any takeover, but there were people in the community there who had a different view. Are you getting any of that community view perhaps into your workplace or into council? Are councils relaying some of that? I am not trying to be smart about this; I am just telling you what I was hearing at that community forum. I acknowledge I've only been to one community forum at this point in time.

Ms LAMBERT - I was at that forum as well. I have had anecdotal conversations with people who are a bit confused as to why this is happening, what it is all about. I don't think people are necessarily unhappy with what is happening currently and are a bit confused as to why the takeover is on the table and what benefit it might be to them on a personal level. There has been a lot of press from the Government about their reasons. LGAT and the councils have tried to put their argument forward. I am not sure whether the press has picked up as much of that as perhaps the other side of the argument. There is a general feeling of 'Why are we going through this process?'

We have a situation where the Northern Midlands Council is getting there with our projects. I would suggest things are going along quite well. I do not think people are seeing this as the most important issue in their lives at the moment.

Ms RATTRAY - Thank you.

CHAIR - I will ask you a question we have not gone through with this group but we did with the EPA. You mentioned Campbell Town and that small businesses and councils are the owners of TasWater. That is an important thing, when I talk to mayors - that you are in control.

I refer to one of our submissions - submission 4, which is a cake shop. It goes into a lot of detail regarding the grease traps that have to be put in. That is one of the issues being raised by a lot of people at the moment, and I am sure Campbell Town is no exception. I am sure they have some bakeries and shops that need to put this in.

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The EPA has said the Grease Guardians are acceptable to them but not to TasWater. As owner reps, do you have any comment to make to TasWater about this issue of the grease traps, which is causing a lot of concern, particularly to smaller businesses? I have several constituents who have takeaways and small shops that say, 'We are not viable. We will need to close because it is a two-person operation'. I understand TasWater is doing this but you are the owners. As the owners you see the issues coming through the community, particularly with the smaller businesses. We understand most of the bigger businesses have been sorted out, but it is the smaller ones. If you look online to submission 4, they do not have the room in their property to meet the requirements of TasWater within 18 months. They could fit a Grease Guardian, but they have been told no. This morning, the EPA said it was acceptable to them.

As owner councils, will you do something with regard to this? Will you talk to TasWater? The EPA says it is TasWater's decision.

Mr DOWNIE - It is also interesting that TasWater has said they are only sticking to the state regulations. It is interesting the state Government is saying they should not be doing something and we will do something about this, but their own regulations are saying they cannot. It is an issue that has to be worked through, I acknowledge that.

This is getting into micromanaging a corporation. If there are ways around that, I am not over that. This is an issue for management within TasWater and the board. We can have discussions with them.

CHAIR - If they cannot resolve it, as the owner councils, do you feel a responsibility because you would have constituents surely coming to you?

Mr DOWNIE - No, I do not personally, not over this.

CHAIR - I thought council would have had constituents?

Mr DOWNIE - I am aware of the general principle that people should be responsible for their own trade waste. There are big trade waste people that create trade waste and there are a lot smaller amounts of trade waste. The general principle is: why should everyone pay?

CHAIR - I understand that but a lot of submissions have been with regard to something that is acceptable on the mainland, the Grease Guardian, which is a more simple process to put in. The EPA says they are acceptable and I wanted your comment.

Mr DOWNIE - I am not over that issue.

CHAIR - That is fine.

Mr GAFFNEY - David, the *Examiner* would be your local paper. Last week Sarah Courtney from the Liberal Party asked people to put submissions in writing to the inquiry. Strangely enough, we have only had 50 submissions and a lot of those are corporate ones, not a lot for or against. Were you surprised so many people took the time to actually forward a submission?

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Mr DOWNIE - Not really. I thought was a pretty poor trick to ask the community to bring forward their griefs on TasWater. I thought that was a fairly irresponsible activity. I think it's far more important to have constructive debate around the performance of TasWater. Let's keep it to the big picture, which is supporting and helping the refurbishing these assets throughout the whole of Tasmania.

Mr GAFFNEY - Thank you.

CHAIR - Thank you. Any other questions from members? Mr Downie, do you have any further comments to make before we close?

Mr DOWNIE - Just that I believe the present model is the best way to go. It keeps accountability. We have an independent board that has been specially picked. They've got a job to do and we should be supporting and helping the carrying out of the refurbishment of these assets.

CHAIR - Thank you very much for coming in. We really appreciate it.

THE WITNESSES WITHDREW.

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Mr JOHN MARTIN WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR (Ms Armitage) - Welcome to the committee. Thank you. Obviously, all evidence taken at this hearing is protected by parliamentary privilege, and I remind you any comments you make outside the hearing may not be afforded such privilege. A copy of the information for witnesses is available if you have not read it or are not aware of the process. The evidence you present is being recorded and the *Hansard* version will be published on the committee website when it becomes available.

By way of introduction, I advise the procedure we intend to follow today is as follows, first, you will be provided with the opportunity to speak to your submission if you wish, and following that the committee will address questions to you. We are seeking information specifically relating to the terms of reference. I assume you know the members here.

Mr MARTIN - Yes.

CHAIR - Rob Valentine, Rob Armstrong and Tania Rattray; we have Craig Farrell and Mike Gaffney on the phone. I am Rosemary Armitage. If you would like to proceed with some comments.

Mr MARTIN - Thank you, Chair. I have put in a small submission, which has been presented to you.

CHAIR - Yes.

Mr MARTIN - There is a little bit of historical information in there, because I have been involved in the water and sewerage reform for a long time, since its inception. I thought some was probably relevant to some of the information you are looking at today. Some might not be, but some provides a historical perspective, particularly in relation to some of the funding requirements referred to, and have been since day one, in relation to some major infrastructure works required.

I have made some comments in relation to the approach been taken by the state Government. I do not think I need to repeat them except to say I am particularly disappointed and disheartened by that approach. Tasmania is too small a place, or any state for that matter, for state and local governments to be fighting over something so vitally important to the community of Tasmania.

There is a better way. Unfortunately, it has got to a stage where there is a lot of character denigration and assassination, which is totally unnecessary. It is also, in relation to those types of comments, politically and financially driven. As I mentioned in my submission, Treasury was always of the view it wanted to own TasWater as another GBE.

Ultimately, at the end of the day there will be potentially ongoing dividends, whether to local government or state government. That was a financially Treasury-driven prospect and has been from day one. It is my view from the information presented over long periods of time, and more recently in relation to the Government's position, that the cost of living in Tasmania will be exacerbated if this legislation is allowed to proceed.

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I have commented in my submission about the effects on local government. As a ratepayer of Launceston with a number of properties and now a businessman, I am quite concerned that if this takeover is allowed to proceed, the rates in relation to properties owned by all Tasmanians will either increase or services will decrease. It is more likely rates will have to increase because nobody likes to decrease the services they currently enjoy.

This is another blatant, and probably the biggest, example of cost-shifting from state to local government I have seen since my time in local government, over 39 years. It is important to note that we have always known some \$350 million to \$400 million is going to be required for the major capital works around the state for infrastructure improvements - for example, in the Tamar and Derwent rivers.

More emphasis needs to be worked on a collaborative basis to achieve those outcomes. The performance of TasWater is referred to and there is no need to repeat all that. You will probably get a major submission from TasWater. They are performing extremely well and do not need to be used as a political football. They need to be allowed to get on with the job and do the works they have planned. They have been put together on a professional and competent basis for the benefit of the Tasmanian community.

In the view of many, the evidence of a crisis or these services being Third World does not stack up. I note some comments by the Chair the other day in relation to the health services in Tasmania. It does not help when we continue to make derogatory comments trying to attack people who come here about the health services in, say, Launceston or Hobart. It is exactly the same with water and sewerage.

If we continue down this path of rubbishing it, using political rhetoric and spin-doctoring, it wastes all our resources. They would be better put to good use in putting a case together for some assistance from the federal government. I think that is enough from me. Chair, I am happy to answer any questions from the members.

CHAIR - The first question we have is from Tania Rattray.

Ms RATTRAY - Thank you, John. It is good to see you here today. I appreciate your coming along given your long history with local government and being involved in the initial proposal that came to parliament some years ago that has seen the four entities, now back to the one of TasWater. You have a wealth of knowledge.

The Tasmanian Economic Regulator's most recent report says that TasWater is at 27 per cent net debt to equity ratio. Do you have a view on whether that is a low number and that it could increase and therefore put some projects into the system quicker? Do you think TasWater has that ability?

Mr MARTIN - As with any GBE, it is trying to find the right balance. There has been a lot of discussion over many years in relation to whether it should be 27 per cent or 20 per cent or 30 per cent or 40 per cent. I think at the moment they have the right balance in terms of being a sustainable entity and doing the amount of projects they have put forward. I do not have a view one way or the other. I think they have it pretty much right. If you try to increase it too much it has the other affect so having to increase the water and sewerage prices further.

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The other important factor for members is that all of these types of economic figures are ultimately governed by the Economic Regulator. TasWater has to put forward plans to the Economic Regulator who approves them one way or the other. The Economic Regulator determines the prices TasWater are able to set. They are looked at by professionally more competent people in this area than myself and so it would seem that they have it pretty well right.

Ms RATTRAY - I have this sheet provided to the committee from the Economic Regulator's most recent report. The operating costs for TasWater from 2014-15 to 2015-16 increased by about \$11.2 million, yet the capital expenditure for the organisation increased by only \$26 million. The organisation spent \$11 million to spend only \$26 million more. Is that something the committee should be looking at? Should we be looking at that or is it purely back to local government expectation and the community?

Mr MARTIN - I think those questions are probably better directed to the chairman, who I understand that you are talking to tomorrow. They have people looking at those. Now, not being a general manager of council, I am not going to the latest quarterly meetings that they have. From memory, those questions have been asked and answered from time to time. While they are important in terms of the business model, I do not think it will make much difference to whether it is local government ownership or Tasmanian Government ownership.

Ms RATTRAY - I understand. Thank you. I am happy for others and I will come back to you.

Mr VALENTINE - John, thanks for coming in. There are a couple of statements you make in your submission and you reiterated them a moment ago -

The cost of living in Tasmania will be increased and exacerbated if this legislation and takeover of TasWater by the State Government is allowed to occur.

Can you explain why the cost of living in Tasmania will be increased and exacerbated?

