

# UNCORRECTED PROOF ISSUE

**Tuesday 2 December 2014 - Legislative Council - Government Businesses Scrutiny Committee A - TasWater**

## LEGISLATIVE COUNCIL

## GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

**Tuesday 2 December 2014**

### MEMBERS

Mr Armstrong  
Mr Farrell  
Ms Forrest  
Mr Gaffney  
Mr Hall (Chair)  
Mrs Hiscutt  
Mr Mulder

### IN ATTENDANCE

**Mr Miles Hampton**, Chairman  
**Mr Mike Brewster**, Chief Executive Officer  
**Mr Dean Page**, General Manager Finance & Commercial  
**Mr Andrew Beswick**, General Manager, Manager, Finance and Commercial Services  
**Mr Cam Crawford**, General Manager, Strategy and Stakeholders

**The committee resumed at 11.18 a.m.**

**CHAIR** - Welcome, gentlemen.

**Mr HAMPTON** - This has been an extraordinarily challenging first year for the new corporation. Whilst not everything has gone to plan, I believe the core commitments made in regard to the formation of TasWater have been delivered. The board is confident there is much more benefit to be realised from the formation of the single corporation over the ensuing years.

Key highlights in terms of our first year:

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As a single entity, TasWater delivered an after-tax profit of \$27.2 million, slightly ahead of budget. We paid \$29 million in loan guarantee fees and income tax equivalent payments and dividends to owner councils, exactly in line with our undertaking to them.

In our first year we exceeded our savings target, which was \$2.5 million, and laid the foundation to achieve savings targets in excess of year two onwards. I am pleased to say that, only four months into the second year, we now are confident we will exceed the \$5 million savings target that we set ourselves from year two onwards.

At the end of the June this year TasWater employed 835 people in 788 full-time equivalent positions, maintaining a similar staffing ratio across the state's regions, which was one of the commitments we gave to owner councils when the corporation was established.

A principal focus of the board and the management team from day one has been that of safety, because the safety performance in the former corporations was simply unacceptable, despite the efforts, considerable as they were, to improve the safety outcomes. We committed to a zero-harm workplace. I am pleased to report that we are making traction, with the lost time injury frequency rate falling 37.5 per cent in the year, and the total recordable injury frequency rate is down by 27 per cent. I am please to update that data by saying that at the end of October 2014 the lost-time injury frequency rate is now down 68 per cent. There is much to be done and too frequently the board received in its monthly reporting information of near misses that, barring good fortune, could have resulted in serious injury or worse. So it will not cease to be a focus until we are achieving zero harm statistics.

Our completed projects this year included the delivery of fully treated water to Lilydale and Westbury, and a new sewage pipeline between Taroona and Sandy Bay, decommissioning the Taroona sewage treatment plant, thus improving water quality in the Derwent. Customer connections are also underway as part of the new Lauderdale sewerage scheme. Our progress is recorded in considerably more detail in the annual report.

I would like to now speak on four matters that are not detailed in our annual report.

First, the underlying premise that guided TasWater in all of our decision-making. Second, our ongoing desire and recognition of the importance of listening to concerns of our owners - the councils across Tasmania. Third, the impact on our business of the regulatory framework and, fourth, to acknowledge where we have fallen short, why and, where relevant, what we plan to do about it.

Let me turn first to the underlying premise that has guided TasWater in all our decision-making. From the time we were established we had one single focus - transformational change. We were simply not taking four organisations and turning them into one. The previous reform, when the activities of 29 councils and three bulk water authorities were merged into four corporations, was an enormous task, but the end result was simply a scaled up version of what had previously existed. When I promoted and ultimately got your endorsement of a move to a single corporation it was with a promise of significant change. What do I mean by transformational change? Put simply, it is about rethinking everything we do - what we do, how we do it and when we do it. It is about being smarter, faster and leaner. It is about thinking of the big picture but being on top of the detail.

The board appointed Mike Brewster as CEO. Mike had previous experience as a CEO and had demonstrated leadership in transforming organisations. We empowered Mike to put together the

best possible team to deliver real change. Yes, it has been important during our first year to continue to deliver on the here and now and not lose sight of business as usual, but at all times we have been focussed on establishing a framework for change. We are not there yet. Indeed we have a long way to go but a clear foundation has been established and perhaps more especially, or indeed more significantly, a clear expectation has been set.

We want to be an organisation that challenges the status quo as we seek to provide quality water and sewerage services to our customers. We want to conduct our business in a professional, cost-effective manner in line with the expectations of our customers, the regulators and our owner councils, delivering improved water and sewerage outcomes based on the best technology and sensible investment decisions.

TasWater aims to constantly review the way we do what we do to give better service, with a constant eye on costs. We have an overwhelming focus not to become just another bureaucratic organisation, but rather to strive every day in every aspect of our business to be customer-focused. In this respect we seek to be no different from a commercial business.

The second area is that of being a listening organisation. I suspect there are some of our owner councils who still hanker for the days when they can make operating decisions in our space, but we do appreciate that they have allowed us to get on with the task. In return we have recognised the unique ownership structure and have at all times sought to engage with our owners, seeking input, indeed seeking guidance, on the key initiatives as we have progressed. TasWater has listened to owner councils who called on us to facilitate economic development and to address specific concerns over the underlying methodology of headworks charges. As a consequence, and after an extensive investigation by Frontier Economics, the board determined to eliminate headworks charges on serviced land after negotiating transition financial assistance from the state Government.

We listened to our owner councils over the pricing transition timeline and have put forward a proposal to the Economic Regulator that by 2018 no customers will be above target tariff and the vast majority of customers will be at target tariff.

We have recognised the concerns of owner councils over affordability. In the first year of the next pricing services plan TasWater is in effect proposing a 22 per cent decrease in the north-west target tariff and no increase in the target tariff across the other regions of the state. This will be followed by 6 per cent increases in the following two years, and we are flagging increases of 5 per cent in PSP3 and 4 per cent in PSP4. To enshrine our focus on costs we have gone further. We have challenged our management to see if we can operate with lower increases than we have flagged.

Let me now turn to the impact of the regulatory framework. Prior to reform in 2009, the impact of regulatory supervision on both the former bulk water authorities and the council water and sewerage operations was negligible. The cost was minimal and the oversight was minimal. Whilst I am not questioning the need for regulatory oversight, given that we are a monopoly service provider, I question whether the pendulum has swung too far.

In my view every part of the value chain needs to be examined and tested to determine the extent to which it contributes to better outcomes. This includes the regulatory framework. I am particular concerned that the cost of regulation is disproportionate to our scale. For example, the direct cost of regulation this year will exceed \$3 million, and we estimate the direct costs are likely to be in excess of a further \$1 million, making a total cost in excess of \$4 million. With total

expenses, before depreciation and interest, of approximately \$150 million, this represents an impost in excess of 2.5 per cent. This impost was not in place prior to the reform that occurred in 2009. At the end of the day, this cost is paid for by our customers, the households and businesses of Tasmania.

I am also concerned with the ongoing negative commentary from regulators, both publicly and in private, on our decision to pay dividends to our owners. This is a fundamental precept of the model when it was established, and stable cash flows are essential for our owners to maintain community services. In our view, the returns to our owners for their investment are very low and would not be acceptable in a commercial environment.

The approach to regulatory oversight needs to match the local context, not just to copy what has been done elsewhere, paying no regard to the impact and impost on the business and ultimately our customers. Whilst the regulatory framework parallels arrangements in other states, the question has to be asked, are the current regulatory arrangements and imposts appropriate to Tasmania. We look forward to engaging with the Government in their review of the Economic Regulator and offering our perspective on the current regulatory model.

I am the first to acknowledge that not everything has gone as we would have hoped. There are a number of areas where we would have liked to have done better. Our capital spend in our first year was only \$78 million. We had been targeting \$90 million. The shortfall was as a result, in part, of the disruption that occurred of moving to a new business model and the need to develop a long-term sustainable and consistent project delivery model, because we had three different models.

For the FY 2015 we are planning on \$90 million and we expect to deliver that and in FY 2016, \$110 million. If we are going to deliver that, the work has to be starting now, and the work is starting now.

Our customer outcomes continue to be well below what is required for a modern day service provider, but it is getting better. When I talk about customer outcomes there are two key areas. The first key area is our call centre, because that is where the bulk of the community have contact with us. Last year we received over 130 000 telephone calls. We answered 92 per cent of those in less than 30 seconds. That may not sound terribly good, but in our former life there were periods when we were answering less than 50 per cent of the calls inside 30 seconds.

In the area of the call centre we recognise that one of our biggest weaknesses is that often customers have to call several times to get a complete answer to their questions. One of our ongoing focus is how can we deliver first point of contact solutions to the queries that are raised.

The second major area where our customers are impacted by our business is in terms of breaks in supply of water, and skirmishes or disruptions in the sewerage services. There is no doubt that in both areas we are well below the national average and well below an acceptable set of numbers. That is perhaps the fundamental reason why the reform occurred. We are making traction. More significantly, we are confident that our plans will make a material difference to the disruption to our customers caused by the ageing infrastructure that we have inherited.

The third area where things have not gone to plan relates to our enterprise agreement and I suspect there will be some questions on that. I remind you that when we were established we inherited three enterprise agreements on the three operating entities and at Onstream there was not an enterprise agreement in place. We had the task of bringing those three enterprise agreements,

and those staff who are not covered by an enterprise agreement, into a single agreement. The board set the framework which was quite simple. There were two simple objectives. The aggregate cost - that is, base pay, terms, and conditions - should not be more than an increase of 3 per cent in the first year and CPI in the out years. We left our management to work with our employees and the unions as to how that 3 per cent was delivered.

The second focus was to make sure the terms and conditions were exactly the same across the state because in effect we inherited four sets of terms and conditions. It was unacceptable to us that we would move forward beyond the life of the EAs we inherited with different terms and conditions in different parts of the state. The board set the parameters and I am sure there will be other questions around the detail of that.

We would have liked to have completed the restructure earlier but, given the scale and complexity of the change, an increase in speed would likely have negatively impacted on our requirements to operate as business as usual. While we have been restructuring, we have had to continue to operate our business. Perhaps our biggest disappointment has been our inability to garner significant external sources of funding. When the reform first happened, it was on the back of the prospect of hundreds of millions of dollars in funding being made available to us to fix Tasmania's ageing and failing water and sewerage infrastructure. We are simply not in a position to fund the many hundreds of millions of dollars required to bring the state's sewerage and water services infrastructure to current standards without imposing tariff increases that the Tasmanian community cannot afford. Addressing the problems caused by the out-of-date and failing sewerage infrastructure located in the Tamar and Derwent river systems alone are expected to cost in excess of \$400 million.

In reflecting on our first year, I would like to express our thanks for the interest and support we have received from our owner councils and from the community by and large generally. On occasions we have faced significant negative publicity across a range of matters and on occasions that criticism has been deserved, but often it only tells part of the story. I am confident that if we continue to work with our owners in a collaborative manner that has been the hallmark of our first year, this unique model of ownership - and I think it is unique - of councils of a significant utility service provider, can deliver lasting benefits to our community. To you, the members of the upper House, I extend my thanks for your support in backing the legislation to reform the state's water and sewerage management system from four corporations into one. It has enabled us to embark on the job of building a community-owned utility focused on making a positive difference for the Tasmanian people, employing a broad range of well-trained technical, administrative and field staff across the state. I seek your support to ensure we receive the funding that is needed to fix the state's infrastructure while keeping tariff increases affordable.

**Mr GAFFNEY** - Miles, you mentioned a \$3 million cost for regulatory impost. How many regulators do you have? I know there is the dam and the environment - is there a breakdown of the different regulators and how much it costs? I could not find it in the report and you mentioned the money and I was wondering if you could list the different regulators you have to work for and what each of those costs are for the organisation?

**Mr HAMPTON** - I think we can list the regulators: OTTER and the Department of Health and Human Services.

**Mr BREWSTER** - EPA, the Water Policy Unit in DPIPW, and to some degree Tas Fire Service as well, so we have some obligations in terms of hydrants, et cetera.

**Mr HAMPTON** - Effectively, we are required to fund their scrutiny of us.

**Mr GAFFNEY** - You have estimated that it is about \$3 million?

**Mr HAMPTON** - That is the direct cost that we pay externally. Then we have the indirect cost that we have identified in excess of \$1 million, making it \$4 million, but there is a further cost because every time we look at a capital plan we have a significant expenditure that is not included in those numbers to make sure that when we present it to the various regulators it will comply with their expectations.

**Mr GAFFNEY** - And that was not envisaged five years ago when this was set up, or it was not expected?

**Mr HAMPTON** - The former corporations, of course, were not in place. I understand that Treasury must have anticipated that because it is provided for in the legislation.

**Ms FORREST** - If it had been in the past when local governments were building infrastructure themselves, they would have had to go through a whole range of regulatory processes to undertake works and things like that - this is what you are referring to - but how do you see it could be reduced or streamlined to reduce some of your costs? It is \$3 million this year, \$4 million next year, a 2 per cent impost.

**Mr HAMPTON** - There are a number of areas and, as I flagged in my comment, we are looking forward to the opportunity to engage with the Government on ways we think the direct dollar cost, the indirect dollar cost and the time issues can be addressed.

**Ms FORREST** - What sort of things?

**Mr BREWSTER** - I can give an example. We have just released our wastewater quality report for the year, which is basically an environmental report. In complying with the templates it was in the order of 1 500 pages, so you can imagine how many people are involved in preparing that. I am not saying it is not useful information, but it is an extraordinary amount of people's time in preparing a report. That is just one report that we undertake. So one of the questions for us is how we get reporting to the point where it is optimised for both parties, is easy for us to deliver and only delivers to the regulators what really matters at the end of the day. Part of it is saying of these reports what really matters and how can we both reduce our resourcing in this space because it is a significant -

**Ms FORREST** - You would need to sit down with the regulator to work that out rather than the Government.

**Mr BREWSTER** - The process is that the Government is going to undertake a review and we will be inputting into that review. We will continue to work through this with each of the regulators. Then you have OTER that sort of circles all of them. We will continue to express our views in that space.

When you start up, everyone is coming afresh, everyone is looking from their perspective at what is needed, so the risk for us is that it does not actually reduce the starting point in terms of the regulatory requirements or regulatory framework, which remains. In the same way we have had to

find significant savings, and we will continue, there is a definite need for all parties to be focused on delivering their part of those savings.

**Mr GAFFNEY** - It must become frustrating when the EPA continually puts media releases out saying that the council should not be accepting dividends; it should be going into the environmental standards, but those standards seem to be changing all the time. I read this is a lot with the water and sewerage. They are quite happy to let, I believe, other organisations not put all their funds into environmental standards, but the expectation of TasWater is that they do that. I think that is quite unfair in a lot of ways. Can you comment on that?

**Ms FORREST** - In terms of reporting?

**Mr GAFFNEY** - Yes.

**Mr HAMPTON** - You touch on two things. On a number of occasions they have criticised us for paying a dividend. The payment of a dividend to our owners is part of the construct. It was always contemplated. The payment of tax equivalents to owners was always contemplated. The payment of loan guarantee fees to our owners was always contemplated. Not much point in one of the regulator's attacking us over that space when it was part of the contemplation.

In 2008, Treasury assessed that our owners were receiving a contribution from water and sewerage services of about \$24 million, if my memory serves me correctly. We are now in 2014 and we paid our owners this last year, and it is in the annual report, \$29 million. Yes, it is true we have discretion on the dividend component, which again, if my memory serves me correctly, was \$18 million this year. The balance was in tax equivalents and loan guarantee fees. We do not have any discretion on the tax and loan guarantee fees. We do have a discretion on the dividends. But paying our owners \$18 million on their investment of \$1.5 billion is a pretty minuscule return.

**Mr GAFFNEY** - I read somewhere that it was \$15 million.

**Mr HAMPTON** - The forecast dividend is \$15 million, because we will be paying more in tax equivalents and loan guarantee fees. In our first year we paid \$29 million and this year we have committed to our owners that we will pay them \$30 million in aggregate. That was an arrangement we came to with our owners so that it did not matter whether it was loan guarantee fees or tax equivalents. Whatever they are, we will then top up the difference to make it \$30 million. It has given our owners absolute clarity of the cash they can expect from us.

**Mr PAGE** - Note 7 of the accounts is \$18.6 million paid out this year.

**CHAIR** - When the Parliament originally did the legislation for three water corporations, the former treasurer, Mr Aird, said that one of the selling points was that this would unlock perhaps billions of dollars that would be able to be accessed in terms of sorting out the infrastructure in the state. But you have expressed the frustration about getting external funding, yet we were told by the Auditor-General yesterday that you had lots of unused borrowing capacity. I am trying to work out where all that sits. Could you explain your first statement about the external funding that you cannot get, and is there a lot of unused borrowing capacity you have there?

**Mr HAMPTON** - I will deal with them in reserve. In terms of borrowing capacity, we are presently at gearing level of about 20 per cent. We contemplate we would not want to go beyond 40 per cent. I suspect our council owners would prefer it to be less than that, but we think it could

be prudent for us, from time to time, to be at 40 per cent. That gives us an immediate borrowing capacity.