Mr MARTIN - The cost of living includes things like electricity and water, sewerage rates, other rates and those types of things. If the Tasmanian Government takes it over and spends the amount of money they are talking about in trying to bring things forward quicker, simpler and cheaper, and from the information that is presented largely in the media by the Tasmanian Government and by TasWater and others, the amount of money is \$600 million or something like that.

The effects are eventually on local government by having reduced dividends, which is already there but not into the future. As those reduced dividends will require interest rates or a decrease in services, it will mainly be increased rates. That is one of the main reasons I am saying there will be increases in the cost of living in the community. If we are able to work together to attract the necessary federal government funding that has been evident from day one, rather than trying to push it onto the state government or push it onto the ratepayers, that would be a major factor in helping assist in the living costs of residents in Tasmania.

Mr VALENTINE - Your other statement was, 'This will eventually be another blatant example of cost-shifting from State to Local Government'. Some might argue that injecting

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\$600 million into the system, which the Government are saying they are going to do, would not be putting a cost-shift back onto local government. Do you see that argument?

Mr MARTIN - No I don't, as in the comments I have already made, and that others have made.

Mr VALENTINE - So that same comment stands?

Mr MARTIN - Yes.

Mr ARMSTRONG - You wrote that 'Many projects were subsequently "put on hold" during this transitional period which actually held back future improvement works'. Can give me an example of any of those projects?

Mr MARTIN - I was general manager at Dorset at the time and I know that from my discussions at Dorset and with other councils around Tasmania during this reform period. People were putting together projects, ready to do water and sewerage works and those types of things. A lot of them were deferred because of the uncertainty over water and sewerage reform and whether it was going to go ahead. Dare I say I think that some councils probably took advantage of that, deferred some of their projects and were able to continue to build up their reserves and ultimately keep them? In my case as general manager of Dorset - I won't talk about other councils - the reserves of water and sewerage in that council were over \$5 million when I left.

Mr GAFFNEY - Thanks, John; good to hear you. I was pleased you mentioned your time in local government; it reflects your extensive experience. I think you started this water and sewerage journey 10 or 11 years ago. Have you ever witnessed a \$3 billion takeover or are you aware of anything of this magnitude the Government is proposing in virtually an 18-month period? It was not a policy for the 2014 election. Are you aware of anywhere else this has occurred in local and state governments?

Mr MARTIN - Not off the top of my head. I find it quite strange. I think it gets back to Mr Valentine's comment about the takeover of \$1.5 billion- or \$2 billion- or \$3 billion-worth of assets without any compensation whatsoever, and the expectation that local government, right from day one, in terms of National Competition Policy, is supposed to produce dividends - doing what the legislation, whether it is state or Australian Government legislation, requests them to do. To all of a sudden turn around and say that you have not done what you're supposed to do et cetera is outrageous.

Mr GAFFNEY - The state Government obviously has a position where it believes it can enhance for water and sewerage services infrastructure. Do you think there is a way for it to be involved without taking over the business? There is some concern that the minister of the day will have the right to prioritise projects, and that is fraught with danger. Would you like to comment on either of those things?

Mr MARTIN - I think it is fraught with danger that a minister with a large GBE or utility such as water and sewerage in Tasmania, who can be allowed to make decisions at will, at the behest of the government, will 'Do this project or do that project because we think it's in the best interest of Tasmania'. With the information put together by an independent board, by independent professional people working to the requirements of the state's environmental and health regulators, who are prioritising in relation to those important factors that are state government

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legislation, I believe their views and the information they have put together about what they need to do for those particular types of projects and they are not politically interfered with, is a far better way to go than what is being proposed at the moment.

The other point in relation to the question you have asked is that I have some serious doubts, as I have heard today from other speakers, that the state Government is able to deliver something quicker by three years. I just do not think the amount of information that has been put out there provides the substance to those types of comments.

Mr GAFFNEY - I have two more questions. I think you would be interested because you went through that period when you were the general manager and you were on the water board and the working party. The state Government, in its submission, said that the price increase to 3.5 per cent per year for the second and third years is to be subsequently reduced by the Treasurer after considering advice from the Economic Regulator. I think we can both remember when the state government, at the inception of the water and sewerage changes in 2007 to 2009, stepped in and capped it and politically interfered. Can you give us a snapshot of what impact that capping had on water and sewerage services at that time?

Mr MARTIN - I think that illustrates the point I was making before. What the utility is allowed to do is governed by the Economic Regulator and also the requirements of environment and health in Tasmania. The capping and other regulations undertaken in the first few years, or even in the putting together of the legislation to begin with, made it more difficult for the new entities to deliver what was required for the benefit of Tasmania. We have got through all those periods of difficulties, complexities and uncertainties, and we have got to TasWater which has been in existence for probably some three or four years now and they are getting on with the job. They are delivering. They will have all the water scheme problems fixed up by August next year and that, in itself, is a significant achievement compared to what we had some years ago. Then they will get on with the job, including in the next couple of years, of trying to fix up wastewater treatment plants around the state.

The major problems, for instance in Launceston, will need a significant cash injection of money from the federal government. It has always been known that was the case and putting together a proper business case and submission to attract that and working together is still 10 years overdue, in my view.

Mr GAFFNEY - Some people get confused about the money councils make out of TasWater. I don't think they fully understand or appreciate that the 29 councils all had equity in the business of water and sewerage. To get a solid return on what they put in, each council was awarded a percentage of the assets, taking away their liabilities into the business.

It sometimes gets frustrating when they say so many million dollars a year go back to council, as if councils are storing that money and not using it. As a general manager, any return to your council would have gone where, John? Into your revenue to be put into other needs? How does that work? Could you explain that to us because some people listening are probably not aware of the dividend return to councils? It is an important point for them to hear.

Mr MARTIN - The dividend returns to council have been used to provide the council services and works - operational and capital - that each council is required to undertake in accordance with their strategic plans, which are put together in consultation with their community.

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People seem to forget that a lot of councils - and all councils work consistently across the state - actually used water and sewerage revenues to help provide those other types of services.

There are some classic examples. Some of the larger city councils - for instance, in the south of the state - used a lot of their water and sewerage revenues to help prop up other council services. So it was a major problem eight years ago when the changes were made and that is why priority dividends were put in place, if you recall.

Going forward, those same councils, if they lose those dividends over a period of time, will have to increase their rates or decrease their services. Does that answer your question?

Mr GAFFNEY - Yes, that is good, John.

Mr FARRELL - John, because you've been through this right from the early days and you know it well, Treasury seemed quite keen back in 2008-09 to take over TasWater - from your submission, John. From your point of view, why do you think it has taken this amount of time for Treasury to act, and why do you think they have done it this way rather than a consultative process?

Mr MARTIN - There has probably been a change in government in that period. The reform process was initiated under a Labor government and eventually there was a change in government. I alluded to this in my submission. A reform of this nature in Tasmania was always going to be complex and add some transitional problems, particularly the way it was set up to start with, a lot of which was requested and regulated by the state Government through Treasury itself.

Now that we have finally got rid of the four corporations and got to the statewide entity scheme that now seems to be functioning really well and doing a damn good job, all of a sudden, to politically interfere with it again, on the basis of false premises of crisis is going to set us back again. They ought to be allowed to get on with the job they have been set up to do. To work together with local government and the Australian Government to improve services, particularly those major problems in Tasmania - we are such a decentralised state with so many water and sewerage schemes - that they were set up and intended to do.

Mr FARRELL - Thank you.

Mr VALENTINE - One observation you make on page 6 in the summary, number 2, 'local ratepayers will eventually have to pay more rates under the proposed takeover and/or have reduced services'. We have already discussed that. It is the hundreds of thousands of residential ratepayers across Tasmania who will be adversely affected if this legislation passes.

Do you have a comment on with regard to the issue of equity and fairness? If the taxpayer is going to be footing the \$600 million versus the ratepayer who is losing their portion of the assets and portion because various councils have various levels of investment, is any fairness or equity issue?

Mr MARTIN - I do. If this goes the way the Government is proposing, overall the potential for local government in particular to be sustainable, to provide the services they currently do and new ones in the future, will be lessened. Because of the reduced dividends they are now paying and will be required to pay in the future, once these promises of dividends for 10 years and then 50 per cent of 'profits' reduce.

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Mr VALENTINE - Is that profit going to come?

Mr MARTIN - Crystal ball gazing. From what I have seen of governments and GBEs, they will increase. Guess who is going to pay? It is the community, the ratepayers, the residents of Tasmania. The cost of living increases, which we are all concerned about and want to try to maintain, reduce and not increase. This is not going to help.

Mr VALENTINE - Are you saying the assets the various communities have put their money into are going to be taken away from their level of control? This will be spread across the whole taxpayer base for the benefit of the whole taxpayer base, as opposed to the people who put the value in, in the first place?

Mr MARTIN - That is part of the equation, Rob. The other part is productivity, efficiency, value for money and all a matter of opinion. It has been my experience over 39 years that local government is much more efficient and effective at producing the services communities want and their dollar goes a long way further than it does in state government.

Mr VALENTINE - Thank you.

Mr GAFFNEY - John, I remember a discussion in 2017, how difficult it was for stormwater to be assessed and valued and the conditions of it. I raised this with the Treasurer at Estimates and he was aware of it. I would like you to comment on it, that local government agreed to keep the responsibility of stormwater because it was too difficult to put a financial sum. Or looking through a crystal ball, to be able to include it in the water and sewerage infrastructure. Is that how you remember it, John, or can you add a bit more?

Mr MARTIN - No, you are quite correct. There was quite a bit of debate, particularly in relation to Launceston. That is the largest mixed stormwater and sewerage issue in the state. Apart from an operational and technical professional area of expertise, it would be my view that would still be the case.

If you try to include stormwater - for instance, with a water and sewerage utility corporation - you are going to run into the same difficulties we ran into when we were talking about it eight or nine years ago. Better to address the problems being discussed here today in relation to specifics of where are the keys in the state. To work out agreements, apportionable payments, revenues and that perspective than going the other way. It would be much more difficult.

Mr GAFFNEY - Some councils say to me the revenue they actually get returned from their water and sewerage assists them with some of the stormwater issues. Whether it be erosion or pipes moving or pipe movement, which is actually TasWater, but it helps them deal with some of those other issues that might occur. Is that how you understand it to be working in local council?

Mr MARTIN - It could well be the case.

Mr GAFFNEY - Thank you.

CHAIR - Thank you. You pretty well covered my questions. Anyone else have any questions?