At the present time, and we foreshadowed it, we are moving to a \$110 million capital program, and our depreciation charge is about \$60 million. We will be funding, out of borrowings, \$50 million a year over the next 10 years at a minimum without tackling the major projects of the Derwent and the Tamar. We will be starting to hit the 40 per cent gearing level that we think is the maximum we ought to be prepared to consider without tackling the Derwent and the Tamar, simply doing compliance-type of capital investment.

We acknowledge we have headroom today in terms of our borrowing capacity. We will use that headroom in our day-to-day capital program. That leaves, outside that, the major projects that would take us into a situation. As a board, and in the legislation it is clear, we have a focus on the financial sustainability of the business and beyond that level we would be uncomfortable. We are not going to be able to tackle those projects without some external assistance.

**CHAIR** - That external funding, could you elaborate on that please - where you would source that from.

**Mr HAMPTON** - If we went back in time, one of the major negatives about the establishment of the four corporations, and now one, was that before that, 29 councils made an art form of and were extremely successful in accessing funding from various Federal Government departments and programs, to fund infrastructure works in their region.

**Mr GAFFNEY** - The state government too.

**Mr HAMPTON** - And state government too. From the day we were established, the four former corporations and now TasWater, those lines of opportunity are removed. It left only one line of attack and that was Infrastructure Australia and we made an extraordinary effort, and at one point thought we were making some traction but Infrastructure Australia is significantly influenced by the priorities of the state.

**Ms FORREST** - Wasn't it a risk of us, the Legislative Council, supporting your push to have one corporation that you then changed the framework, so other avenues that the councils may have used in the past to get grants are no longer there? That was one of the risks wasn't it?

**Mr HAMPTON** - That was not the risk from four to one. That was the risk from 32 to four. That was already in place.

**Ms FORREST** - Yes.

**Mr HAMPTON** - That position is unchanged from four to one.

**Ms FORREST** - That was the risk from any of the reform.

**Mr HAMPTON** - Going back to the first reform that is when that avenue of funding,

**Ms FORREST** - We supported the change.



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**Mr HAMPTON** - I think you supported it on the basis of an expectation that there would be several hundred millions of dollars of Federal and state government funding and we have not seen that. It is not that we have not tried.

**Mr GAFFNEY** - You did get some money for water meters of \$10 million, or something?

**Mr HAMPTON** - We got some money for water meters in the part of the state that did not have water meters.

**Mr GAFFNEY** - That is right, yes.

**Ms FORREST** - That was in the first lot of reform.

**Mr HAMPTON** - Yes.

**Mr GAFFNEY** - It is interesting what you said about the Government's push, or the state's position, because it was not long after that that the \$280 million became available for the irrigation scheme. From a Federal point of view what was happening is that, yes, get into one, we only want to deal with one group, and we went into three or four, and then suddenly the money was available on the table, \$280 million for irrigation schemes from the Federal Government. That is where the Government's push possibly was and we were left out on a limb.

**Mr HAMPTON** - At the time of the initial reform there was talk about compounding 10 per cent increase in tariffs over 10 years which on any metric would have meant that we would be having the most expensive water and sewerage services in Australia where those services are provided. We did not need to be guided by our owners, but guided by our owners, was simply unacceptable. Even 6 per cent is unacceptable and some have the view that 4 per cent is unacceptable. Our ultimate objective is that it should be no more than CPI.

Our customers have shared some of the pain. We do not think we can call upon them to share all of the pain.

**Mr ARMSTRONG** - Launceston's storm water - have you made any headway there, Miles, into what was happening?

**Mr HAMPTON** - There are two issues there, Robert. There is the practical issue of the problem we have in the Tamar caused in part by the dual system, and there is the payment of money for the dual system.

I called more than 18 months ago for it to be arbitrated because we felt it had been going on for too long. It is now finally in arbitration and we are expecting a decision, hopefully no later than the end of the first quarter of the next calendar year. Our position is unchanged and we think Launceston should be paying somewhere between \$4.5 million and \$6.5 million in today's dollars - the numbers that we talked about earlier were in 2009 dollars - and our external consultants have supported that view.

There remains the big question of what element of retrospectivity might be applied or would be a further phase-in. Our view is five or six years later, the phase-in period has already been there. Both parties have agreed to go through an arbitration process and we will accept the decision of the arbitrator, and presumably so with Launceston.

**Mr ARMSTRONG** - On page 13 it says -

The Tasmanian Government's decision to waive head works charges boosted building and plumbing applications in the last quarter of the year.

Can you give me an idea of what sort of percentage had increased in that last quarter of the year?

**Mr PAGE** - I have some data up to the end of October this year. It is a six to seven month period of the application of the moratorium and over that time we have seen close to a doubling of planning and plumbing applications through the organisation. Under the moratorium a total of \$3.6 million of head works charges have not been charged against developments and our numbers through November are continuing to show that strong growth, a year-on-year in applications.

**Mr ARMSTRONG** - Thank you. On the target tariff - you touched on it, Miles - that the north-west coast is going to have an increase this year?

**Mr BREWSTER** - Decrease, 22 per cent, that is combined.

**Mr HAMPTON** - That is a direct result of the move to a single corporation. If we were still in the four former corporations the north-west would have had a much -

**Ms FORREST** - We were still paying too much, Miles.

**Mr HAMPTON** - Some may have that perspective but the reality was the debt that came across to us from the north-west councils put Cradle Mountain Water in a very difficult position.

**Mr ARMSTRONG** - The target tariff we were looking at was \$1 080 or something?

**Mr BREWSTER** - That would be right combined with the sewerage. Yes, that would be about right. I could not tell you exactly from the top of my head but we can check it.

**Mr HAMPTON** - And that is assuming about 200 kilolitres of volumetric use per annum. So it is around the \$1 050 mark.

**Mr BREWSTER** - It is important to note that the majority of people are not on target tariff but it provides a direct benefit because the net result is, as we reduce them in the next three years, the reductions are going to be greater than they otherwise would have been. For those that are on target tariff, it is good news, because the net result is they get about 22 per cent benefit and for those below, the increase is going to be much less.

It is purely a function of the balance sheet of that corporation at that point and we have rebalanced everything. We asked, what do we need to do right now to make the business sustainable? It is not about maximising revenues, it is about recovering just what we need. When we create a statewide single water and sewage tariffs, this is the outcome we arrived at.

**Mr ARMSTRONG** - You might not be able to answer this one but are you getting many applications for extensions to areas outlying from towns that are not serviced by water and sewerage now, or sewerage in particular? I am not talking about new subdivisions.

**Mr BREWSTER** - I understand what you are saying. You would probably have to separate the two issues because it is harder for me to answer one. What we call service introductions is a town where currently no component of that town receives reticulated water or sewerage. The only towns that have been contemplated for some time are Gretna and Bushy Park. There has been some previous talk about Gravelly Beach but that is the extent of it and the reason for that is, under the legislation and the regulatory code, ultimately, if there is not a public health or environmental issue, it is a cost recovery mechanism and we are required to recover the costs so that can be substantial for customers. That is why it tends not to happen. The other concept that I mentioned is called service extension and we have a number of those. This is where we have a town that has water and sewage services, but where there is a component of the town that is currently not serviced, we are obliged to provide that service, and we have had a few. That is probably connected, to a degree, to the increased number of applications for development.

[12.00 p.m.]

**Mr ARMSTRONG** - And you would look at how many tenements and everything you will connect, to see whether it is a viable option, I would imagine?

**Mr BREWSTER** - I do not know about viable. We just have to ensure that we have the capacity to meet the pressure requirements, et cetera, so we work through that. Again, there is a cost recovery mechanism for bringing the service in and then customers have the choice of whether they want to ultimately connect, in which case they pay the fixed and volumetric charge. If they do not, they pay the vacant land charge.

**Mrs HISCUTT** - On page 13 talking about complaints, there were 702 written complaints and about 9 per cent of those were sent off to the Ombudsman's office. Was there a common theme there? Was there something particularly wrong or was it just everything and anything with those complaints?

**Mr BREWSTER** - Mostly in the early parts of TasWater, most of those complaints were related to billing. To a large degree they still are related to billing, but the billing accuracy has improved considerably in the last few quarters. If you look at *Hansard* and the Ombudsman's comments, although it was a few months ago they were quite positive about improvement in our reporting. We have made a big change to the way we deal with complaints. I actually get the briefing notes for everything that goes to the Ombudsman and if it is addressed to Miles he sees it as well. I think we have much better control over it. Going to the heart of your question, mostly it has been either about billing accuracy and probably the next one would have been legacy issues, such as: 'I had a deal like this 10 years ago,' - or five years ago - 'why don't I still have that deal?'

**Mrs HISCUTT** - Or 30 years back.

**Mr BREWSTER** - Well, in some cases. You can understand it for customers and this is why we are driving the change so hard to get to a common pricing service arrangement. Customers say, 'Hang on a minute, I read on your website that the target tariff is this, but I am paying this. How can that be right? How have you arrived at the number of equivalent tenements?' We are expecting that there will be even further improvement once we get to a common pricing regime where someone can just go to the website, look at their bill and say that lines up.