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Mr GAFFNEY - John - and I am using you as an example because I know you were around the table - when the Treasurer came to us stage saying 'This is what we need to do as a group', would it be fair to say we had 29 councils across the state, w some having a relationship with water and sewerage between each other, but some not? One of the biggest concerns was where the combined monies would be spent. For example, it was a bit of scare that it could have been the southern beaches, it could have been the Tamar, the river situation. That is why they decided to have the three regions. The then treasurer, Don Challen was very set on making sure we had commonality between the three regions. Is that how you can remember the situation or you might be able to add further to it?

Mr MARTIN - That is probably right. There were a lot of reasons for and against it. Some of the set-ups, particularly with the common service provider, the rules and regulations put in by Treasury at the time, were actually setting it up to fail. That is exactly what happened. That is a matter of history now. We need not concern ourselves too much with that. What has been put in place now was largely as a result of the other select committee. The lower House select committee set up in 2011-12; our current state Treasurer was the chairman. It would be worthwhile to look at some of the transcripts of comments made. I was one of the persons who presented before that committee. I had many discussions with our current Treasurer during those times. The problems of those major pieces of infrastructure were a problem 10 to 15 years ago. They were a problem five years ago and are still a problem today. They still require these extraordinary amounts of funding which are not going to be provided by state and or local governments because we cannot afford them as a state. We are better off concentrating our efforts, putting our heads together, getting the proper business case which we nearly had, eight or nine years ago, and going to the Commonwealth.

Mr GAFFNEY - The last one and it is good for us to get the background. I was really interested in your comments that a lot of the hard work has been done. Some of the hard work I can remember, John, was the things about different people going to different councils. We had different award rates, we had the unions involved, we had different working hours and different pays. We had different councils across the state charging different prices for water and sewerage. The first five or six years, to the credit of the organisation, was to try to get some commonality across the state. It seems to me in the last two years - and you alluded to it - TasWater has brought that all together. There have been some issues along the way, but now they are in a really good position to go forward and strengthen it. In light of where they are now, can you see a role for the state Government to be financially involved with TasWater but without taking control of TasWater?

Mr MARTIN - I think there is a better way of being involved and contributing than is currently occurring. I urge all parties, including the state and local governments - and I think that is what local government has been pushing for, particularly in recent times. The senseless conflicting argument is not helping the Tasmanian community.

I agree with your comments. A lot of the hard work has been done. What we need to do now is get on with carrying out the programs that have been put forward, but we still need to address those major issues in Tasmania that won't go away. They are being highlighted and brought to the fore now, which is a good thing, but we don't need to introduce the conflicting argument and senseless diversions that are being done on a political or financial basis as they currently are.

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Mr VALENTINE - As to National Competition Policy, do you have any comment about what councils were asked to do in setting up the whole kit and caboodle in the first instance and how they were expected to get benefits back out of their operations?

Mr MARTIN - I am not sure what the current state of play is today, but I imagine it hasn't changed too much from what it was five or 10 years ago. If you had major undertakings such as water and sewerage or roads, the expectation was that you had to get a 6 per cent return, for example, on your investments. That is why it has carried on today. There have probably been some legislative changes around that, but I'm not sure. That was on the basis that private enterprise could be involved. All this manipulation of information about dividends to local government, which is now probably only 1.3 per cent of the assets, the community doesn't know about it. The return on assets to local government is not a great deal for what they are expected to do.

Mr VALENTINE - Is it not true that under that model the reason the councils had to see a return on their investment was so they could reinvest back into the community?

Mr MARTIN - That's right.

Mr VALENTINE - That is what the dividends are being used for today, even though they have agreed to take only half the dividends. That was the whole model that was set up?

Mr MARTIN - Yes.

Mr VALENTINE - I just wanted to confirm in my own mind that is what it was back then.

CHAIR - Thank you very much for coming in.

THE WITNESS WITHDREW.

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Mayor MICHAEL TUCKER AND Mr BOB HOOGLAND, ACTING GENERAL MANAGER, BREAK O'DAY COUNCIL WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Ms Armitage) - All evidence taken at this hearing is protected by parliamentary privilege, but I need to remind you that any comments you make outside of the hearing may not be accorded such privilege. A copy of the information for witnesses is available if you've not read it or if you're not aware of the process. The evidence you present is being recorded and the *Hansard* version will be published on the committee website when it becomes available.

By way of introduction I advise the procedure we intend to follow today is as follows: first, you will be provided with the opportunity to speak to your submission and then following that to members will ask questions. I assume you are happy with that.

Mr TUCKER - I would like to thank the Legislative Council for giving me the opportunity to represent Break O'Day over the TasWater submission that we've put in. We feel very strongly about the potential takeover of TasWater and the implications that it may have for the residents of Break O'Day. As mayor of Break O'Day, I am consumed by trying to protect the best interests of our ratepayers.

I have only been mayor for three years and on council for five, so I do not have a lot of history prior to that, but I will endeavour to do my very best to answer anything that I can, based on the submission that we've put forward. Thank you very much for that opportunity.

CHAIR - Thank you. Did you want to make a comment?

Mr HOOGLAND - What we wanted to say is in the submission, but we are adamant that the information that thus far has been provided by the state Government is inadequate for council to recommend that we proceed with accepting the offer of the takeover from the state Government, so we have come to oppose that.

Ms RATTRAY - I appreciate you coming along today representing Break O'Day, Michael. The submission's introduction reads in part -

Break O'Day Council sincerely hopes the Legislative Council can get to the truth on the table in relation to the state Government's proposed takeover of TasWater.

I think it would be useful if we try to delve a little bit into that particular statement, because I indicated to the committee at a previous meeting that I was going to attend Break O'Day Council where I was provided with some information around Break O'Day's position. There was quite a bit of talk at that meeting about the truth of what is going on here, so I thought this was a good opportunity to raise some of those issues you see as being what the committee needs to find in the way of truth about this.

Mr TUCKER - Thank you very much for that question, Tania. The reality is this is nothing more than a politically manufactured crisis. In any way we look at it, if it were a crisis, we would not wait two years before we did something. If we do, I think we are being extremely complacent and disingenuous to our people in Tasmania. To use the word 'crisis', we believe is untrue. The

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word 'crisis' was used in many formats by the Government to discredit local government and our handling of our dividends, and what we do it for.

We've had no financial modelling with a sensitivity analysis, which we have requested in writing on a couple of occasions from the Premier and the Treasurer. We are very concerned about the truth being put on the table for everybody to understand. While there is constant media attention on this word 'crisis', that does not exist, and we are very concerned that the politically generated motivation for that is purely a cheap political election stunt.

That is where we are coming from. The outcome of misinformation being put out in the public media - the 'crisis', 'Third World infrastructure', all these colourful things being said - harnesses people with very little information to delve down to know what the truth of it is. We believe the truth needs to be on the table for everybody to hear.

Ms RATTRAY - Thank you. I appreciate that. I will keep that front and centre of my mind. We had the opportunity to speak with Wes Ford, head of the Environment Protection Authority this morning, the EPA. We were delving into some of the issues the EPA is responsible for in regard to compliance. Wes touched on some of the issues Break O'Day had with spills into Georges Bay.

Mr TUCKER - Yes.

Ms RATTRAY - I am interested to know whether there has been a working relationship between the EPA and TasWater and council to address some of those issues? Are we past those issues?

Mr TUCKER - Unfortunately, there are two topics regarding the oysters in the bay. Every time we have an excess of 50 millilitres of rain the bay is closed down because of excessive floodwater. The Georges River travels down through all the farm lands so all those issues create a closure of the bay without a sewage spill. That is mandatory.

Once we get to a certain level the bay is closed down. We have had sewage overflow issues. I have to say, honestly, TasWater has been absolutely impeccable in the way they have dealt with the council. They have come down and had community consultations. We have had the oyster grower committees coming and meeting with council and TasWater. They have identified a lot of areas of concern, and TasWater has taken that on board and worked constructively.

They stopped the stormwater infiltration that was coming out of Fairlee and creating an overflow into the bay at the bottom of Fairlee. They are about ready to start the new pipeline to give extra capacity in front of council through to the sewage treatment plant. It is not a perfect world and we will never have everything 100 per cent perfect. The consultation of the Oyster Growers Council - TasWater took everything on board; they have gone away and constructed a very high tech plan they believe will address everything, and I think most of our concerns. It should be finished by the end of November. If we had a flood right at this moment, we would still have problems. If there were an overflow, most of those issues with stormwater infiltration getting into the sewerage line would be remedied. All I can do is say we have had a great working relationship and I believe they have done a great job.

Ms RATTRAY - The EPA also informed the committee. I hope my interpretation of what they said this morning is right - there is no point putting EINs into some areas and infrastructure

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because TasWater did not have the capacity to address those issues. They felt that would take away from their core function and some of the other valuable work they were doing. Is that how you have seen the EPA operate?

Mr TUCKER - I have to be honest on that one, I think that is more a TasWater management issue with Miles Hampton. I would be telling you things I do not have complete information on. I think it should be more related to TasWater, to Miles Hampton or Mike Brewster, to answer that one.

We have had a good working relationship with the EPA and TasWater, but TasWater does have to implement state government regulation through EPA and they cannot sidestep it. Sometimes I think you will find there have been some unfortunate comments in the paper regarding the commercial waste. TasWater is implementing and having to follow state Government EPA regulations; they do not have any choice. That is how it is managed. Unless you are going to override the EPA through legislation, if the state Government were to take over, that legislation is still there and still has to be followed.

Ms RATTRAY - We have received quite a few submissions that focus on the trade waste issue and we will be addressing that. My last question is in regard to Scamander. I attended the community forum at St Mary's that the Treasurer, Premier and Mr Hidding were at. There were some business owners - a local business owner, who was not so complimentary about TasWater and what TasWater had been able to deliver for their business. Where are you with Scamander and the Scamander community in addressing the issues they have cited?

Mr TUCKER - If I may, Scamander is totally off the list. It has all been fixed, as has Fingal. They have gone right through to Avoca with a pipeline. There was an issue before the person purchased his business. The existing issues were there with the Department of Health and Human Services boil water alerts. It was not something that popped up afterwards.

TasWater handled it exceptionally well. The moment there were comments and issues, they were invited to public meetings and they turned up immediately. They did not back away from the confrontation. They were exactly where they should have been; they took everything on board and they went away, implemented, totally finished and removed the boil water alerts. As we know, it is not something that happens in five minutes. That is one of the concerns we also have. You can accelerate a spending program but it does not mean you are going to get good outcomes.