**Mr HAMPTON** - Mike, can you just explain to the members the decision process on referring it to the Ombudsman?

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**Mr BREWSTER** - First of all, it goes to our manager in the business dedicated to complaints and it then goes up to our general manager. If it is unable to be resolved and ultimately receive an Ombudsman complaint then it comes to me, and if it is addressed to Miles he also gets it. Internally, if Miles and I do not see what is really happening and do not have a direct vision of that, we are not going to correct customer service, if we do not have a feel for what is going on.

**Mrs HISCUTT** - A lot of complaints to our offices is exactly that. On your website you talk about commercial customers and what trade waste is. In there you have restaurants, cafes and shops like that. One of the complaints that I get is that they do not consider themselves to be in the trade waste department. All the oil and little bits of chips and things are taken out and sold and what goes down the sink is not greasy. I heard that there was going to be a review and you were going to send people out to talk to these businesses, is that still on the cards?

**Mr BREWSTER** - That has been happening. It has been happening for some time. One of the most challenging aspects we have had is explaining the trade waste pricing and where people sit in each of the categories for trade waste. We put everyone in the lowest category that is a commercial customer.

**Mrs HISCUTT** - Every business?

**Mr BREWSTER** - Every business and we have been out explaining to them why this is the case and why trade waste matters. Basically we are just bringing in a consistent framework that operates across the country. When it all boils down to it, 99 per cent of our - 100 per cent, if you like - sewerage treatment plants are designed for domestic waste. When they build up fats we start getting problems with the process, and when we get problems with the process we get problems with odour and we start getting phone calls about the odour.

**Mrs HISCUTT** - When you review these individual businesses, are you looking at what they are doing or are you just categorising them and explaining why they are there? Is there an opportunity for you to get out?

**Mr BREWSTER** - I personally have not been out there and done the explanations, so I need to be a bit careful here. The team provides advice as to how they can reduce their trade waste and they also spend quite a bit of time explaining to them where the boundaries are between category 1 and category 2 and what they can do to reduce their trade waste with things such as strainers et cetera. I know from many of the commercial customers that it is a big issue for them, but we also need to look at the reality. If you take Salamanca Place, the amount of trouble we have had there - and these are small commercial operators - fat gets into the pond and builds up and then we start getting complaints during the Saturday and Sunday over the smell. It is a challenging matter to resolve but we are working through it.

**Mrs HISCUTT** - You mentioned wages before and I believe you have different people involved in different awards, et cetera. Merging it all into one would be fairly horrendous. I see in the *Mercury* on 26 November there was going to be a strike. How did that go? Are you under control with your workers? Is everybody happy now? I will rephrase that: can everybody live with what is happening? Were there any good outcomes from that strike?

**Mr HAMPTON** - There is a process and if the unions are unhappy with the outcomes, they have an opportunity to engage in protected action. They did so before and they are unhappy still and they are continuing to do so. Our management team is endeavouring to explore, after recently

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our employees voted down the proposed EA, where we might find some common ground. We have not yet landed on that, but that was a direct outcome of the vote. Mike, you might like to talk about how we anticipate to be handling the industrial action that might occur.

**Mr BREWSTER** - We have an instant response team and we work with the unions, to be fair to them at this time. If there is a major incident, the unions organise someone to attend. That has been a fair and transparent way of dealing with it.

To give you some context here, we have seven unions operating as a single bargaining unit. Typically we have 30 people at the table, and we also have employee representatives. If you look at the history of this, we started in May this year and we did not get a log of claims from the unions until July. I personally intervened in September to try to break the deadlock and we have reached the point where we went to the vote and we lost it, so the process now is we have undertaken a survey to try to identify what the priorities matters are for our employees. Each of the enterprise agreements is different.

When we started this journey the unions said, 'We want the best of the best', which is unaffordable. It would be in the order of 6 per cent, when we did our modelling, per annum compounding increases in costs. Then it moved to 'We don't want to be worse off', and that is when I intervened and we reframed it around that for our employees. I said, 'Let's go through and we will guarantee that no-one on their base pay will be worse off', and now it has moved to job security. It is a bit of a moving target for us but, to be fair, with these single bargaining units it is quite difficult for them to reach a common ground themselves when there are seven unions all with different goals all representing different employee functions.

For us the only way we can see sensibly through this is we have asked the unions for their surveys, 'Tell us what the priorities are from your perspective. If you're talking to the employees, show us your surveys. We will show you our survey which says that these are the things that matter. Then our intention, as we have been very up-front with our employees, is that we will repackage but within that framework, so within that 3 per cent boundary and within the simple non-negotiables that Miles notes. We will repackage to work it better for our employees, but at the end of the day there are some principles that we have to work to and that is where we are heading. No doubt we will be back out again talking to employees.

**Mrs HISCUTT** - Yes, an ongoing feast.

**Mr BREWSTER** - It is a little unavoidable. It is just a reality of -

**Mrs HISCUTT** - At least it is working.

**Mr BREWSTER** - It is seven unions and four corporations, all under different arrangements. A lot of them have historical recollections of what they had in council and saying why is it different. We are just trying to work through it as best we can. It is protracted and will likely be ongoing for some time.

**Mrs HISCUTT** - The member for Huon touched on the headworks charges; what do you see in the future with headworks charges? Have you a plan in place for pricing and servicing of headworks?

**Mr HAMPTON** - We are effectively, subject to the Economic Regulator agreeing with it, at the end of the current two-year moratorium where the state Government is giving us up to \$5 million a year. Any way beyond that will be at our cost in the first two years. We have flagged, subject to the Economic Regulator agreeing with it, that at the end of our two-year period there would not be headworks charges in the way that they have presently applied them.

**Mr FARRELL** - Why do we have headworks charges in the first place? What was the whole rationale behind them?

**Mr HAMPTON** - First, not all councils have headworks charges; some had headworks charges and some did not. Their basis of application was quite diverse. When the three former operating corporations were put in place it was determined that we simply could not afford to not have the revenue. It was determined that we would, over a period of time, move to having a similar basis across the state. Our owner councils said to us - one of their prime guidances to us - was that economic development is important. Some of our owner councils said to us, 'We don't like your methodology because in other parts of Australia a very simple methodology was applied' - just \$1 000 or \$2 000, no massive science.

Listening to our owners we committed to an external review. We engaged Frontier Economics to work with us on that review. Ultimately where we have landed is the space they recommended - in the context of Tasmania's low growth, headworks charges are impeding economic development. Given the mandate from our owners that we were there to help facilitate economic development, it essentially put us in a situation that we should take them off the table. Yes, there is a cost. Yes, it does mean, for example, that we cannot do the capital program as fast as we would like. It does mean that the shortfall in funding that we are looking for is greater than it otherwise would be but I guess there is a quid pro quo. Maybe in the fullness of time we will be selling more water, we will have more connections and we will get some revenue uplift as a direct result.

**Mr FARRELL** - So will the permanent ban on headworks mean that your shareholders receive less dividend in the short term?

**Mr HAMPTON** - We have endeavoured to frame our conversation with our owners that their distribution expectations are not linked to specific outcomes. My understanding is that our owners are actually quite comfortable with the level of distributions we are now giving, and provided they just go up in line with inflation they can operate with that circumstance well. Obviously in coming to a decision that in two years time we would waive headworks charges as currently applied, we look forward to see if we could afford to do it. We came to the view that we could afford to do it without impacting on the expectations we have created with our owners about distributions to them.

**Mr BREWSTER** - Headworks charges were fundamentally there to recover the cost of building the growth to extending out the infrastructure, so you recover it up-front. When Frontier went through and did some of the reveal and we did some of our own analysis, we were recovering for some costs that did not need to be recovered. Second, we have a lot of spare capacity in a number of our systems. We said if we are really here to make a difference in the state, why are we recovering some costs? Does it make sense? Probably not. Why aren't we encouraging the take-up of the spare capacity rather than charging developers up-front.

It is important to note that, when we go to the new scheme, whilst there will not be headwork charges, there will be charges for out-of-sequence and isolated developments to ensure there remains a price signal. It is important that, as we go forward as a state, there still has to be a price

signal that says we want to encourage you to develop in these spaces. If you want to develop way out here, then you should not expect the public to take that risk. If we plan to increase the capacity in year 5, but you need it to happen next year, then we would charge the funding cost to bring that project forward. That is the new scheme. If you are in the growth corridor, however that is ultimately defined, and we are still working through that, then there will be no headworks charges, because it goes to the principle and the vision we have for the corporation that we want to make a positive difference. We do not do that if we are discouraging people from developing in those growth corridors.

**Mr ARMSTRONG** - Do you think by not imposing headwork charges, when you are looking for an external funding from the Federal Government or whoever it may be, when they look at your submission and see how you are doing things and are not charging a headworks charge, do you think that would have a detrimental affect on your application for external funding?

**Mr HAMPTON** - What happens in other parts of Australia is quite diverse. Some parts of Australia have embraced the methodology we adopted and some did not. It was extremely varied. We now have in front of us a report from a highly reputable organisation that has said to us, 'On balance, we think a move to the situation that we have taken is appropriate for the circumstances of Tasmania'. In that context, I would not expect it would have an impact on our ability to access funding per se by itself.

**Mr ARMSTRONG** - That is what happened with water meters. You had not to let water flow out through the pipes with no control over where it was going or how much was being used. One of the reasons they wanted water meters was so you could control the water that was going out or look at how much.

**Mr HAMPTON** - Essentially, we had no choice. We had half the state metered and half the state was not metered. We either had to get rid of metering completely, which means you are completely removing the price signal, or put meters in. That was the only significant contribution we have had to our business.

**Mr ARMSTRONG** - I was probably going a step back where you were charged \$300 a year for water and you could use as much as you wanted to. If you are going to let people have as much water as they want for \$300, and you want funding to build new infrastructure, that is not how it works.

**Mr BREWSTER** - The important thing there is that we are not just saying it is open slather. There are price signals; that is the critical bit here. We have not just said that is the end of everything associated with growth. We are saying we encourage growth in those growth corridors, but we do expect, if you want things to be brought forward, you to provide the funds to advance it. If you are not in the corridor, if it does not make economic sense for the state or for our infrastructure, then you should take that risk. That is the real offset in terms of a response. Additionally, we have modelled this out. We have said, where are the benefits and what does it mean to the corporation? We had not expected the extent of additional applications, but it will increase our volumetric revenue and our fixed revenue. The question is how much and how long. Is this just the blip or is it going to be sustained? There is always a risk but I do not think it is major material issue when you think that headworks were \$5 million a year previously. That is the revenue we were drawing off it. We are talking about \$400-\$500 million projects when I combine all of them for Launceston and Hobart and if we were to do something with that combined system.

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**Mr GAFFNEY** - On the head works one, what happens if the Economic Regulator does not look favourably? What is plan B? What are the scenarios if the Economic Regulator says you have to because the last few years the state government has stepped into the breach and has paid the \$5 million, or that is an offer on the table? If the Economic Regulator says we are not going to let you play in that space without charging headworks. What do you do or what is the discussion around the table?

**Mr HAMPTON** - I expect that our first conversation would be with the Government. I do not expect that to be the case because there are parts of Australia that do not have those charges. We have the Frontier Economics reform. We are happy to provide it to anyone including the Economic Regulator if he has not already received a copy which I suspect he has. That clearly says where we have landed is the appropriate place for Tasmania. The direct answer to your question, if he does say no, which I do not expect, we will engage with the Government and what the Government will determine to do. We cannot do anything essentially. The Economic Regulator can say to us, you cannot do away with that charge. I do not deny that. We do not have that capacity.

**Ms FORREST** - You could charge that back to the Government. Ask them to pay it.

**Mr HAMPTON** - If the Government was prepared to accept the charge we could pass it back to them.

**Ms FORREST** - They could perhaps recoup it through increased land tax revenues. There is more than one way to skin a cat, Miles.

**Mr HAMPTON** - We think when you look at the combination of the charges that people have on them on an ongoing basis, what we are proposing, we were recording an average income of about \$5 million of head works charges. It did vary over a five year period - 3.5, 7.5 - and occasionally goes up or down. Is it material in an organisation that has \$270 million worth of income? It is important and they all add up, but is it material? We hope that the Economic Regulator will assume that line.

**Mr FARRELL** - Before we jumped to the head works we were on complaints and resolution. To make a statement in your favour, through my electorate office I quite often get concerned people coming in with issues. Not as many as there used to be. I think things have been sorted out. To be fair to TasWater the issues I have had come through have always been resolved satisfactorily and fairly quickly which should be noted because you tend to get the bad stories most of the time.

From a personal point of view, I have been the victim of sewerage spill and a burst water pipe because the main lines go through part of my property.

**Mr MULDER** - You should learn to aim better.

**Mr FARRELL** - It was nothing to do with my system. It was people further up the road but I had a flood of sewerage in the lower part of my yard and then some months later I had a burst water main that flooded it. The grass has never grown as well as it does now. I cannot kill it.

*Laughter.*

**Mr FARRELL** - That was resolved very professionally. The other things that come into my electorate office are small community groups - a rowing club, a Lions club, a Masonic Lodge, those



type of organisations - that may have workforces on weekends and have just a toilet block they use or a kitchen block. They are quite often concerned with the charges for servicing something that has only part-time use. In the old days the council used to look on them favourably and probably not charge them rates. I wonder what TasWater's plans are in relation to that? I know everyone has to carry their fare share, but some of these service groups find it quite difficult to raise that amount of money and some even have specific fundraisers to pay their water and energy service charges.

**Mr HAMPTON** - The first point is that under legislation we are required to be user pays. If someone has a 20 ml water pipe coming to their property they will pay a fixed charge of a 20 millimetre water pipe. Second, we inherited a situation where in the three different regions - and it was not exactly the same inside the regions - there were different approaches to the assistance that was provided to community groups by councils. In the six months leading up to the commencement of operations of TasWater we raised this matter with our owner councils and said, 'We will do whatever you want us to do, but you have a range of options. You can either eliminate them or equalise them or come to some variant thereof.'

It is a policy decision they had put in place and we were, to a degree, ambivalent. I would have to say we only had one view, so let us get a clear-cut decision. Our owner councils said to us, 'Do away with them and we will deal with it.' There were some who said do away with it immediately and we said no, whatever is there, let us phase it out over three years. Everything about our transition to the four former corporations, and now TasWater, has been about fair transition. When our councils had determined that they wanted it phased out we said okay we will do what you ask, but we would like to suggest that it should be phased out over a period of time.

With councils effectively saying to us and to each other that we will deal with that on our own account. If you think about it from our point of view, we are so far removed from what is happening in individual communities in that regard. For us to become the judge and jury as to does this particular organisation warrant this or not? Is it only used on a part-time basis, which is the direct part of your question, we are really not in a position to assess that. We have this framework of if someone gets a 20 millimetre pipe connection and if they have a sewage connection they have a fixed charge that they have to pay for. Yes, there are some community groups that have found that quite difficult.

**Mr GAFFNEY** - It is fair that not all councils - the Cradle Coast region itself was very concerned about this, so when you say councils made a decision, the not-for-profit organisations on the north-west coast - and it differs to Launceston and Hobart where your bigger entities are and there is enough volume, councils have always helped pay for aged care facility, water, and hockey clubs, for them to survive, because of the numbers. Is it not fair to say that some of the regions supported that change of equity, but a lot of them - I know the Cradle Coast were quite concerned about it. My question is has there been pushback from entities because that cost will go onto those entities unless councils dip into their pockets again. What communication strategies have you used to get that information out to the public to ensure they understand what is going to happen because this is going to impact greatly on the smaller sporting organisations, the rural rosters, the small five-bed facility for aged care providers way up in whoop whoop, which is different from Hobart and Launceston?

**Mr HAMPTON** - I am not aware that we have had an extensive pushback and probably you would not think so because in the first year there was negligible affect. If we are going to have pushback it is now going to start. Mike, have you seen much pushback in this space?

**Mr BREWSTER** - Not a lot. I have seen some and we have had letters on the matter and we have basically pointed out to people exactly what you have explained that this was the agreement. We have also been working with the GMs

[12.30 p.m.]

We have also been working with the GMs from the councils to work through them and how we most effectively communicate. I think you will find that most of the complaints come back through the councils. Usually there is a phone call to me, Cam or one of the team. It is an ongoing communication challenge. I do not think a blitz works either, Mike. It is continuing to work with the GMs and being consistent as to why that decision was made.

**Mr HAMPTON** - If I could take a step back, in my opening remarks I talked about the profitability of our water and sewerage services when they were last in council ownership, assessed by Treasury at about \$24 million. Our distribution last year was \$29 million. Where was the metric? We said, 'We will pay you in advance the \$5 million of savings we expected to get out of the move to a single corporation', even though in our first year we have only banked \$2.5 million of that, and this year we will bank in excess of \$5 million. I guess we were taking the view, and I think some councils took the view, but you are right, that there was a stronger support for maintaining the present arrangement on the north-west coast because they had the more generous arrangement and the north and the south did not support that. At the end of the day, all we could do was say to our 29 owner councils, 'Tell us what you want us to do and we will do it'. In a sense, we put our owner councils in a position where they couldn't continue to provide that subsidy if they wanted to out of the additional distribution we were giving them but they had not previously factored into their finances.