When there is lack of opportunity for competitive quotes, you will normally pay more for it. If you rush a job, you could end up with a poor job that you have to redo. As TasWater has to do 12 or 13 weeks of testing, if there is a blip in one of the test results at any one time you have to go back and start again. The testing regime is pretty extensive before you can remove a boil water alert. Even though the water is coming back perfect on every test, you still cannot remove the boil water alert until the DHHS mandatory regime has been completed.

To TasWater's credit, I thought they did an exceptional job. What they have done with Mathinna and Cornwell with their public consultation, continually coming back and highlighting the different opportunities, cancelling each one out until we get to the most efficient. It might be more expensive, but it is the best outcome. I can say I have been to every meeting and TasWater has been exceptionally well received in the community.

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Ms RATTRAY - Thank you. I appreciate that because that is what I believe is reaching the truth of some of the issues put forward.

Mr ARMSTRONG - I noticed that your submission reads, 'Potential Dividend payments beyond 2024-25 are highly uncertain'. What makes you say that councils will not receive them?

Mr TUCKER - Yes, if we look at history, any time a government takes over a GBE, it is a case of 'It looks as if it is worse than it was so we cannot really honour what we said we were going to do because it has changed'. If that is okay and they honour their commitment to 2025, there is going to be around \$600 million of extra debt that has to be paid back because of their excessive borrowing to try to ramp up the acceleration. That has to be paid back, either by the ratepayers of the communities or the taxpayers. If it has to come out of consolidated revenue other services will suffer. Something has to pay for it.

The government is not looking for a profit margin itself, which any business should look at being profitable and viable. If you read their legislation, they do not really care if there is a profit or not. If there is no profit, we are not going to get nothing. Fifty per cent of nothing was nothing when I went to school, sorry.

Mr ARMSTRONG - You were saying, in conclusion, that two of the Break O'Day councillors are confident and satisfied the state Government's proposed takeover of TasWater will not adversely affect our community and cannot support the proposal. Tell me what the Government has to do to assure you?

Mr TUCKER - We have requested and letters have gone to the Premier and the Treasurer. We have requested more information and especially a financial sensitivity analysis on a couple of occasions. What happens in business when something does not go right? What is the fall-back position? Where is that impact? How is it going to impact on others? That has not been done. We cannot have any satisfaction the Government has actually done a sensitivity analysis, because we have requested it and we cannot get anything back. Financial modelling is paramount for us to have confidence there will be a profit at the end of 2024. Our dividends will potentially be the same or better. Without any of that we have no security, no guarantees anything is going to happen. We have to look at this. This is a real world. If you are running private enterprise business, you want to make a profit. We need to be able to see the GBE will generate a profit so we can guarantee our dividends that come back to council. Break O'Day had around \$33 million-worth of assets transferred. Our dividends reflect heavily on our bottom line in our revenue which goes back to our community in valuable services. Our demographic is around 6000 people and some are quite socially disadvantaged and older age group et cetera. The financial dividend goes back into our community. If we do not have this, it means loss of services and potential job losses. I am concerned and will fight to keep our community safe and protect them from any loss of revenue.

Mr ARMSTRONG - You will get \$596 000.

Mr TUCKER - Yes, and that will reduce through by approximately \$200 000 because of the 10-year financial plan of TasWater, which we voted for, to reduce our dividend. We have done a lot of streamlining and use lean thinking in our council. We believe we can save or have saved by opening up our own quarries, not buying materials by being able to supply our own. The shortfall we can make up so that \$200 000, but we cannot find another \$400 000, if we lose that.

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Mr ARMSTRONG - What is 1 per cent of your rate base be equivalent to end dollars?

Mr TUCKER - About \$60 000.

Mr VALENTINE - My question has been answered. It was just the full understanding of the investment you have in TasWater basically.

You have also answered the issue about stormwater incursion into the sewerage system. You say for the most part that has been fixed in Break O'Day or is there still some outstanding?

Mr TUCKER - TasWater has just done some more smoke tests because back in the 70s and 80s connecting the sewerage with the stormwater was not really seen to be a problem.

Mr VALENTINE - Until a major storm event.

Mr TUCKER - Then we find out people were a little bit smart and they put U-section in their lines so it is full of water and smoke will not go back up it so you cannot do a smoke test to find it. We have had quite a lot of help with TasWater and they have been amazing as far as going down resealing every manhole cover that could be found and documented. Because of water getting in through the manhole covers in heavy events to smoke tests and then we have actually the dye test. The dye test is obviously the most important one because a bit of water in a pipe might stop smoke, but it does not stop dye so we have had an incredible amount of help from TasWater. They have worked very constructively with council and our building services et cetera and we believe that they highlighted every issue in Fairlee, which was our main issue.

Mr VALENTINE - Fairlee is?

Mr TUCKER - Fairlee as you come into St Helens, before you get to the bridge on the left-hand side and everyone used to call it Mortgage Hill. Now it is commonly known as Fairlee. That is where there was such a steep gradients the stormwater was infiltrating through the manhole covers because of the poor seals in place. Through an extensive process, we are comfortable that has been addressed and the new project, which is increasing the capacity from in front of council to the treatment plant, should pick up everything else. We would like to say we have a real chance we will not have major problems from now on.

The beauty about what is happening is that it has had no political interference, Rob. It has been on a needs basis, with an independent board doing a job that needs to be done and not where you can get a vote.

Mr VALENTINE - If the Government took over sewerage and water delivery and there were issues and problems with overflows, they might be going back to local government saying, 'You have to fix that because stormwater is your problem and not ours'?

Mr TUCKER - Rob, for the Government take over potable water is a bit of a joke. It will be fixed before they take it over. The issues with stormwater is being addressed on a case-by-case basis without political interference. There is a very highly qualified, skills-based independent board. They are looking at wherever there is an issue; oyster growing has been an issue and they are targeting areas that need fixing.

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Stormwater is coming back to a council issue: most of the areas where we have had problems, I am comfortable the management's approach of council and TasWater working together in our community, I cannot talk of any other community, has overcome those issues and work very well together fixing them.

Mr VALENTINE - Thank you.

Mr HOOGLAND - I do not see the risk is as much around things being fobbed back to council but the prioritisation at the moment is based on council as owners, an independent skills-based board, determining priorities with management and a skilled management team based on the need of the infrastructure, the populations being serviced and being fact based.

Break O'Day Council is a small community; it's outside the main population centres and does not get big votes. If a GBE is being managed by a political system, the bigger risk is around us being pushed down the priority list because of our limited population. Instead of it being a fact-based system, a politics-based system will work against a community like Break O'Day.

Mr VALENTINE - Thank you.

Mr FARRELL - I noticed in your submission, you have had a lot of trouble getting information and financial data modelling back from the Government. I imagine that is the case with the other councils. It is interesting, because two of the councils in my area are supportive of the Government takeover. Do you think they will have more success getting information or do councils have different processes for assessing? Is there a general approach from LGAT or is it looked at as a bargaining-off-one-council-at-a-time operation?

Mr TUCKER - To be honest, LGAT has requested very similar, if not more, information than Break O'Day has requested and been unsuccessful. We have 25 councils opposed to takeover, four are for the takeover. The very vast majority is against the takeover.

All councils are not equal. Some councils, for certain reasons, prior to the takeover, when Ben Lomond Water, Southern Water et cetera was formulated, did get extremely nervous and pulled back from investing heavily into some of their infrastructure because with the takeover they could keep the money in the bank and potentially somebody else would pay for it.

It is a possibility that some people saw the transition as a godsend financially. We have a small council, approximately 6000 ratepayers, but we had \$33 million-worth of investment. If you look at some of the other councils with the same population, you will see some councils had \$10 million- or \$12 million-worth of investment. What happened back then, I have to put my hand up and say honestly I wasn't even a councillor. I did not come on council until November 2011 and I would be speaking out of school and out of my depth to comment on things previous to that.

Mr GAFFNEY - Out of the council submissions, we have most councils opposing it. Two of the councils in my area have supported it but they have not put a submission to us. It would have probably been helpful if they had.

Mr TUCKER - I'm sorry I can't help you much more on that one. I would be starting to get out of my depth.

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Mr GAFFNEY - You've explained very well the relationship your council had with TasWater. I am imagining there is quite a bit of conversation flow through that. There are two issues I want to raise. Sometimes in the media reports we hear about the 29 councils and how ineffective and how inefficient it is to be managing TasWater with the board. Can you explain how that situation works in reality? Some people in the community think, 'Oh my God, all these owners', but they have streamlined it to a process. Perhaps you can explain to us the process that happens in local government land with the relationship between the owners, TasWater and perhaps even the board?

Mr TUCKER - For the first part, we have to remember TasWater took over from the other corporations. As we all know, it will take at least 12 months to pull all the data and infrastructure together before you really start work. They have only been in operation at full capacity for approximately two years. That's when we started seeing a real momentum and movement with TasWater and the projects they are managing and how they're implementing them.

It is a skills-based board, an independent board, a board of directors. While we are the owners, ultimately that board may make a decision which is totally against 29 councils. To be honest, that's how it should be. They are a skills-based board; they are directors of a company and they're doing what is required under the Corporations Act to run a board in the most efficient and effective manner. We as councils - 29 of us - have had some very rigorous debate with them. We have had some very harsh realities put forward to us when the state and federal governments would not help TasWater with any funding. That meant we had to vote, which we did after some very rigorous debate, on reducing our dividend. Having said that, the councils made a vote on the advice given to them by an independent skills-based board doing what they have to do. We had to take two tablespoons of cement and harden up a bit and just get on with it.

The reality is TasWater needs to be effective, efficient and viable, and that is one of the reasons we have extreme concerns about another political GBE - we call them a GBE - but this one is a PBE, a political business enterprise. It could be run by a treasurer or a minister at the whim of any political electorate. It is very concerning for us that we may miss out because we don't have a lot of votes in our municipality and we believe the skills-based board, which TasWater is, is the very best way to run it, in conjunction with the Economic Regulator. If you want to have cheap water, it means the Treasurer has to legislate to remove powers of the Economic Regulator, which is done on a political whim to buy votes, not for long-term sustainability.

Mr HOOGLAND - Just to clarify, councils are owners, but we are owners in the sense of shareholders, so we have shareholders' meetings where the board reports to the shareholders, explains where things are at. If we really thought that TasWater were going off the rails, we would have the power to tackle the board or replace the board, but it is that sort of relationship.

Shareholders are owners who can choose to refuse the board if they want to, but it is very much at that arm's length where operations and direction is set by an independent skills-based board giving direction to a management team.

Mr GAFFNEY - Thank you for clearing that up because I am not sure if a lot of people are aware of the relationship the 29 shareholder councils have. My last question is now about the relationship and the communication that you have with, say, the TasWater chairman, Miles Hampton. You have talked about the relationship with Mike Brewster and TasWater, but I

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just saw a media release today and it has a couple of things I would like you to comment on. This is from TasWater about the TasWater chairman, Miles Hampton -

On 3 May this year, Mr Gutwein made extremely personal and disparaging remarks about me in his attempts to justify the Government-proposed hostile takeover of TasWater. Under protection of Parliamentary privilege, he elevated the issue from a dispute about the respective merits of the Government for the TasWater plan for the upgrade of Tasmania's water and sewerage infrastructure to a personal attack on my character, motivation, and responsibilities as a company director under law.

I am not commenting on whether what Mr Gutwein says is right or whether it is not, but I would like to know, from your council's point of view, what sort of communication, what sort of feedback, and what sort of relationship do you have with Miles Hampton? How do you get the information from the chairman and his board?

Mr TUCKER - To be really honest, when I went to my very first shareholders' board meeting, I thought, 'Who the bloody hell is Miles Hampton?' I was taken aback because he spoke eloquently, but he seemed a little bit distant. I had to actually go through a couple of meetings before I actually could make a decision on what I thought of Miles Hampton.

After two or three meetings, I started to warm to the man, as a man of complete integrity and a man of immense honesty. Having said that, we then were starting to have problems with the oysters in Georges Bay when we had the flooding last year. That was one of them. We all remember the major floods.

I rang Miles Hampton. I spoke to him personally. He organised a meeting for himself and Mike Brewster to come to Break O'Day Council and sit down and talk to us. We at any time can make a phone call. I have his direct numbers. He is always available. If we have any concerns, he will always immediately set up a community consultation meeting which he will attend or Mike Brewster will come with him or Lance Stapleton. All three will come or they will come to our council.

Even though my first impression was vague, since then I have thought he is one of the most incredible operators I have had to deal with. It was just the nature of the man. I am probably a little bit of a rough gem, if you like, to put it mildly, and I found Miles to be the exact opposite. I found it a little bit hard to get to know him. Once I got to know him, I found he is absolutely impeccable, an incredible director of a board, incredibly accessible. Absolutely nothing is a problem to him. I cannot speak highly enough of Mike as a person and as a director of our board.

Mr GAFFNEY - Using the board and TasWater itself, from a local government mayor's point of view, do you think your community rates, revenue, your income and your input into that is very sound?

Mr TUCKER - I certainly do. The relationship, which is built on trust, honesty and respect, is impeccable. I know that in our community we had a few boil water alerts and they actually did not shy away from it, even though it was extremely expensive in a couple of areas because of the small population. Scamander is one and they knew how important tourism is to us. They got on with the job and they fixed the problem. The money wasn't an issue. All that I could say honestly is the respect that we have as a council for the TasWater board, in general, right across the board,

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Miles Hampton is always accessible and so is Mike Brewster. I can't speak highly enough of them; I have to be honest on that. I'm not trying to make them out to be something they're not. We just have a good working, honest, open, trusting relationship with them.

Mr HOOGLAND - On that broader question, yes, I think a model that works for shareholders, where councils have shares based on the equity at the time of formation of TasWater, relating with a skill-based independent board, again working with qualified management, is a very effective model for local government and for Break O'Day Council in particular.

Mr GAFFNEY - Thank you.

Ms RATTRAY - I have a question in regard to headworks charges. The committee received a submission citing the difficulties in building. The east coast is a beautiful place to build. Have you seen any impediments to building development in Break O'Day because of the excessive headworks charges that have been cited for putting infrastructure in to progress housing development particularly?

Mr TUCKER - Personally, in Break O'Day I haven't seen that. Headworks charges were abolished under this Government. In essence, what we are looking at is every ratepayer in Tasmania subsidising big business - the mum and dad ratepayers. Having to elaborate a little bit further is one of the concerns I had with Macquarie Point. Are we - as ratepayers, mums and dads and everybody - supposed to subsidise a major infrastructure project that is not really a TasWater project? Headworks charges - please correct me if I'm wrong - I believe were abolished not long after the present Government came in as one of its election promises, which it has honoured. I don't see the headworks charges as being an impediment. Bob, could you please help me on this one.

Mr HOOGLAND - I'm not aware of headworks charges being raised as an issue for years.

Ms RATTRAY - I'm just asking the question. If there is no issue in Break O'Day and development is humming along, that is great. It is great for the community and certainly great for business. I'm just reading through the submissions and they may see things a bit differently. I will get an opportunity to explore that a bit later.

Mr TUCKER - I ask that you would do that because I don't want to quantify something that I am not 100 per cent sure of. I thought one of the Liberal Government's election policies was to abolish that when it came in, which I believe happened.

Mr ARMSTRONG - For a certain time, I believe it was.

Mr TUCKER - I think it's still going.

Mr VALENTINE - They fund it for a certain period of time.

CHAIR - I have a question about something you said: you said if you felt the board was going off the rails, the council would tackle it. I asked Mayor Downie earlier about it and he felt that the board and TasWater were there to do their job and it really wasn't up to the councils to interfere. Do you believe that the councils, if they had concerns, would get together and work together? I'm not sure all councils get on particularly well together. Do you think you would

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work together if you had issues and actually address those with TasWater, or do you see yourself more as the owners and removed from the board and from the administration?

Mr TUCKER - There are two points there. First, because of the structure of TasWater and its skills-based board and because we as shareholders have the right to raise concerns, which we do with our quarterly reports and we go through everything, if there was a major issue, I am sure council - because David Downie is the spokesperson for TasWater and Miles is the Chair - would go through the correct process protocols, raise it and deal with it. At the end of the day, we are still the owners but the board itself is an independent, skills-based board doing a job. While sometimes it is a little bit bittersweet that you have to accept, we had to accept we had to reduce our own dividends to fund the infrastructure 10-year program.

When it was explained in such detail by Miles, we had no choice. We discussed it in a very rigorous debate. Some of them did not want to accept it, but the overall factor is that what is in the best interest of Tasmanian people - ratepayers, taxpayers and businesses - is very important. This is a business and we need to work in an extremely professional manner. Because we have that relationship with them, we have not had to come to grips with a mutiny on the *Bounty*, if you like.

CHAIR - That is good. It is just that many of the submissions relate to the current issue of dealing with trade waste. I wondered whether concerns had been raised with your council. I asked Mayor Downie as well. The fact is that there are options which are not being allowed to many of the smaller businesses. I did not know whether that was an issue, and if it was an issue, whether it been brought to you by any of your small businesses, perhaps takeaway shops or bakeries, and whether you had taken that to the board or to TasWater to pursue some of the options that might still meet the EPA and the regulator's requirements.

Mr TUCKER - In Break O'Day I personally, as mayor, am not aware of anything that has come to our council that has been an impediment because of the trade waste. We accept that trade waste is a volatile issue. Tasmania is one of the last states in Australia to get on board with this. Unfortunately, TasWater is still regulated by EPA legislation which it is compelled to implement. How that is implemented and what variation of how you get compliance is between TasWater and the owner of the property to get the outcome required by legislation; hopefully, it is the cheapest opportunity for the business.

The other rationale is, once again, do mum and dad ratepayers subsidise big business for a trade waste which is actually blocking up and causing problems within the system, or is the person who creates the problem responsible for remedying it? That is where it gets really awkward. People buy businesses and when the business was built, it was compliant. They bought a business in all good faith and then they find out down the track their waste is not compliant at all. That is a real issue.

We need to work together. State government needs to work with TasWater. My take-out from all these submissions is that we should be working together. We should not be denigrating each other in the media. We have been hammered for nearly two years. It is disgraceful. We should be working together to get the best outcome for Tasmania as a whole.

CHAIR - That's fine. From that I am taking that if constituents were coming to you with issues, there would be options available in the rest of Australia for some of these smaller

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businesses. If it wasn't being taken up by TasWater, you would certainly go on behalf of your constituents to the board and management?

Mr TUCKER - Most definitely.

Mr VALENTINE - Have you seen the Government's submission at all?

Mr TUCKER - We looked at the Infrastructure Tasmania report commissioned by KPMG. Is that the one you are referring to?

Mr VALENTINE - Yes.

Mr TUCKER - In any report, if you go to a consultant and you tell them what the answer is going to be at the end, they will work the consultancy to give the answer you require. I am so sceptical of KPMG - not KPMG personally, I take that back - but when you do a report that says 'no financial constraints' and you do not care if you make a profit at the end, I have serious concerns, I am sorry.

CHAIR - Thank you for coming in and your submission. Thank you, members.

Mr TUCKER - I very much appreciate the opportunity to put my hand up to try to fight the fight.

CHAIR - Thank you.

THE WITNESSES WITHDREW.

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Mr TIM GARDNER, PRESIDENT, TASMANIAN BRANCH, AND **Mr JONATHAN McKEOWN**, CHIEF EXECUTIVE, AUSTRALIAN WATER ASSOCIATION WERE CALLED VIA TELECONFERENCE, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Ms Armitage) - As you are probably aware, the committee is taking sworn evidence and all evidence taken at this hearing is protected by parliamentary privilege. I remind you that any comments you make outside the hearing may not be afforded such privilege. A copy of the information for witnesses is available if you've not read it or if you are not aware of the process.

The evidence you present is being recorded and the *Hansard* version will be published on the committee website when it becomes available.

By way of introduction, the procedure we intend to follow is we will give you the opportunity to speak to your submission and then committee members will address some questions to you. We are seeking information specifically relating to the terms of reference.

If one of you would like to start, either Jonathan or Tim, and speak to your submission.

Mr McKEOWN - Thank you. Tim, if you let me have the first crack?

Mr GARDNER - Please do.

Mr McKEOWN - Thank you for the opportunity to speak to the submission. I would like to make a couple of points on behalf of the Australian Water Association. The Australian Water Association is the national peak body for the water sector and represents more than 100 water utilities, 600 corporations and about 4000 water practitioners.