**Ms FORREST** - It's a choice they make as individual councils then?

**Mr HAMPTON** - Yes.

**Mr FARRELL** - It is probably a little confusing to the consumer out there because they will go the council and the council will say, 'That's a TasWater issue'. It puts you in that awkward position where you are removed and people do not have a good understanding of where you are coming from. I do not know if there is any work being done on how to simplify that process so that these community groups with that concern can either work through the council or someone in TasWater to try to get some sort of a resolution.

**Mr BREWSTER** - We will go back and have a look at that and see whether we are effectively communicating this. I believe that is the net result of it. Whilst I verbally get the sense in the communities, maybe we have not communicated it well enough and maybe we need to step up and take a bit more responsibility for the communications. That is something for us to take on board.

**Mr GAFFNEY** - Miles highlighted it when he mentioned the size of the pipe that goes past the organisation because that was the infrastructure they put in back then but the organisation has one toilet and a hand basin, which would impact on the cost it has to pay. It is not so much the usage, but the size of it.

**Mr BREWSTER** - It is not the size that goes past, it is the size of the pipe that connects into their property. Whether it is a 25 millimetre or a 50 millimetre pipe that runs adjacent to the property, what matters is the size of the water pipe that connects off it. They are always welcome

and we encourage them to come back and see us if they feel the size of the meter, which corresponds to the size of the pipe, is greater than it needs to be. In a number of cases we have gone back through it. If there is a demonstrated change of use as well -

**Mr GAFFNEY** - So when a pipe goes into a sport and recreation ground and you have 10 organisations using that ground, that is where it becomes an issue for councils. You have the band using it here, the girls' hockey club using it there, and the softball club - that is where it becomes an issue for individual groups.

**Mr HAMPTON** - We have done our best to help people minimise the impost.

**Mr MULDER** - You are in the business of selling water and removing sewage; they are the services you sell. As to the councils and the dividends you are supplying, how is the dividend distributed to councils? What sort of formula do you use to distribute dividends to your 'owners'?

**Mr HAMPTON** - When the three former corporations were established, the owners contributed net assets and their dividend entitlement or their ownership, which reflected their dividend entitlement, was determined on the basis of the net assets that were contributed. In the transfer across from the three former corporations to TasWater, that was the baseline but there was an adjustment made that was endorsed by the councils, and ultimately endorsed by the Parliament when the legislation was passed.

It was only a minor adjustment but it was an adjustment that was necessary to make sure that all owners were a beneficiary of the savings, and not just some. It wasn't a material adjustment. There is a document that essentially says, 'This is the distribution entitlement in percentage terms for each council'. If there were to be, for example, a council amalgamation then the two distribution entitlements would get -

**Mr MULDER** - A percentage of the asset base?

**Mr HAMPTON** - In effect, yes.

**Mr MULDER** - It gets to the question that in Launceston, there is a significant amount of work to be done, as you have said and you say in your report; are they getting a dividend based on their asset value even though it basically needs to be totally replaced?

**Mr HAMPTON** - If I go back to the start of the three operating corporations, an independent third party did an assessment of the relative values with the best information that was available as to the state of the underground assets - how long they had been there, what had been going through it in the case of sewage. An independent party formed a view as to the appropriate value.

There were some councils that felt aggrieved in that process and consulted with Treasury, and some managed to convince Treasury to adopt a different number. Because we were not in existence then. Essentially we accepted it and that became the foundation all the way through - the three corporations and then to the single corporation with a minor adjustment at the end.

Each council knows what their percentage distribution entitlement and their percentage ownership of us is; they reflect the ownership in their balance sheets, as I understand it, and they take the cash when we give it them each year.

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**Mr MULDER** - Given the fact that Launceston has been long known for an under-performing sewage treatment system, in other words, their stormwater and their sewage are combined in most areas, what value is put on an asset that wasn't doing the job it was supposed to do?

What I am getting at is that a lot of ratepayers, through their councils, had invested an awful lot of money in getting world-class proper sewerage systems and they are entitled to get a return on that investment. We are talking about places like Launceston where they hadn't invested money at that level, are they now getting a return on a dividend based on an asset that did not have much value at all?

**Mr HAMPTON** - Can I answer your question in a different way? I will partly pose a question to Mike. Mike, how many sewage treatment plants do we have in this state?

**Mr BREWSTER** - Eighty-three or 84.

**Mr HAMPTON** - How many of those would be deemed to comply with modern discharge requirements?

**Mr BREWSTER** - I cannot give you the exact number but it would be close. Only 40 per cent of the volume that goes through our treatment plants meets compliance requirements, it meets its license requirements.

**Mr HAMPTON** - What I am really saying is, in ignoring the combined system, my own view is that I do not believe that Launceston has under-invested any more than anybody else has.

**Mr MULDER** - Thank you for building my case, because we are going somewhere with this. Keep going.

**Mr HAMPTON** - In relation to the combined system, I think it is about two-thirds of Launceston, Mike, in the combined system? My understanding is Launceston was one of the last Australian cities to have a combined system. From a point in time it was recognised that it was no longer appropriate, but it was there. It being there, other than the issue that it creates for us at our sewage treatment plant when there are stormwater events, it works perfectly in that stormwater event situation where it was designed for raw sewage to go into the Tamar, albeit into a diluted basin that, hopefully, minimised the impact of it. Mike, you wanted to come in.

**Mr BREWSTER** - To balance it out, a consultant was engaged to value all of the assets so independently the value on the assets was purely what they were worth at that time so if Launceston had not looked after their assets, if it had been depreciated down to next to nothing then their asset value would reflect that number. A council that had invested heavily and had a high asset value would have their ownership in TasWater reflected in that asset value. That is how the corporation started.

In a sense, irrespective of the proportion of the ownership that Launceston has, the starting point was, what are your assets worth on an independent basis? So you could argue that any council that had not adequately invested in their infrastructure, it was reflected in their ownership.

**Ms FORREST** - Some of them sent a lot of debt across with them, too, didn't they?

**Mr BREWSTER** - Yes -

**Mr HAMPTON** - The asset value was calculated in the way that Mike said and then those that transferred debt to us, their equity was reduced.

**Mr MULDER** - It was not done verbally, so *Hansard* did not pick it up, but I am sure you are happy to say when you answered your own question in terms of how many sewerages complied, you gave me a hand signal which indicated that not one of our sewerage treatment plants conforms with environmental standards.

**Mr HAMPTON** - Mike wants to clarify it, but my understanding is we do not have a single plant that complies 365 days of the year, 24 hours a day, with its requirements, let alone modern day requirements.

**Mr BREWSTER** - It is important to note because a lot of the sewage treatment plants do not have contemporary licences so they have licences that are 20 or 30 years old and in modern day standards they would not be accepted, they would be considered polluters and at some point the EPA is saying this needs to change. They should be meeting contemporary standards and if we were to apply contemporary standards across the state then Miles' statement, in my view, would be accurate. There would be very few that would comply 100 per cent of the time.

**Mr MULDER** - Is there anywhere in Australia or the world that complies 365 days, 24 hours with a standard?

**Mr BREWSTER** - I do not know but the majority of the western world would not have sewerage where only 40 per cent of the volume meets its licence obligations. That is the fundamental issue. We have infrastructure - forget about the state of the assets - that does not function adequately and that is why the money is going in and that is why the EPA and Director Schaap sometimes gets a bit frustrated because we have invested in water in the first five years because we had to for public health reasons and we have not invested at the same rate in sewerage. We are now coming to the point where we must tackle the sewerage and if we are going to advocate that we are a clean and green state we cannot live with 40 per cent of our sewerage being non-compliant. We cannot continue with the number of dry weather sewage spills that we have in the state. It has to be fixed and it costs.

**Mr MULDER** - Can I ask whether the Rosny and Rokeby sewage treatment plants meet the discharge into the environment requirements, 24/7?

**Mr BREWSTER** - I would have to take it on notice. I can say that we have -

**Mr MULDER** - Can I give you a clue - they do not discharge into the environment, they are recycled up into the Coal River Valley, so I think they would meet the requirements and that is two plants.

**Mr BREWSTER** - It depends on the quality of that water going out. We have had challenges with salt in that water that is pumped up into those areas. It is not quite as straightforward as that but we would be the first to admit we have had significant problems at Rosny and I feel for the customers. We have just invested over \$1 million in fixing the odour problem that has been going on for a year-and-a-half. I talked a bit about the environmental discharge issue, but it goes much beyond that - investment in better managing odour, investment in managing the trade waste that

comes into our plants. It is real. The current arrangement, in my view, the board's view and the EPA's view, is unacceptable.

**Mr GAFFNEY** - You have done some work on sewerage plants in the last five years and you are telling me the work you have done still has not taken them to the level that is effective?