We have no policy views, nor do we want to get into the discussion on ownership structures per se. We are not interested in who owns water utilities. We are much more interested in the principles that guarantee improved governance over those water utilities to provide the maximum support and service level for our communities and for those water utility customers.

With those opening remarks, the association wanted to bring to the committee's attention three essential points that we feel are vital to guarantee that customers' water utilities are receiving the best form of governance and indeed service delivery from the water utilities.

These comments come from a national perspective of water utilities across the larger metropolitan areas, but also regional and remote country areas that are part of the association's membership.

The process of reform Australia has been through in the last 20 to 30 years in water utility management is very dramatic and is probably ahead of most OECD countries with perhaps the exception of the UK, which has gone in a slightly different direction than Australia. We are considered around the world to be some of the best managers of water utilities. It is a reputation the industry is very proud of. That reputation has been built largely around evolving and improving the structure of governance that these water utilities operate through.

We recommend that the committee gives serious consideration to three essential points that may affect TasWater going forward.

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The first is to encourage a governance model within the regulation or within the legislation for the TasWater entity. I will refer to it, if the committee will permit, as TasWater rather than alternative names covered in the recommendations to establish a new entity.

We must have a governance structure that ensures the independence and accountability of that water utility in Tasmania. The association - and through it the utilities that are part of the industry - sees it as vital to preserve managerial prerogatives for two reasons: to ensure the utility has a very transparent governance structure, that all those inside and all of those outside, in terms of customers and stakeholders, are fully aware of. That leads to the second point: with a really strong managerial prerogative comes real accountability for the quality of the services delivered by the utility. Any interference we're seeing with that management prerogative across the utility has a very detrimental effect on both the morale and the quality of the management of services of the utility.

There have been strong examples of this across the Australian water utility, which have led to a strong philosophy and now model that most, if not all, of our large utilities have. That is an independent board, an independent governance structure and clear accountability on that board and through the board to the CEO to deliver the services. They have evolved because previously these entities were very much part of the state government structure and the lines of authority and governance models were much more blurred, which led to real issues in terms of quality of services and the quality of the asset management, which is one of the essential tasks of the water utility.

The second point we wanted to bring to the attention of the select committee is the need to provide certainty in a process that involves significant change, particularly in relation to the rollout and implementation of capital expenditure projects. Both these issues have been experienced in utilities across the country. While we understand the level of reform required in Tasmania is significant, and while we also acknowledge the serious challenges Tasmania faces due to its remote and diverse locations of plants, the number of water treatment plants versus the population and the limited customer base to raise the funds for the service delivered, we see very significant issues in breaking up what has commenced in Tasmania.

The industry overall in Australia has seen a significant change in the way Tasmania has addressed these water issues since the establishment of TasWater back in 2013. That is not saying we are completely comfortable or 100 per cent satisfied with the progress made, but that progress as far as the national industry is concerned has been significant. It's been significant through a difficult political situation in Tasmania that I do not need to go into, in terms of getting the number of stakeholders to agree to reducing from three to one entity, to get some better scale behind the management of Tasmania's water resources.

We are seeing some issues around the governance structure that may directly affect the change management that has already taken place. We've seen progress within the expertise of their management structure, the ability to now put together a capital works program that has been well understood by the entity and by the senior management. While that capital expenditure program has been slow to start, in recent months we've seen significant progress and are encouraged by what has been achieved. We see serious risks attached to any desire to change horses midstream, by going back to create a new entity that will start in July.

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We see that as potentially upsetting the momentum that has commenced, putting in serious delays in implementation, potentially challenging the staff within the entity that is going to be created. If there is an attrition rate from the existing staff in the strategy that has been formed, we see that as potentially going to delay or will disrupt the capital expenditure program from anything from four years or it could really take us back to a situation which is 20 years behind the other utilities across the country.

The third main area of concern is the vital importance of having an independent economic regulator. This goes to the actual authority exercised by your Economic Regulator. It also goes to a much more difficult area of perception: the perception of stakeholders across the industry within the water utility and within the customer base of the entity.

The need for an independent economic regulator goes to both the confidence of the water utility itself and also its customers and stakeholders. It goes very much hand in hand with what has been a truly national push under the principle of the National Water Initiative developed throughout the Millennium Drought. Part of that was to move water utilities nationally to a situation where they had a full cost recovery target for the services they were delivering. Any move away from that seriously threatens the economic and the management expertise and viability of the water utilities. The economic regulator and its independence is vital to all those tasks, but also to attract additional investment or joint venture arrangements with the private sector into that water utility.

If we look to Tasmania's future, not in the next two years but in the next 10 to 20 years, there is an opportunity to get much more private sector involvement just as there is across mainland Australia where, on average, the major capital cities around Australia have anything from 75 to 85 per cent of their services delivered by private sector operators. That does not mean they are owned by private sector operators, but their service delivery models are involved in private sector partners, which has driven very significant improvements in efficiency, reduction in costs and a much better performance for customers. They are at the heart of driving some efficiencies. Without a proper economic regulator that is not only acting truly independently but is perceived as being independent, there are serious threats to that kind of development for Tasmania.

I conclude by saying there is a very significant economic opportunity in what is occurring now with TasWater - that is, the reigniting of a Tasmanian water industry. We are seeing the start of that with the capital expansion works. This capital expansion plan and capital works plan of \$1.5 billion have significant opportunities to increase the capability of Tasmania's water sector and Tasmania's water industry. We need to be really careful in going forward. The Australian Water Association believes any moves to change the structure or to interfere with the rollout of that capital works plan and program may have a detrimental effect on an opportunity we see as not only commencing but as a very clear vision to expand Tasmania's water industry.

With that, I am happy to take any questions or provide any specific comments that the committee may require or perhaps ask my co-respondent in this, Tim Gardner, to make any extra comments.

CHAIR - Thank you. Did you wish to make a comment, Tim, before we go to Mr Valentine for a question?

Mr GARDNER - Nothing further at this stage from me.

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Mr VALENTINE - Thank you for that précis, Jonathan. There were many interesting points made.

Do you have the figures at hand on how many of the water utilities are actually hands-on by government ministers as opposed to at arm's length? Not at arm's length, by another jurisdiction as opposed to government.

Mr McKEOWN - As to Australia's major water utilities, they are all state government-owned, but they are all corporatised with fully independent boards and legislation that maintains that complete independence. The boards themselves refer and report to the minister but all the management and the CEO report to the boards. You could say there is minimal interference in the day-to-day operations of those utilities by the governments of the day. There are some exceptions to that, particularly with the appointment and the removal of the CEO. It is different when you look at regional councils because they are still principally owned by their local council or local authority. They, likewise, are given a degree of independence to provide and manage the water services within a council. One example I could probably share is the Shoalhaven City Council on the New South Wales south coast. Its water delivery is managed by a separate division within the council but it is responsible for the design management and control of those water assets and the delivery of those services to the greater Nowra area. It has that degree of independence from that management structure it reports to on the local council.

Mr VALENTINE - Do you have any comment about the number of service providers that can ramp up to satisfy the sort of demand that might be required if the state Government got its way and were to try to pull in expertise to make this all happen? Do you have any handle on the level of resources that might be available on the mainland - nationally, as opposed to Tasmania - to handle this?

Mr McKEOWN - Is that a reference to more partnerships within the industry to support the requirements of Tasmania?

Mr VALENTINE - It's just a reference to the physical capacity of those in the industry to handle such a ramp up.

Mr McKEOWN - There is plenty of appetite within the national water industry to support and augment what is being planned in Tasmania and for Tasmania's future development. At the moment, if you look nationally, while things have turned a corner, I would estimate in the last four or five months we are seeing more activity, more investment in the water sector and more projects. There is still a very large unutilised capacity of the national water sector that could lend resources to support any ramp up of what is required in Tasmania.

Ms RATTRAY - I am very interested in your submission because governance is very important for any organisation, not least in the delivery of water and sewerage services to Tasmania. I was interested in your comment under (2), certainty of change management and capital expenditure projects, where you said, 'The establishment of a new entity will cause a period of disruption for up to four years'. Could you expand on that? TasWater is a fairly new entity in itself; even though we had the four entities prior to that, it is still young for an entity. Would that be fair to say?

Mr McKEOWN - Very fair. That is going right to the heart of what the association was trying to communicate. It has really taken four years for TasWater to sort out its own structure,

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entity and plans for Tasmania. To create a new one, you risk the unbundling of all that progress that has taken four years to complete. If there is a diminution of expertise or personnel from TasWater into the new structure, tracking or retaining those right skills under a new entity could create serious delays in getting to where TasWater is now.

TasWater itself is only four years old, but only now in the last six months are we seeing good progress. You run the risk of going back to another four years of trying to settle it down if you undo and create a new entity with upheaval changes of personnel, strategy and plans.

Ms RATTRAY - It has been suggested that a lot of the staff already with TasWater will just transfer over to any new model. Do you still see the same issues there? Obviously there might be a few changes on the board, but the staff delivering the works on the ground are not likely to change. Do you still stand by the suggestion of backwards by four years?

Mr McKEOWN - Tania, my comment is that you are not likely to lose, I hope, a very large proportion of the people on the ground. Where the risk comes is with those higher up in the organisation. They have had a formative part to play in creating, developing and understanding the implementation of the strategy of TasWater.

We have experienced this in other utilities when changes have occurred. There is a flight risk at that end of the structure. It can take two to three years by the time you get new people into those senior positions and all aligned - to settle them, get them on track and understanding the people who report to them. That is a process of re-aligning personnel difference and re-gelling your major stakeholders and customer bases - a minimum of four to get where TasWater is now.

Ms RATTRAY - Yes. I appreciate that. Can I take you to the importance of the independent economic regulator? My understanding is the role of the independent economic regulator will be there regardless of who owns TasWater or whatever it may be in the future. Can you explain your concerns around that?

Mr McKEOWN - Yes, sure. Perhaps I could give some national perspective on that point. There are very different forms of economic regulations in the states across Australia. In New South Wales, where the economic regulator is the Independent Pricing and Regulatory Tribunal - IPART - formed by the government as a separate entity that reports back to the government.

There was controversy within the industry about the degree of independence IPART has in determining its recommendations and findings on the economic issues of price. They have been tested in the court of public opinion and in the court of the industry views, and have come out fairly strongly as being strong advocates. There is good evidence to show they are independent.