**Mr BREWSTER** - No, because the primary investment was on the number of boiled-water alerts and the number of people without safe drinking water. We have done a lot of work on sewerage pump stations - we have more than 700 sewerage pump stations in this state - to try to minimise the dry weather spills and overflows due to failures. That has been the primary focus on sewerage because that is the most visible issue for us. We are now moving into a phase where we are tackling the plants. In Kingborough, \$40 million to upgrade that plant to pick up Margate, and all that region, into one plant that is compliant. Rosebery, we have just signed off on \$10 million for a new sewerage treatment plant, which will be completed in June-July.

**Mr GAFFNEY** - It is important to put on the record that you have done some work on the pump stations to get them up so the everyday person out there does not confuse the work you have been doing with pump stations with plants, otherwise they will say, 'What are they wasting the money for if they haven't had any improvements?' It is important because people will be confused, 'They have done a lot of work at Devonport, aren't they working properly?'. We need to be careful that we are not confusing the issue. None of the work you have been doing has reached them, and some of those have been environmentally aware -

**Mr BREWSTER** - It is a staged stepping up to get us to be complaint. We start with a pump station, decommissioning, improving the sewerage treatment plants, and then you get to the point where some of these plants cannot continue, and that is where we are in Launceston, probably where we are going to go in Hobart, and where we are on the west coast.

**Mr MULDER** - Getting on to the dividends, you have a board that runs this so-called business enterprise. Who appointed the board?

**Mr HAMPTON** - The 29 owner councils under the constitution, approved by the Parliament. The 29 councils form a selection committee and each council has an owner's representative who the council appoints. From the 29 owner representatives, eight people become the selection committee for the board - four from the south, two from the north and two from the north-west - and that committee appoints its chief representative, who is currently Tony Foster. That committee appoints the chairman of the board and he or she becomes a member of that committee. If my memory serves me correctly, the chairman's role was advertised, as were the directors' roles.

**Mr MULDER** - At their AGM it is quite possible for the owners of the corporation, shareholders, to pass a motion changing the board?

**Mr HAMPTON** - The constitution gives that power to the owners.

**Mr MULDER** - As to the dividends, does your income exceed your expenses?

**Mr HAMPTON** - Last year we made a profit after tax of \$27 million. In determining that profit after tax, we paid an amount of tax and we paid the loan guarantee fees. Out of that \$27 million we paid the dividend, which was \$18 million. Tax and the loan guarantee fees were

already covered. Out of the \$27 million we paid our owners \$18 million, if my memory serves me correctly.

**Mr MULDER** - The dividend is set by the profitability of the company, not necessarily the demand of the owners?

**Mr HAMPTON** - It is essentially the decision of the board. Obviously we consult with our owners to see whether they would be happy with it. The board proposed to our owner councils that in our first year we would give then \$29 million in cash. As I mentioned a little while ago, there was not a great deal of science in that other than Treasury had identified a profit of \$24 million and we had promised our owners savings of \$5 million. That is where the \$29 million came forward as the basis. We went back to our owners and said we would rather you did not think in terms of dividends but in terms of total cash distribution, because the loan guarantee fees and tax equivalent payments will vary from year to year. Our owners said to us, yes, give us certainty of cash. We do not mind whether it is called loan guarantee fees or tax equivalents or dividends. Essentially, whatever we have paid to our owners in a 12-month financial year by way of tax and by way of loan guarantee fees is deducted from the amount that the board has proposed we would give our owners and we will make up the difference in dividend.

**Mr MULDER** - The board decides on the distribution of the profit - how much will be reinvested in the business, how much will be distributed to the owners?

**Mr HAMPTON** - The owners, through the shareholders' letter of expectation, could give us guidance in that space, as I think it would be fair to say. I think the evidence is there that the owners have not been prescriptive and have accepted the recommendation of the board.

**Ms FORREST** - Your capital expenditure is only \$78 million this year going to \$110 million in financial year 2016. Currently it is about 30 per cent of your revenues. It will go up to about 45 per cent. Is that the nature of a water and sewerage business or is it the run-down nature of the assets? Is it likely to change into the foreseeable future?

**Mr HAMPTON** - Our current depreciation charges are about low \$60 million. Once you have a steady state, you generally take the view that if you are spending about your depreciation charge you are maintaining the infrastructure.

**Ms FORREST** - Don't you need to do better than that?

**Mr HAMPTON** - You could also form the view, therefore, that the excess beyond depreciation is catch-up in terms of renewal or compliance. Compliance is moving to modern day standards and renewal is that it is getting old and needs to be replaced. Over the next 10 years we will be spending \$500 million to \$600 million beyond depreciation simply on renewal and compliance, and that is without significantly tackling the major areas of Hobart and Launceston without significant. As mentioned in my opening remarks, we tackled Taroona in Hobart simply because it was logical that we should do so. There was a problem there and we might as well go to the longer term solution.

**Ms FORREST** - The point you are making is that for many years, as far as you can see, we are going to have this high level of capital expenditure just to get to the point where it is okay.

**Mr HAMPTON** - That is exactly right.

**Ms FORREST** - When you look at wages on page 64 of your annual report, the capitalised wages represent only about 10 per cent of all wages, which means that 90 per cent must be on operating wages. When there is a system that is in disrepair, requiring significant capital expenditure to get it up to the level we expect or is demanded of you, the operating revenue is only about \$250 million, yet operating wages are about \$70 million at the moment. Is this wage percentage expected to fall as the water and sewerage system is improved? What would you expect the operating wage percentage to be on a new piece of infrastructure? Where do we want to get to with that?

**Mr HAMPTON** - Capitalised wages simply reflects where our staff have been working on a capital project that is moving to be constructed. Sometimes we incur expenditure on wages and salaries on projects that we do not then proceed with, so it is not capitalised but is simply an expense. I do not have a rule of thumb as to what percentage in this business you would expect to be paying on wages and salaries. But categorically we have an expectation that the investment in new plants, new pump stations and new technology should enable us to deliver in a more cost-effective manner. Otherwise, why would you do it? Why would you expend the capital if you were not going to seed? That being said, sometimes in the short-term you get the reverse. Sometimes the short-term cost, probably not in the labour area but maybe in the materials area, would go higher. You move to a modern plant and it requires a completely different technology, and it uses more consumable or materials. It would be fair to say that maybe our unions have recognised that, as we move to have better plants, we will be having less call-outs and less overtime. Unashamedly, that is part of our objective.

**Mr BREWSTER** - For the parts of our business that undertake most of the capital work, we expect them to be about 80 per cent on capital, 20 per cent on opex-type projects. These are the main delivery components. However, in the last year the focus has been moving to sewerage and a lot of work has been done on business cases. The capitalised salaries would be lower at this time than we would expect longer term. We are starting to get through those business cases. The proportion of capital expenditure will go up, capitalised salaries, and therefore the equivalent has to drop because it is zero sum game; the opex goes down.

What Miles has said has been a challenging issue for our employees in that we have been up-front with them. As we are investing in fixing the assets, there are going to be less call-outs, and there is going to be less investment. No-one spends \$110 million a year and does not reduce their operating costs. We are not in a position to compensate for overtime. That is reducing and it will reduce.

**Ms FORREST** - On page 65 it talks about operations and maintenance expenses. You have maintenance and planning for \$26 million. You talked about the planning aspect, that some things have not gone ahead and some have. What is the break-up between maintenance and planning of that \$26 million?

**Mr BREWSTER** - The majority would be maintenance. If you think about it from an employee perspective, 400 people are nominally in maintenance in the O&M division. We are talking about 60 to 70 in asset management, which does most of the planning work. Some of their time is capitalised. Once for business case we arrive at an option, then it becomes capital. Prima facie - and it will not be right - on employment levels alone you are talking 25 to 20 per cent.

**Ms FORREST** - I presume that figure for maintenance and planning does not include wages and consultancies because it is listed further down; consultancy is there. With the consultancies



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you use, how much of this is external? It seems that, because they are listed separately, you are using a fair number of consultants in undertaking this work.

**Mr HAMPTON** - The consultancies are all external costs.

**Ms FORREST** - What things are they used for that cannot be done in-house?

**Mr HAMPTON** - There is a range of things. We are happy to provide the committee with the detail that we provided to our owner councils, because we have responded to questions from our owner councils on this space. In this last year we have spent about \$4 million across the various expense categories on consultancies, of which a bit over \$1 million related to the restructuring. We received advice - remember in my opening remarks, transformational change, completely different structure. We got advice all the way through to the number of positions we should have and what those positions should be doing. We spent about \$1 million as a one-off on helping us define the structure and get the position descriptions in place.

**Ms FORREST** - Is that classified as operations or administration? There is \$2.6 million for operations there and \$1.6 million for admin.

**Mr HAMPTON** - That \$1.1 million that I am talking about would be sitting inside the total consultancy bill across whatever category.

**Ms FORREST** - So that figure goes across both?

**Mr HAMPTON** - Yes.

**Mr PAGE** - That would be in administration.

**Ms FORREST** - In the admin?

**Mr BREWSTER** - That would be my expectation. The other costs you are talking about - if you go to operations, I imagine, Dean, this would be -

**Mr PAGE** - This would really be engineering in our systems.

**Mr BREWSTER** - There are regulatory requirements that we have independent reviews, for example dam safety, environmental flows and water quality.

**Mr PAGE** - Even things such as studies and option analysis on business cases. It might be, for instance, the Kingborough strategy that Mike mentioned before, a \$40 million spend, so we will have that tested to make sure that we are doing it in the most prudent and efficient manner.

**Ms FORREST** - This does not really give us the information that you said you would provide. In relation to the \$69 million and your cashflow statement for payments for property, plant and equipment, does that include any consultant fees within that?

**Mr HAMPTON** - If there was a consultant used as part of the project, then all appropriate costs would be applied to the project, whether it be an internal cost, an external cost, an advice cost or a material cost, it would be capitalised with the project, in accordance with Australian Accounting Standards.

**Mr PAGE** - Certainly most of our capital expenditure projects are delivered by third-party contractors.

**Ms FORREST** - How much did you say, sorry?

**Mr PAGE** - I said most of our construction contracts are. We do not have an in-house construction crew in the business. We have project managers. We engage external contractors who then undertake the construction works for us and those costs end up in the capital expenditure number that we have to report each year.

**Ms FORREST** - Are the contractors considered as consultants then in your numbers?

**Mr PAGE** - No, we are talking about two different numbers, or two different uses of external capability. There is the use in an operational cost sense, where we might have a consultancy or another professional service firm come in and give us some assistance on a business issue. Then there is a separate set of external capability that is used to deliver those projects.

**Ms FORREST** - I am interested in the consultancies particularly. Contracts I understand.

**Mr PAGE** - That is the shovels on the ground.

**Ms FORREST** - It is the consultancies and what is being used, but not obviously above and beyond what can be provided for internally.

**Mr PAGE** - Correct. The challenge for a business such as ours that is going through a large amount of change and also generating a large pipeline of capital expenditure proposals is how we get the mix right of our resourcing on those projects. We have peaks and troughs and, in the case of this \$4.3 million spend, it is considered more prudent to engage external capability to deliver those initiatives or those pieces of work rather than potentially having internal resources that may not be fully occupied for a full year.

**Ms FORREST** - In the work being done at Rosebery then, a fair bit of work needed to be done pretty promptly with MMG down there to deal with the sewage. MMG were treating the sewage in Rosebery until recently; where have you got to with that?

**Mr BREWSTER** - We anticipate that will be completed between June and August at this point.

**Ms FORREST** - Next year.

**Mr BREWSTER** - Yes, in FY 2015. We have basically awarded all of the major contracts bar the pumping station contract, which we have now received the tenders for and which, subject to reviewing, will be signed off, so that is all on track.

**CHAIR** - How are we going? We are almost out of time, are there any burning questions, is there anything that a member would like to prioritise as a question before we go?

**Mr GAFFNEY** - I have two questions and one you might have to provide some information for. On local government land, what rules do you operate under with the Auditor-General? It is to

do with the impaired asset sustainability ratio. Local councils are supposed to have 100 per cent to maintain their assets. Here is an example that has been sent to me. The Cradle Valley sewerage scheme which cost approximately \$16 million is valued on the books at approximately \$3 million. Therefore, the asset has depreciated to \$3 million in value but will it cost much more to replace that in the future, one would assume much more than the original \$16 million, to construct. If it was in the local council world, we would have to have the \$16 million depreciating, not the \$3 million worth. How do you handle that?

**Mr BREWSTER** - As always with this business, it is all so complicated. There are two components to valuing the assets. One is the book value, which, in effect, we have just reduced by \$324 million - the overall value of our assets - and therefore that asset would be reduced in cost to reflect that reduction. That is what it sits on the book as. The book says, 'I can't tell you what the DORC value - the depreciated optimised replacement cost - is and that could be significantly higher. What that says is, 'Yes, I know'. I am amazed I even remember that. That is the component that deals with what it would cost to replace and how far it has been depreciated. That is the number that determines the revenue, not the book value.

**Mr PAGE** - The information on DORC values is provided in our financial statements in note 9 to the accounts, and that gives the context of the difference between depreciated optimised replacement cost versus what we carry in our financial statements.

**Mr BREWSTER** - We can take on notice why that is as low as it is. It does seem quite low but I can't tell you why.

**Mr HAMPTON** - Mike's information is absolutely correct in that the cost of construction by the Government was of the \$16 million magnitude. We had it assessed as to the true value and it was \$3 million. You are absolutely right, it would be inappropriate for us to carry it at the \$16 million. And you are absolutely right, therefore, that our depreciation charge is not reflective of the likely cost of maintaining it. It was one of the reasons why, when we recently had the \$300 million write-down, we went out of our way to make sure we did not in effect reduce our depreciation charge going forward. We recognised exactly the problem you have identified but given the magnitude of it, a \$300 million write-down, we were not prepared to let that flow through to a higher operating result as a result of a lower depreciation charge.

**Mr GAFFNEY** - It appears that sometimes some local government authorities are very critical of TasWater for many different reasons but when I am reading this I am thinking I can remember only eight or 14 months ago, there were significant sums of money spent within your council area that your council had not spent on water or sewerage in previous times. Over the last five years, since it started, is it possible to get a breakdown of the capex projects you have for council lands? I believe it would be very important to show some local councils how much has been spent. I know some councils share services, lines, pump stations or whatever, but it would be good to put on the table for some council areas and say, 'There have been significant sums of money spent in your local government area and yet you're critical of what we're doing'. I think it would be an eye opener.

**CHAIR** - You can take that on notice.

**Mr HAMPTON** - We will provide that information. I would make the observation that while, from time to time there are individuals members of a council who criticise us, I would like to think we have a good relationship with the councils on a council basis. From time to time individual councillors may have a pot shot at us, and that is the nature of the beast.

**Mr GAFFNEY** - The reason I am raising it now is that, with local government elections just completed, there are quite a number of new councillors on councils who will not have that background information of what has been spent, and so it brings them up to speed with - so you will have fewer of those 'pot shots'.

**Mr MULDER** - I take it that if you have a house and you choose to go off the grid though the water runs past, you do not have an option, do you? You would have to connect.

**Mr HAMPTON** - You have the option of not being connected but you will pay a proportion of the fixed charge, regardless of whether you are connected or not.

**Mr MULDER** - Do you have legislation to say to people, 'You will connect to the grid that passes by'?

**Mr HAMPTON** - No, we don't.

**Mr MULDER** - Would you think that would be an appropriate thing to do? Is it a power that you have, or should have, or is it a power that lies within councils?

**Mr HAMPTON** - It is a power that we don't have. I don't believe councils have the power to force connections.

**Mr BREWSTER** - No, they don't.

**Mr MULDER** - If you cannot force connection, I am wondering how you can go about forcing the service fee.

**Mr BREWSTER** - It has been a challenge. We are examining at the moment a model that says unless we get a certain percentage prepared to sign contracts - this is what we put in our pricing services plan - then we would not introduce services because we are not in a position to recover the costs. In effect, that is the reality. What we proposed is that if 80 per cent say they are prepared to do it and 80 per cent sign contracts, then we would proceed because in effect we have the surety of the recovery of the costs. The other cost, the connection cost, only covers the cost of bringing someone in, breaking the pipe, making the connection, and bringing in the meter. Whether someone chooses to do that or to say, 'Yes, it is great. It has added value to my land that your pipe comes past but I do not want to connect'. Well, we recover the fixed cost of maintaining those pipes going forward. That is why we separate the two issues and has been an absolutely major question for us.

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**Mr HAMPTON** - We have put in a sewerage system at Lauderdale that was not there. It is a new system. The board determined on advice from management how many connections were needed at a minimum to proceed. Providing we got those commitments from owners, then we could proceed - which we did. We do not have the power to force, which is why we have to take that approach. Your question was - should we? I am happy to let other people decide. It is not a strong issue to us but how we manage it is by saying, 'This is where we will draw the bar'. The bar might be different depending on the capital program that is required to deliver it. It might only be 50 per cent acceptance. In Lauderdale, I think it was 25 percent. It might have even been slightly less than that. That was what our break-even point was and we could justify doing it.

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**CHAIR** - Thank you, Miles. Obviously you have sparked a lot of interest today. We could have kept going with quite a few more questions. Thank you all very much.

**The committee suspended at 1.13 p.m.**