There is always a fear in the industry when Treasury starts to influence the so-called independent regulator. That is always a concern in every state. In every state a separate entity is given the task of being the economic regulator. My understanding is the economic regulator in Tasmania actually has gone back as part of Treasury. The perception - and I am not going to comment beyond that -

Ms RATTRAY - Real or otherwise.

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Mr McKEOWN - Yes, real or otherwise - is that this is a very different model to every other state. There is one state in Australia with issues because of the limited powers given to the regulator, and that leaves a lot of power back in the minister to interfere in decisions. That has caused a lot of controversy in the industry. Where it has worked best, is where there is a completely independent body with its own structure and legislation to provide independent economic regulation.

Ms RATTRAY - I appreciate that and your submission.

Mr ARMSTRONG - With all the other water corporations you represent, are there others with storm water under their control?

Mr McKEOWN - That is a very good question, Mr Armstrong. The only one that takes a more aggressive view on it is Water Corporation of Western Australia. I will take that on notice and come back to the committee.

Mr ARMSTRONG - Thank you.

Mr GAFFNEY - I know you are not going to comment any further on the Tasmanian Economic Regulator. There is a comment on that in the submission from the Government. It might be what you are alluding to, where it says, 'can be subsequently reduced by the Treasurer after considering advice from the economic regulator'. That is a situation where the Treasurer has, by the right of the bill and by definition, the power to change or alter the Economic Regulator's decision. You do not believe this is best practice?

Mr McKEOWN - That is correct; it is not best practice. If the community really is to have faith and trust in the prices set for the services provided by your water utility, those customers must understand that the process of calculating those prices is truly independent from government interference. If you do not, there is the risk the community will lose faith. They will say they have kept prices down, but we have an election coming and it is all artificial. An unviable system economically because the true costs of what is delivered is not reflected in the operations. This is a very big issue right across the country.

Mr GAFFNEY - Thank you. Most governments would be involved with GBEs or state-owned companies such Hydro and Tasracing. It is up to the government of the day to set policy and guidelines around those state-owned companies. Can you comment on the important thing about the water and sewerage company with TasWater not depending on a continuity of the government of the day? The government or the new one next year or four years later not interfering with water and sewerage. By putting it under the minister's powers, it risks continuity of good for the community into the next generation.

Mr McKEOWN - Taking it further, if the management and the services delivered by any major utility, not just water, is dependent upon the policies of a particular government, the fundamental risk for the whole community is that governments can change policies, as they rightly should. But the delivery of essential utility services, must be independent and completely capable of providing those essential services for our community irrespective of which government comes or goes.

Mr GAFFNEY - You are aware of what TasWater has been doing for four years and what is happening nationally with water and sewerage. How do you believe TasWater, as an entity,

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compares to what has been happening in our mainland counterparts. Sometimes we get information about sewage overflows and EINs and all of those sorts of things. Comparatively, how do you think TasWater is performing?

Mr McKEOWN - Comparatively I think they are performing incredibly well, given they are starting from starting blocks way behind their counter organisations on the mainland. That's because of the lack of investment and the lack of development of a proper water strategy for Tasmania, which was so screamingly needed for the last two decades. They've started behind the eight ball but they have really run, I think, very effectively. The industry is very pleased and supportive of what they've done.

My other comment is that TasWater is in a situation not dissimilar to our colleagues in South Australia Water. They cop an enormous amount of criticism because it's an easy target for headlines. It is something that affects the perceptions of most Taswegians about the utility. The tremendous developments and improvements that have occurred over the last four years can sometimes be lost against the white noise of dramatic headlines or highlighted issues. SA Water suffers the same thing. It might be something more to do with the size of population and the number of media outlets or newspapers that you can actually throw at it. I think they suffer a disadvantage in that regard.

There is so much more that they need to do. My feeling, or the industry's feeling, is that those who are managing TasWater, including the board and the senior management, have their hands really on the challenge. They are really focused in a way we've never seen in Tasmania in the last 20 years to fix the problem. We see, as an industry, that they have a very sound plan, which they're now commencing to roll out. We're very concerned that all of that advantage could be seriously jeopardised by unnecessary change.

Mr GAFFNEY - Thank you very much.

Mr FARRELL - You have covered to a certain extent the governance of the body. At the moment certain groups that represent developers and other people say it's such an issue they have to deal through 29 local council bodies, when in reality it would seem to me that they're just dealing through TasWater. It is often portrayed that the councils have more influence than they actually do. In fact, we heard from one of the mayors who said he sometimes will have a differing opinion to TasWater, but he respects the decision that the board makes. In reality it is just dealing with the one independent body. Do you see a risk to that under the proposal to change its structure? Do you think that will water down the independence of TasWater under the new structure?

Mr McKEOWN - Craig, you've highlighted the main risk there. If an entity with an independent board is now responsible to the minister for the functioning of TasWater's services is affected by 29 councils going to the minister and seeking to influence decisions, that interference is a real problem. My understanding, and the industry's understanding, is that the TasWater board and management have worked constructively with the 29 councils. We're not aware of any major issues. We are aware of differences of opinion, as you rightly said, but we understand there is a good degree of respect and trust between the entities.

If that is all removed and a new system that is not open to the same transparency replaces it, there is a real risk that the confidence and the ability to achieve things for Tasmanians in terms of water management could be seriously jeopardised.

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Mr FARRELL - You probably haven't had a chance to see the legislation since I think it was only passed through the lower House yesterday, but what is being proposed is not actually a proper GBE model. It seems to be more like an older-style commission that hands a lot more power to the minister or treasurer of the day

Do you deal with other places in the country that have a similar model, where that high level of responsibility is with the Treasurer?

Mr McKEOWN - If the treasurer or the minister has responsibility or any way of influencing day-to-day operations, I would have to point to most states 20 years ago - the model that has been outgrown in the last two decades. I could point you to many countries in the Middle East and Asia that have that same challenge, but Australia has moved on very competitively since those days.

Mr FARRELL - Thank you very much.

CHAIR - Thank you very much for taking the time to speak with us today and for putting your submission in. It has been very interesting and very beneficial, so thank you for your time.

Mr McKEOWN - A pleasure, thanks, Rosemary.

THE WITNESSES WITHDREW.

PUBLIC

Mr MALCOLM EASTLEY WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR (Ms Armitage) - As you are probably aware, all evidence taken at this hearing is protected by parliamentary privilege but I remind you that any comments you make outside the hearing may not be afforded such privilege. A copy of the information for witnesses is available if you have not read it and/or unaware of the process.

The evidence you present is being recorded and the *Hansard* version will be published on the committee website when it becomes available. By way of introduction, the procedure we would like to follow is that if you would first like to speak to your submission, members will then have the opportunity to ask you a few questions.

Mr EASTLEY - Thank you. I am a pensioner in actual fact, but I represent all the cafes, coffee shops et cetera, in Deloraine. We had a meeting with our local council and we had a meeting with four executives of TasWater.

The immediate problem is about the grease traps on the trade waste issue. Quite frankly, the trade waste issue is very worrying to anybody in small business. There are three requirements for compliance under the policy. TasWater has introduced extra charges on discharge water based on 80 per cent of what goes in, you pay a discharge rate.

They are now putting in grease traps and they informed us they have already established 2000 of them and it would be unfair not to enforce them in other places. That is basically unfair in itself. If those grease traps are not required and not necessary, why would you force them to be put in in other places?

The third one is that commercial sinks have to have a basket underneath with 3-millimetre holes. That is a 3-millimetre drill and every one of us has an ordinary sink which has about a 10-millimetre hole in it. That sort of basket, when it is applied, will be unworkable.

The problem of the grease traps is they also are unworkable. Many houses and cafes in the central business districts are conjoined and there is nowhere to put them. In the main street of Deloraine they back into a cutting and there is basically nowhere to put them either so there is always going to be a non-compliance issue or an unfairness issue there.

The cost of installing them has been quoted at between \$3000 and \$10 000 depending on the site, and they have to be pumped out, according to TasWater, every three months. It is going to cost between \$400 and \$800 a year just to pump them out. Then it has to be taken somewhere else and treated anyway.

This sort of trade waste should be treated at the local plants. If the plants cannot cope they should be upgraded to do so. We have been asking for a moratorium on the installation of those until it is properly looked at.

In our discussion with TasWater, they recognised that different areas around the country have different problems. To quote them, 'Where you have a high density of Italian cooking or something like that in a high density, you have a problem with congealed fats'.

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In Deloraine, for example, which is on a hill, there has never been a problem with blocked sewerage from fat or grease. There never will be because of the fall on the main road. It is unfair to put these things where they are not required.

We asked them what data they had on where these volumes of grease are accumulating. The only thing they can say is that they have data, but my suggestion always is that people do not look at those things where there is no problem. They found a problem somewhere like Cabramatta and are now introducing the same cure for the problem across the country. In many cases it is just not warranted. It is causing a great deal of grief at the moment. Probably until that issue of what quality of water is going into the treatment plants is addressed, we do not believe the quality of water coming from small cafes and coffee shops differs to any great extent to that coming from residential areas. Residential users are probably more likely to tip the cooking oil down the sink than cafe owners. All the cafes I can think of recycle their oils. It is the basis of ecodiesel. There is a sale market for it. Anybody who is not recycling their oil is just silly. They should be encouraging everybody to recycle their oil. At the end of the day, if it is not required, why on earth are they charging extra at treatment plants for trade waste? It is probably the question that this committee should be asking TasWater: where is the data in Tasmania that indicates there is a problem with oil levels in the water?

Probably the best example I can give you is that at the top of the hill in Deloraine there is a laundromat. The owners have been instructed to put in a grease trap. Their discharge water is soapy water out of a washing machine. If anything, it is going to flush the lines out. As you may know, they are plastic, about a metre by a metre, and they have to be outside. They smell in operation. To pump them out, you are opening a sewer so it is not the sort of thing you want to be doing in a main street. The only place at this laundromat they can put them is in a narrow driveway. It is a hopeless situation. It is just not warranted.

The second issue that comes to mind is the overall cost. TasWater is using a three-year activity plan but fully funding their operations in a 10-year plan, as far as we understand it from our local mayor. Every one of us who has bought a house would know that if you fund your house over 10 years, you cannot afford the payments. When you are building infrastructure for a 50-year period, there is nothing wrong with financing it over an extended period.

When local councils could not cope with the task they had, they started introducing a 10-year loan to developers. I think you might be familiar with this. It is a 10-year loan with no payments for 10 years. It accrues a small amount of interest and that gives the developer time to sell the blocks and then pay off the loan at the end of the 10-year period.

It is a brilliant concept except that it should have been done by TasWater, or the councils in the case of roading and footpaths. If they took up the loan, it means lower-priced house and land packages. It encourages the building industry and the rate base increases more quickly because the buildings come on line a lot quicker. At the moment, we have a perfect example of this with the Birrallee Road industrial precinct, where 10 years ago they did that sort of thing with a loan for 10 years and it stifled growth straightaway because the land became too expensive. It took 10 years of natural inflation - after 10 years at 2.5 to 3 per cent a year, those blocks now look 25 to 30 per cent cheaper than when they first went on the market.

On top that, the council had to make some concessions about rate redemptions for a couple of years. Finally, it is up and running but the way it was financed stifled growth in this state. If we turn it around and give the opportunity to TasWater and the councils to do the same thing they are

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asking developers to do - borrow the money at a low interest rate, no payments for 10 years, and at the end of that time, refinance again after another 10 years - you can finance that sort of infrastructure over 30 or 40 years and be able to afford it.

We have put that to TasWater along the lines that it is actually double dipping, and they acknowledged that double dipping is illegal. Their view is that when a developer pays for those costs, the money is not used for infrastructure, it is used for debt. I find that a very naive comment because the debt has come from the establishment of the infrastructure. I don't think it will be my interpretation or theirs, but sooner or later a developer will take that to court and test the legality of double dipping. That needs to be attached straightaway; if you do that, it solves the problem of the increasing costs of water. In our municipality we used to pay around \$300 and we are now paying \$1100. The ratio between rates and water used to be one-third water and two-thirds rates. It is now two-thirds water and one-third rates and we have a river going through the town. It is a ridiculous situation and it's not necessary.

The Government, TasWater and the councils need to work together. We tried to bring them together and make a decision. The last thing I want to see is for them to go to court and test who is responsible. At the end of the day, the lawyers get paid and we either pay as taxpayers or ratepayers, depending who wins that argument. It is unnecessary.

If you people can organise a suggestion of a different body - and it needs to be probably under the direction of the minister but autonomous - any talk of dividends is something we don't want to see. If a dividend is paid to the government from TasWater, it becomes a tax on water. If a dividend is paid from TasWater to councils, that is simply cross-financing and that, too, is a problem. Councils lost the income from water but they also lost the expenditure - the expenditures they couldn't cope with. They have to realise they are in a process now of reducing the size of their business. They have always had administration and people working in the workplace with part of their task involved with water. They no longer have that so they have to restructure their workforce.

What the Government is doing in giving money to councils for the next seven or eight years. I believe they should welcome that as a way to try to restructure their business to where it ought to be. We look at it this way: it is not the councils that own the infrastructure, it is not TasWater - it is the ratepayer who owns our infrastructure. We have employed councillors and council workers to handle that side of it and the water side of it. Now we are taking away the water and giving it to TasWater. It is not a matter of paying a dividend back for an asset the ratepayer owns. It simply becomes cross-financing to local councils. It is not warranted and it will lead to higher and higher water prices, not lower ones.

The current situation with the water prices as they are is that they can be reduced immediately if they refinance the existing loans over 30 or 40 years instead of a 10-year period. All this is manageable if we can bring all the necessary work forward. If you go back a few years, had councils realised they could refinance that way, there would not be a TasWater. They could have managed it themselves, basically, and had the opportunity then to take up these 10-year loans.

It is a very generous business plan if they can have three income streams. They have some money to come from infrastructure loans to try to think things along as we normally have. They have the normal part of the water rates, which is for construction, and now these 10-year loans coming on top of that. That is a very generous business structure. When I started business I wish

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somebody offered me a 10-year loan, I can tell you. They have not realised; they have put that onto the developer and not taken it up themselves. It is a golden opportunity missed.

CHAIR - I do not think the council had the opportunity of doing that and keeping sewerage and water. I do not think they had an option there. Are you happy to take some questions?

Mr EASTLEY - Yes.

Ms RATTRAY - Thank you, Malcolm, for coming along and presenting the information. You are representing an extensive list of businesses. It is not the first time I have heard about the trade waste situation. I suggest that if some businesses could get out of it for \$10 000, they are probably doing a good job. A couple of my businesses are looking at up to \$40 000 because they actually have to dig up the whole floor adjoining their work area in their bakery. Because they cannot match the tiles, they have to retile the whole floor. It certainly is a big issue.

My concern is: would it be a different issue under government or under a GBE arrangement? It may be a question you cannot answer but I wonder if TasWater indicated to you whether, under a different structure, they would be able to make that non-compliance acceptable or not? Do you have any understanding of the options?

Mr EASTLEY - In our discussion with TasWater, I got the impression they were not interested in any restructure and doing anything any differently. They were not listening at all. The only thing they suggested was sending somebody out with a less arrogant attitude to talk to the local people. It does not solve the problem; the problem is not who owns TasWater, it is the compliance issue. The fact is they have not done their own research. They are bringing this policy of grease traps from an area completely different to Tasmania. The Tasmanian hospitality industry does not have the flexibility you might have in Queensland where you have no period, like our wintertime, when there is nothing happening. Our small businesses cannot afford to pay what somebody on the Gold Coast might pay. It cannot be done.

Ms RATTRAY - You also suggested that local treatment plants should be upgraded to deal with the waste coming into the system and not expect it to be done on site. When you posed that question to TasWater, was there any response to that or is it that at the end of the day the customer will pay anyway?

Mr EASTLEY - Their response basically is that once one person installs it everybody should install it or it is unfair. Our view is that unless it is necessary, it is unfair. If it is necessary because they have a low area with congealed fats being a problem, okay, address the issue there, but across the board it is just nonsense. That is where we're hung up at the moment. TasWater's attitude was very poor in the way of listening to problems. We think we have a good case. We think the difference between trade water from these little places and residential is so little that the local plant should be able to cope. If they can't, they should be upgraded to be able to do so. That's cheaper than doing it this way.

Ms RATTRAY - In regard to your suggestion about taking the money that's been borrowed and making it over a longer period, most of us call it intergenerational funding of infrastructure and we see it very often, particularly for governments. Do you think 50 years is a reasonable intergenerational period? I suspect that some of the existing infrastructure is probably 100 years old. If you're replacing old infrastructure with new infrastructure, would that be a 100-year life cycle as well?

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Mr EASTLEY - My point of view is that in TasWater's calculations they should be designing infrastructure with at least a 50-year lifetime. That means you shouldn't finance it over more than 50 years, you need to come underneath. When you're talking about this problem of the way the finance is organised, it should not be a dividend paid. It's the easiest thing in the world to have a body that at the beginning of June each year they know how they're going. If there's a profit there from water, it shouldn't be paid as a dividend - it should be paid over to retire debt. It is the easiest thing in world to have a body that balances their books basically in that way. You're using the finance side of it to do the balancing for you.

Ms RATTRAY - Just from what we've heard today councils believe that because they handed over their infrastructure to the TasWater body, as it is now, they deserve to have some return on asset. You're arguing that it shouldn't just be going back into general council services.

Mr EASTLEY - Absolutely not.

Ms RATTRAY - Council should be looking at cutting their cloth to deal with the money they would be getting from the community or providing fewer services perhaps?

Mr EASTLEY - Exactly right. My history is in the timber history and we had boom or bust cycles. It is the easiest thing in the world to grow your business, which councils have been doing over the years. They have never before had to face a situation where the workplace or their work cycle is reduced. They now have to cope with the fact, as Tania says, that you cut your cloth to suit your job basically. They're having difficulty with that. They need assistance from the government with extra money to councils to cope with that, not extra money to finance footpaths out of water. That is just completely wrong.

Ms RATTRAY - One particular council I recall when we were talking about this - and they've been around a while now - when we were forming the four entities, one council was cross-subsidising their general rate by millions of dollars from water and sewerage, and that was a huge issue. There was one doing that big time.

Mr EASTLEY - That happened many years ago and it didn't really matter when they're responsible for both. If they had an issue on one side, they could cross-subsidise it, without doing it long term of course. Now you have two bodies, one responsible for the footpaths and one responsible for the water and there should be no cross-subsidy in that.

Mr VALENTINE - I think actually my question has been answered, but in respect to the statement that they shouldn't be cross-subsidising: quite clearly councils believe they have an asset that is worth X amount and under National Competition Policy rules, they are actually to make a profit out of their assets. That is where the tension lies. It may well be an opinion you have and I suppose it's an opinion I may have, but you know what I'm saying that is the issue.

I guess the difficulty is that across the whole of the state you have such a disparity of levels of investment by each of the individual councils that they had to come up with some way of being able to handle it all. Dividends paid back to the various councils according to their level of investment probably is the way they have chose to do that. To get back to your original observation, it matters not who is actually the owner - that will not change your problem, will it?

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Mr EASTLEY - I believe the councils have handled it badly. TasWater was created because they could not cope with the problem they had on their hands. It has worsened since then because they are still trying to manage TasWater.

A representative from each council goes along and gives them advice et cetera. That has not worked because of the cost blowout - that is my judgment on that. We are paying four times as much for water now as we used to. We were paying \$300 as a residence. We are now paying \$1100 for water.

Mr VALENTINE - Some would say it is because so many other areas did not have developed sewerage systems and that is what TasWater is now doing and it has to get its money from somewhere.

Mr EASTLEY - Exactly right.

Mr VALENTINE - So it has lifted the price. I guess my question is that in changing it to the Government, what hope do you see that the Government is going to change the way it does that micromanagement?

Mr EASTLEY - No, I am not saying that the Government's position on this is correct either. They are talking about dividends to councils. That is quite wrong. It should be an independent body that has a non-profit basis at the end of it.

Creating dividends from water is creating a tax if it goes to government. That is not where we have been in the past and it is not where we want to go in the future. Profit made from water should go back to water, and the easiest way to do that is retire debt you already have. It is a simple thing to do.

Mr VALENTINE - I understand. There are a few assumptions in there but I understand what you are saying. I have no more questions.

CHAIR - Thank you very much for your submission. Thank you very much for coming in and answering questions. It has been very helpful.

Mr EASTLEY - Thank you.

THE WITNESS WITHDREW.